

Addressing the Institutional and Technical Challenges to a Basic Income

Charles M. A. Clark
Senior Fellow,
Vincetian Center for Church and Society
Professor of Economics,
St. John's University,
New York, USA

Overview

- Establishing the Need
- Looking at Options
- Designing and Costing Basic Income System
- Assessing Economic Impacts
- Facing Political Barriers
- Facing Psychological Barriers

Establishing the Need

- Limitations of Keynesian/Welfare State Model (Mid 20th Century Economics)
 - Full Employment as Norm
 - Productivity gains passed on to all workers
 - One worker per household
 - Rising real wages
- Necessary Macro Economic Policies are increasingly Problematic:
 - Fiscal and Monetary
 - Trade
- Necessary Micro Economic Policies are also Problematic:
 - Business protections and subsidies
 - Labour regulations
 - Income redistribution
- In the end countries can usually only protect part of their population (usually the well off) creating segmented labour force and segmented societies.

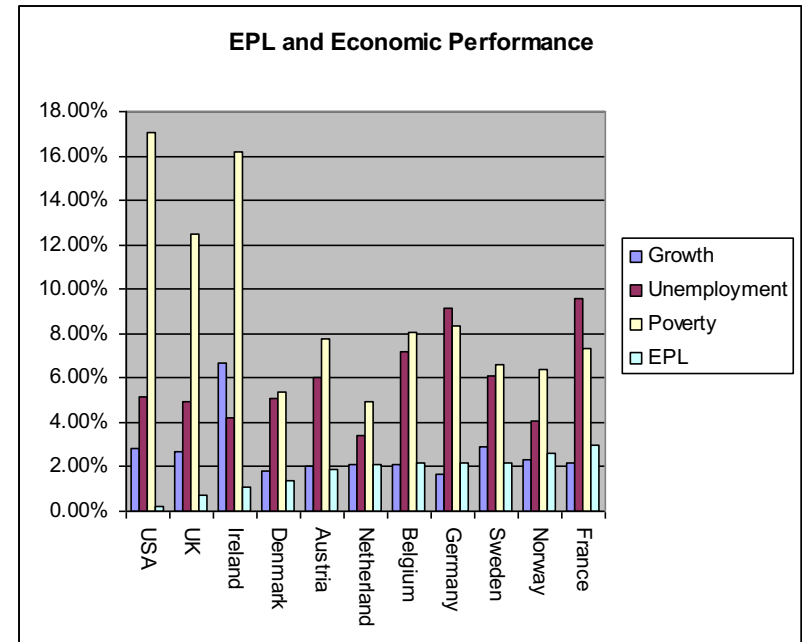
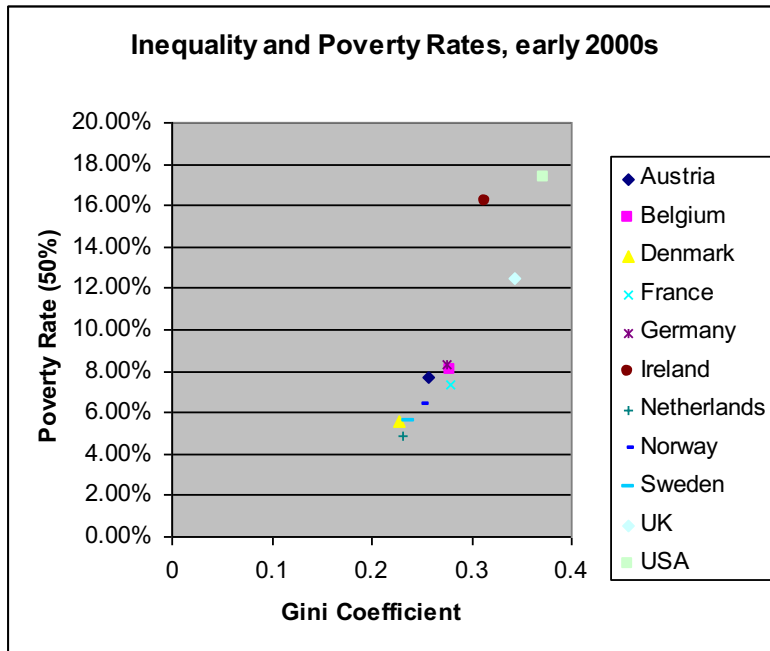
20th Century Economic Policy in a 21st Century Economy

- The benefits of economic growth and globalization are not being widely shared.
 - Poverty rates are rising or stagnant.
 - Income and social inequality are rising.
 - Greater economic progress for some and exclusion for others.

Three Types of Advanced Capitalist Economies in the 21st Century

- Above Average Growth/Low Unemployment/High Inequality and Poverty
 - Ireland, UK, USA (Very Low EPL)
- Low Growth, High Unemployment/Low Inequality
 - Belgium, France, Germany, Sweden (High EPL)
- Low Growth, Moderate Unemployment and Low Inequality
 - Austria, Denmark, Netherlands, Norway (Moderate ELP except Norway, which has oil)

Growth, Unemployment, Inequality and Poverty Rates, Various Countries

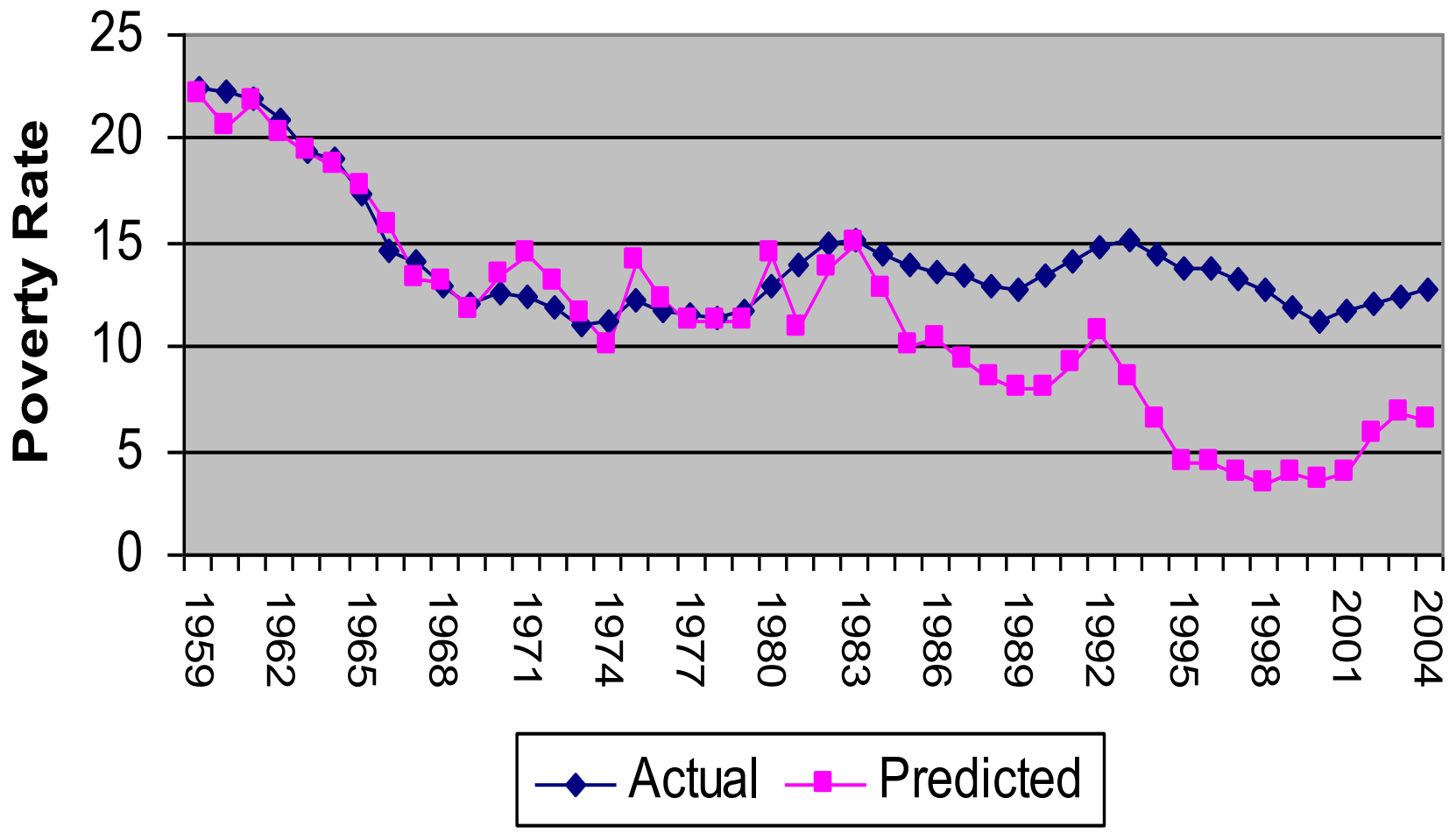


Is Economic Growth Enough? Ireland's Experience

	Eco Growth	Unempl.	Income Inequality	Poverty Rate (50%)
1994	5.8%	14.7%	33.6	11.9%
2000	9.4%	4.3%	31.3	16.2%
2003	4.3%	4.6%	31.1	11.6%
2005	5.9%	4.4%	32.4	10.8%

Graph 3

Actual and Predicted Poverty Rates, USA, 1959-2004



21st Century Globalized Economics

- Protecting whole economic is extremely difficult.
- Full employment is not an option for all (zero sum game). Full employment achieved either through trade surplus or high deficit spending (government, business and household).
- Increasingly segmented labour markets and societies, as well as increasing gap between rich and poor countries, caused partly by rich countries protecting their workers (and only some groups of workers)..

Looking at Options

- Growing the “economic pie” is not enough and full employment often cannot be achieved:
 - Technological, environmental, economic reasons
- Intervening in factor markets is problematic due to increased international competition and trade rules.
- Basic Income is an Institutional Adjustment to a changing economic reality. It takes part of the social product and divides it evenly based on citizenship, leaving most income determination to the market.

Designing and Costing a Basic income System

- Setting BI Rate
 - Full (at social welfare rate or poverty line) or partial; universal or conditional
- Necessary Tax Rate as percent of Tax Base and GDP
- Types of Funding Instruments (Taxes)
 - Flat and Simple
 - Progressive, Complex
 - Effective tax rates (include basic income)
 - Refundable tax credits

Assessing Economic Impacts

- Income distribution and Poverty (does it do the job?)
- Labour markets (Does it create new problems?)
- Competitiveness (How will Business be affected?)

Impact on Income Distribution: Mean Household Weekly Income by Decile, 2001, Ireland

Decile	2001 BI	2001 no BI	Difference
Bottom	119.45	90.98	28.47
2 nd	198.46	150.05	48.41
3 rd	266.63	216.29	50.34
4 th	337.98	291.52	46.46
5 th	413.20	373.88	39.32
6 th	483.31	458.26	25.05
7 th	548.35	550.72	-2.37
8 th	633.75	663.89	-30.14
9 th	745.39	827.14	-81.75
Top	1150.64	1278.42	-127.78

Percentage of Persons Below Relative Poverty Lines, 1994, 1998, 2001 and 2001 with BI.

	1994/5 HBS	1998 (LIS)	2001 (SWITCH)	2001 BI With SSF HBS Model
40% of average	5.8	9.4	11.5%	0.0%
50% of average	17.5	19.4	21.6%	0.0%
60% of average	31.9	28.8	31.8%	19.6%

Income Distribution Effects of Basic Income, USA 2002

Income Quintile	Share Aggregate Income No BI	Share Aggregate Income With BI
Bottom	3.55%	6.01%
2 nd	8.89%	10.73%
3 rd	15.27%	16.60%
4 th	24.09%	25.75%
Top	48.20%	40.91%

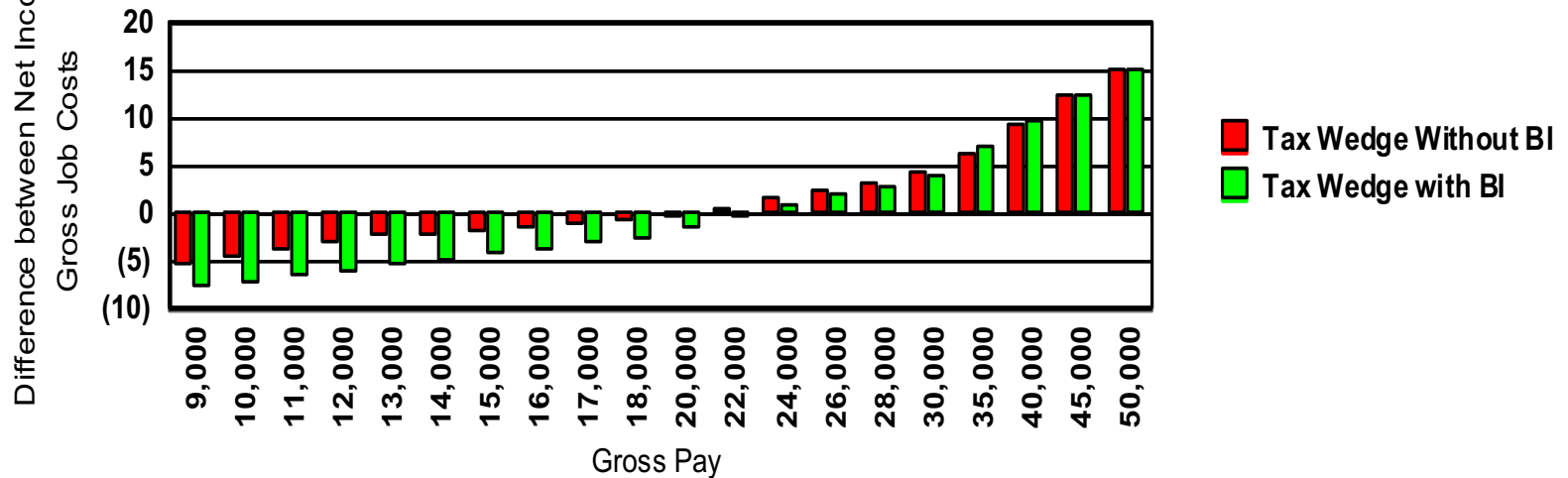
Income Quintile	Avg. Income No BI	Avg. Income With BI	Difference
Bottom	\$8,323	\$14,109	\$5,786
2 nd	\$20,859	\$25,189	\$4,330
3 rd	\$35,817	\$38,946	\$3,129
4 th	\$56,497	\$60,422	\$3,925
Top	\$113,044	\$96,005	-\$17,039

Labour Markets

- Labour Market Flexibility
 - Labour costs
 - Adaptability
 - Mobility
 - Work time and scheduling (atypical employment)
- Work Incentives
 - Tax Wedge
 - Replacement Rates

Tax Wedge

Graph 5.3
Tax Wedge Married Couple, Two Incomes, Two Children



Source: Author's Calculations based on Budget 2000.

Replacement Ratios

Graph 5.8
Replacement Ratios for Married Couple,
Two Incomes, Two Children Current and with BI



Source: Author's Calculation based on Budget 2000.

Business Competitiveness

- Factors that Promote Competitiveness:
 - High Investment
 - Competitive Labour Costs
 - Skilled Labour Force
 - Social Partnership
 - Education

Business Competitiveness

- Taxes as a % of GDP, 2001

Country	Taxes as % GDP	Country	Taxes as % GDP
Denmark	56.9%	Germany	42.4%
Norway	52.0%	UK	40.4%
France	49.1%	Ireland with BI	34.9%
Belgium	46.8%	Ireland, no BI	32.2%
EU	44.1%	USA	31.1%

Meeting the Objections from Economists and Public Policy “Experts”

- Criticisms from the “Right”
 - Interferes with markets
 - Gives workers too much bargaining power (power to opt out)
 - “Who will trim my hedges or babysit my kids?”
- Criticism from the “Left”
 - Wage subsidies
 - Hurts workers bargaining power
 - Might make capitalism work

The Problem of Transition

- How do you go from current system to Basic Income
- Sectors (stumbling)
 - Children
 - Elderly
 - Adults
- Phase-in
 - Set up parallel BI system and gradually increase BI and decrease current social welfare system
- All at once

Facing Political Barriers

- Not everyone who objects to a BI does so because they have a vested interest, but there are strong vested interest against BI.
 - Government agencies
 - Departments of Social Welfare and Finance
 - Business
 - Current protected workers (unions)
 - Sometimes anti-poverty groups – who have been pushing their agenda within the current system.
 - Current tax system will reflect existing power structure and they will resist any efforts to change it. Tax subsidies typically are hidden, BI is transparent.
 - Can Basic Income be implemented in bad times?

Psychological Barriers

- “If you don’t work, you don’t eat”
- Employment = Work
- Individualism
- Solidarity in diverse societies

Conclusion

- Technical questions are fairly uniform.
- Is Basic Income:
 - Necessary (does current system work).
 - Possible (can it be paid for).
 - Desirable (does it promote equity and efficiency).
- Political and psychological questions are more difficult to answer.