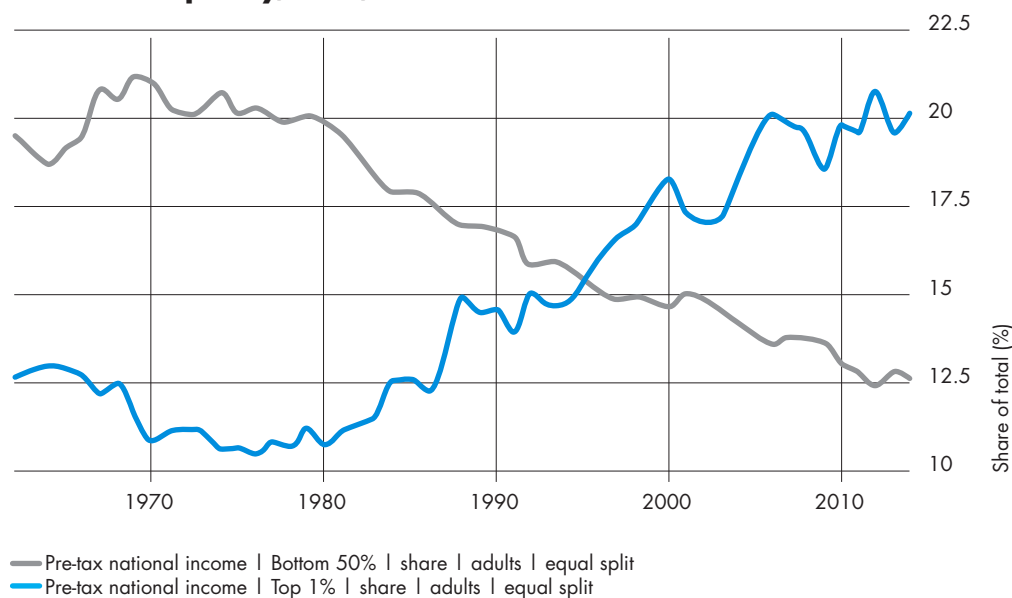


Universal Basic Income and Inequality: An Economic and Behavioral Science Analysis. Introducing Universal Basic Income

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Free money. Even though this sounds like a radical idea, it is in fact a real economic concept that has gained a lot of attention around the world in recent years. Universal basic income (UBI) is, according to Rose, “a model for providing all citizens of a country or other geographic area with a given sum of money [periodically], regardless of their income, resources or employment status”. Under universal basic income, individuals would receive around US\$650 per month from the government, and they could spend this money in any way they choose, disregarding their employment status. There are already some countries that are experimenting with universal basic income as a way to reduce poverty and inequality among individuals. The idea of all citizens receiving “no-strings-attached” money is not a new concept. In 1797, philosopher Thomas Paine proposed that “every person, rich or poor,” should receive payments “to prevent invidious distinctions”. Additionally, in 1967, Martin Luther King Jr. fought for a “guaranteed income...pegged to the median of society”. Milton Friedman also endorsed the negative income tax,

Income inequality, USA, 1963-2014



which is somewhat similar to basic income, as a way to reduce welfare costs and bureaucracy. Nevertheless, the idea has gained momentum in recent years with Silicon Valley tech titans such as Elon Musk and Mark Zuckerberg. They advocate that universal basic income could provide a cushion to the millions of people who could lose their job due to automation or robots. It is clear that automation is changing the future of work, and therefore some in Silicon Valley say that universal basic income could give workers an opportunity to retrain for new jobs and gain

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skills that could help them adapt to today’s workforce. Other supporters of the idea say that universal basic income could help alleviate poverty and reduce income inequality, which in recent years has widened considerably in developed countries like the United States. In the graph below, we can see the gap between the top 1% and the bottom 50% widening. In 2014, the top 1% earned 20.2% of all national income in the country, whereas the bottom 50% gained 12.6% in comparison. On the other hand, universal basic income also has many critics. They

say that, if people know that they will get paid regardless of whether they are working or not, this will actually disincentivize people from getting another job, and will, in turn, reduce the overall productivity of the country.

Additionally, many also wonder how the government will pay for such spending. For instance, if in the US, where the population is so large, the government were to provide universal basic income, the amount they would have to spend would be in the trillions of dollars per year. And even if this claim were to be plausible, labor economists have argued that the basic income would actually have to be bigger than US\$650 for it to have a significant impact on people and the economy.

Furthermore, research from the Organization of Economic Cooperation and Development (OECD) shows that if the existing system of social and unemployment benefits was eliminated or reduced to pay for a basic income, poverty rates could actually increase rather than decrease, as some people initially think.

Among the countries that have started universal basic income trials are the Netherlands, Kenya, Canada, the United States, and Finland, with this last one having completed the trial in the end of 2018. Later in this essay, we will study the results of the UBI trial in Finland and discuss whether it actually accomplished what it was aiming for and if it is a good measure to reduce inequality.

UNIVERSAL BASIC INCOME-THE FINLAND TRIAL CASE STUDY

Once this economic measure entered into policy discussions, the Finnish conservative Sauli Niinistö launched

a trial about three years ago, in early 2017. The case of Finland caught the attention of many sociologists, economists, moralists, and multi-millionaires around the world. Managers of the technological giants of Silicon Valley, such as Mark Zuckerberg or Elon Musk, did not hesitate to support it. Especially taking into account the future they see: one marked by the lurking technological changes and by the automation of work, which can cause a massive unemployment.

The objective of the study was to observe if the implantation of this measure could provide a solution to different social and economic problems, which have not been alleviated in an effective way until now. These would be the inequality of opportunity when seeking employment, social inequalities, and the difficulties of leaving the job market. Another objective was to impulse the well-being of the population, which is also a priority matter of the Finnish state.

The experiment consisted in the random selection (i.e. not voluntary) of 2,000 unemployed people aged between 25 and 58 to benefit from this “universal basic income” with 560 euros tax-free, regardless of whether they were actively seeking work or not.

The results indicated that there was no increase in employment levels; the percentages barely varied. However, it was claimed to have achieved higher levels of well-being in the population. But are these the expected results? Are they solid enough to be taken into account in the assessment of the implementation of this measure?

Taking an overview of the different results and studies on the minimum wage, we can affirm that it does have positive results in terms

|||||||||||||||||||| **Is the implantation of this measure a solution to alleviate different social or economic problems in an effective way?**

of the well-being of the population. However, in the case of Finland, neither the sample was sufficiently representative nor did the study achieve the expected results from an economic point of view.

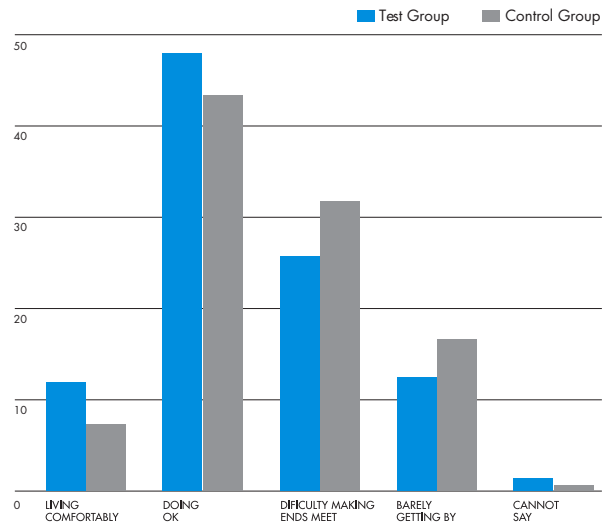
In addition, we have the horizon that many sociologists and economists fear, since they affirm that work cannot be reified only as a source of income, but rather it must be understood as a means of personal self-realization. As the famous economist and Oxford professor Ian Goldin states: “UBI will undermine social cohesion. [...] Individuals not only obtain income, but also meaning, social status, skills, social networks and friendships through work”. Even though many followers of this measure affirm that it would not bring problems, and that it would not imply a devirtualization of work, we cannot underestimate the sociological effects that it would suppose.

To this day, the proposal is still valid. This is due to the fact that this Nordic country, although for many years admired for its economic system, and also for its educational system, is going through difficult times, both economically and socially. Unemployment is on the rise, reaching figures that until then were unknown to them, and xenophobia has more and more groups of citizens who support it because it is linked to the increase in the immigrant population with the decrease in job offers.

For this reason, the Finnish government does not rule out the measure; it has stated that it would like to introduce 800 euros per month for the entire population, regardless of the level of income. To be able to act with caution, it still wants to carry out more studies like the one in 2017 because, as we pointed out a few lines above, the contextual factors are so varied

Better Financial Wellbeing

Those who received basic income felt better about their financial wellbeing



and so determining that no result can be interpreted as definitive. For now, the government will carry out an experiment, similar to those in Utrecht and Canada, in which a small group of Finns will receive 550€ per month.

IS UNIVERSAL BASIC INCOME A GOOD METHOD TO REDUCE INEQUALITY?

When the results from Finland's experiment were released, initial findings showed positive effects on health and stress, but no improvement in the work status of participants. "There is no statistically significant difference between the groups as regards employment," researchers including Olli Kangas wrote in the report. "However, the survey results showed significant differences between the groups for different aspects of wellbeing".

Finland's publication of the experiment results in early May of 2020 shows that UBI has no visible effects on job search, but that it does increase the perceived mental wellbeing of those who receive it. With improvements seen in health and stress, it's clear that the results offer something for advocates and critics of basic income alike. This being said, the government's aim to "promote more active participation" and "provide a stronger incentive to work" doesn't seem to have been met, even if success can be found in other areas.

However, an analysis of universal basic income can be drawn with the general idea of the UBI concept and the recent results of the experiment in Finland, showing both positive and negative aspects. First of all, it is important to point out that the conditions in these experiments are different than those of the real UBI. In the experiment,

people are aware that there is a time limit for the money they are receiving, so they are inclined to keep their work or other sources of income. But when they are told that they will receive money indefinitely, they will respond differently. From the standpoint of philosophy of science alone, microscale experiments fail us as a tool of grasping most macroeconomic and macrosociological effects, such as changes in the employment rate. These changes have significant impact on the individual decisions of people. In order to observe and analyze such effects, we would need an experiment on the scale of an entire country and lasting longer than this trial. Therefore, this and the other previous trials are not reliable in determining whether universal basic income will support laziness or creativity.

Having said this, we can draw some of the positive and negative aspects that could bring about UBI if it were implemented as a social policy, based both on the general concept and the results from the experiment in Finland. As it was previously mentioned, the participants in the trial in Finland experienced less stress and better health than people not in the control group. Additionally, in theory, the UBI would be more transparent in comparison to existing social benefits, there would be no need to give it up after getting a job, and it could give some margin of safety to employees whose job is threatened by automation. People with universal basic income could take more time to look for a job, invest in their education and development, start their own business, or work less and use the time for other purposes.

The main arguments made by the UBI advocates are ethical ones,

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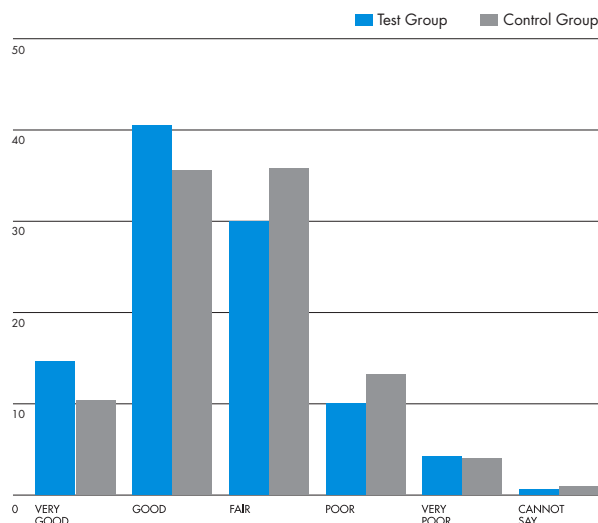
and the arguments pertaining to the economic efficiency are not as important. Sociological and ecological justice and the elimination of poverty remain their primary concerns.

Still, there are also negative aspects to take into account. For instance, some of the main concerns are its costs and impact on the labor market. Also, redistribution or reallocation of resources is not a solid foundation for human dignity, and UBI could weaken employee motivation to work, resulting in a decrease in productivity. Moreover, some of the critics of universal basic income point out that there is an observed lack of negative impact of automation on employment, noting how when some jobs are made obsolete by automation, other professions are created in their place. Similarly, globalization has also created more jobs than it has harmed, therefore concerns about automation leading to rising unemployment seem unfounded, since in the last century technological progress has created more jobs than it has eliminated, and the scale of the progress is historically unprecedented.

Nevertheless, despite the advantages or disadvantages that universal basic income may bring in

Self-perceived assessment of health

Recipients of Finland's basic income reported better health than those who didn't receive it



the labor market and a country's productivity, when it comes to evaluating whether implementing a policy like this might help reduce inequality, the results are not so favorable.

Based on behavioral economics concepts, there are two types of fairness: substantive and procedural. The main difference between the two is that, to make a substantive judgement about fairness, all concerns are about the allocation of the resources. In turn, to make procedural evaluation, we require knowledge of the rules of the game and other aspects of why

this particular allocation occurred. Of the two, we could say that procedural fairness is more concerned with equality of opportunity for economic advantage and deservingness, or whether the rules of the game take into account the individual's efforts. Furthermore, we know that economics does not provide judgements about what is fair, but it can clarify how institutions (the rules of the game) affect inequality, the tradeoffs in the fairness of outcomes, and which public policies can address unfairness and how.

Inequality in outcomes should not be a consequence of exogenous circumstances such as a person's gender or family background, but rather a reflection only in differences in effort and choices of individuals, as well as luck. Therefore, one of the main questions that economists have tried to answer in relation to this topic is how we can measure and implement equality of opportunity.

Universal basic income is a policy that is mainly concerned with the allocation of resources, rather than the rules of the game. The

concept itself expresses how money is given to everyone regardless of their status. Because of this, we can say that the inequality they are trying to reduce is the inequality of outcome rather than inequality of opportunity. When measures like these are considered, the root of the problem is not really being addressed correctly. By giving out money to everyone without regarding the effort they make and caring about whether this is fair, this is actually a disincentive for people to make more efforts to be productive and progress in life.

For these and many other reasons, if universal basic income is implemented, it will not actually be a good policy to reduce inequality because it is not tackling the core of the problem. In order to reduce inequality of opportunity, we need inclusive institutions that can harness all the latent talent from all the different people in a society. So, ultimately, what matters for economic prosperity, for success and failure, is inclusive institutions; political projects that organize people collectively in a way that is rational for society as a whole •

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