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(NO) UNIVERSAL BASIC INCOME, PLEASE!

Lessons from the Debate on the Welfare State of the Future

AT A GLANCE

The Universal Basic Income (UBI) can be considered a panacea for social problems only until one actually looks at the details. Liberal-conservative approaches aimed at reducing the size of the state are particularly problematic. Nonetheless, lessons for forward-looking social policy can be learned from the discussion. In the era of digitalisation, such policy must create security and self-determination on the labour market and redistribute capital income fairly.

One thousand euros for all – without having to work for it? The idea of a universal basic income (UBI) sounds tempting. The younger generation in particular, who see their future job opportunities under threat from encroaching digitalisation and generally favour more flexibility in organising their lives are particularly attracted to the concept. However, when one looks at the idea more closely and tries to assess how it might actually be implemented, some of the suggested models of a universal basic income are found wanting. Following some criticisms of the UBI, this short paper will therefore highlight some considerations that even sceptics might profit from and incorporate in their policy proposals. After all, there must be some reason why this idea has remained an object of debate for decades and resonates across the ideological spectrum.

In order to count as universal, the basic income must be paid to individuals regularly and regardless of their efforts at work or other sources of income. This principle aside, however, the various proposals for implementing a universal basic income do not agree on much. They range from left-alternative to liberal-conservative approaches, differing in how they are funded, the level of the basic income and how they envisage social security and labour market policy. In the debate, therefore, the first question always is, which universal basic income are we talking about?

The sheer versatility of the various models is one of the reasons why the universal basic income keeps resurfacing in the political debate. In the 1980s, UBI proposals were mostly post-capitalist in nature. In the face of the German labour market reforms known as “Hartz IV” in the early 2000s, it was discussed as a potential way out of poverty, precariousness and the compulsion to get a job. Nowadays, the basic income is being debated in the context of digitalisation and the related upheaval on the labour market and also finds supporters among Silicon Valley’s tech-billionaires, as well as the managers of large German companies.

Given that the idea of a universal basic income just won’t go away, one has to ask what makes the idea so attractive. As already mentioned, the sheer range of approaches means that some form of basic income is available or could be developed to fit every social problem or political inclination. As a result, the UBI appears to be a kind of panacea. Among other things, it is supposed to do away with the compulsion to get a job, provide for security as jobs are lost to automation, redistribute capital income fairly and radically simplify social security. These goals are not always compatible, however. The “emancipatory basic income” (*Emanzipatorisches Grundeinkommen*) suggested by the German left-wing party Die Linke, for instance, would make additional payments to people with special needs, such as parents-to-be or people suffering from chronic disease. However, a system like this one, tailored to individual needs, would fly in the face of a scheme aimed at radically reducing bureaucracy, of the kind favoured by certain other supporters of a UBI.

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Nonetheless, it is not just the vagueness surrounding a potential universal basic income that has kept it in the spotlight. Some of the underlying ideas point towards important societal needs that the welfare state in its current form does not address sufficiently, or isn't addressing at all. They include:

- The promotion of autonomy and self-determination
- Security despite changes in the job market due to digitalisation
- A fair redistribution of capital income
- Reduction of bureaucratisation and a transparent, easily understandable social welfare system

THE UNIVERSAL BASIC INCOME – AN ADEQUATE SOLUTION?

Although the goals listed above are certainly desirable, it is questionable whether a universal basic income, which is often derived from them, is a viable solution. First of all, what kind of justice and freedom are we talking about here? It is controversial to say the least to suggest that justice is served when everyone – young and old, rich and poor – receive the same. Surely, in order to give all citizens an equal chance of political and societal participation and a fulfilling life, one has to consider their different needs. And if freedom is taken to mean the ability to lead a self-determined life, a regular cash transfer can at most only be part of the solution. Such payments alone neither ensure the level of education needed for active participation in the labour force or some other kind of self-development, nor provide the kind of child care or transport system that people might need to organise their lives flexibly. Social services are thus at least as important in the free development of the individual as monetary transfers. Furthermore, the left-alternative idea that all citizens should receive a universal basic income and then decide freely whether they even want to get a job at all disregards the principle that each member of a community based on solidarity not only has the right to be supported, but also the duty to contribute, if possible.

On top of this, there are serious doubts regarding the practical feasibility of a universal basic income. The long-term effects of such a far-reaching reform are, according to the principle of unintended consequences, familiar to economists, difficult to predict. Supporters of UBI tend to insist that they have calculated the costs and benefits of their models and found them to be economically viable. Nonetheless, the effects of a basic income on productivity, labour supply and inflation are contested. In a model calculated in 2008, German economist Thomas Straubhaar assumes that a moderate level of basic income – 800 euros – would not be accompanied by a significant decline in the labour supply (Straubhaar 2008:56). Therefore, the predicted change in German GDP, on which his calculations rely, is also marginal.

However, in general, it is not unreasonable to suppose that the higher the basic income, the greater the incentive would be to reduce the hours one works or even to exit the labour market entirely. Here, one's assessment of possible consequences depends heavily on one's conception of human nature and prognoses of people's inclination to get a job when there is less pressure to do so. Depending on the proposed level and

source of funding of a basic income, there may also be a danger of setting off an inflationary spiral. Based on the model put forward by Götz Werner (owner of a large drug-store chain in Germany), which would be funded through a VAT hike, Thomas Ebert calculates an initial inflation rate rise of 200 percent (Ebert 2012:273).

With regard to changes in the labour supply, experiments such as the Finnish tax-free basic income can provide only limited information on the potential effects of introducing a universal basic income nationwide. First, the basic income paid in Finland is at a very low level – 560 euros – and is supposed to incentivise benefit recipients to get a job. The results therefore tell us little about the likely effects of larger transfer payments. The main problem with any experiment, however, is that it is inevitably restricted in time. If participants are aware that they will receive a basic income only until the end of the experiment, they will take fewer risks; for example, if already in employment they would be less likely to leave it, in the knowledge that, in the long run, they will have to support themselves once again. What effects a universal basic income would have on society and on national economic output, therefore, can only really be assessed once it has been introduced indefinitely and across-the-board.

UNIVERSAL BASIC INCOME: TOWARDS A LEAN STATE?

In recent years, a number of UBI models have been proposed that entail a state that, apart from funding and disbursing the universal basic income, would otherwise retreat from the labour market or barely intervene at all. Prominent among such approaches in the German debate are the proposals of economist Thomas Straubhaar and former minister president of Thuringia, Dieter Althaus (CDU), who want to reduce the state's role in shaping the economy. If they had their way, the introduction of a universal basic income would be accompanied by a scaling back or even abolition of labour market regulation, including minimum wages, collective agreements, laws regulating working hours and protections against dismissal. The effects likely to ensue from such action are highly contested. Some supporters argue that if the pressure to get a job were reduced, wages would have to be increased to keep employment attractive. Wage increases due to a reduction in the labour supply, however, are far from automatic. As can already be observed in, for example, the care sector, labour shortages are often dealt with by hiring immigrants and, in many cases, positions are simply left unfilled. Instead of wage increases, a more probable scenario is that a state withdrawal from labour market regulation and the introduction of a universal basic income would exert downward pressure on wages. Quite simply, firms would no longer have to ensure that their employees can support themselves from their wages alone. Furthermore, if, as Thomas Straubhaar advocates, industry-level collective agreements were abolished, individual workers would be left to fend for themselves, without organisations to represent their interests, leaving them in a much weakened position to bargain. They would therefore probably have to accept worse working conditions and lower wages if they wanted to earn anything on top of their relatively small basic income.

Besides the wage effects, a universal basic income may also affect income distribution in other ways. If it was set at a moderate level, many unemployed people would receive a lower transfer payment than the one currently provided by the German social security system. Some proposals also entail a flat-tax on all levels of income or VAT rises to replace the current progressive income tax. Instead of leading to more equity, therefore, such proposals could further heighten net income inequality in Germany.

Another objection to the notion of a lean and mainly passive state is that the consequences of digitalisation are not the outcome of any “natural law”. The German economic system is based on cooperation between employees, employers and the state, who tackle and seek solutions to problems such as the effects of digitalisation together. Instead of retreating, the state can, in tandem with other economic actors, create a framework for digitalisation and thereby shape its outcomes. A responsible state should therefore not merely try to “pay off” those whose jobs are endangered by encroaching automation, but actively support them. Improved access to obtaining new qualifications, structural policy and support for occupations characterised by personal interaction that cannot be replaced by machines all offer opportunities to shape economic outcomes, which should be seized. It is especially important to prevent job losses from giving rise to a society made up of two distinct classes: one that lives exclusively from a universal basic income and the other comprising highly-skilled and well paid employees.

This danger brings home a further point of criticism. While part of society would most likely be able to lead fulfilled and self-determined lives with a universal basic income, notwithstanding the absence of state intervention, there are also groups for whom this would be less possible. These include people with no vocational training or high school diploma, who are already more likely to suffer from long-term unemployment and the social and health problems that go with it. Their chances of finding meaningful employment recede further as digitalisation progresses. A universal basic income alone is not sufficient to ensure their social inclusion. The state should therefore continue to actively support vulnerable members of society.

LESSONS FROM THE UNIVERSAL BASIC INCOME DEBATE

Even though liberal-conservative models in particular are problematic in terms of social policy, sceptics should not reject the debate surrounding a universal basic income in its entirety. Many of the arguments made in favour of a universal basic income reflect real desires and fears within society and indicate where the welfare state should make improvements.

First and foremost, the debate reveals a desire for emancipation and self-determination in people’s working lives. In fact, political actors have already noticed the demand for more flexible organisation of time, although they have not yet addressed this demand sufficiently. IG Metall (a key German trade union), for example, discussed a possible individual right to opt for individually adaptable cuts in working hours at its 2017 working time conference in Mannheim. However, besides more flexible working time, support and encouragement should be given to those seeking time out from regular

employment to pursue other meaningful activities, such as education, caring for a family member or volunteer work. In addition to state support and financial aid for such sabbaticals, there is a need for increased investment in a modern social infrastructure, which, for example, would adequately support those caring for elderly family members.

Another point emerging from the debate is the high degree of uncertainty about the future of work due to digitalisation and its human consequences. Millennials, in particular, often take it for granted that they will not enjoy a linear career path. A guarantee of 1,000 euros per month, as promised by the universal basic income, appears especially tempting in that context. Here, the state needs to create security and offer a helping hand. The encroachment of the so-called “platform economy”, for example, in which workers offer their labour on online platforms such as Uber, Upwork or Helpling, is fraught with uncertainty. Labour market policy must react to such new business models. Among other things, it has to clamp down on the outsourcing of jobs in the form of bogus “self-employment” and the loss of employment rights that goes hand in hand with it. Besides the adaptation of labour market regulations, a “social inheritance” fund could be established to finance sabbaticals and thereby facilitate transitions in a fragmented labour market, thereby creating more security and equality of opportunity. Models such as Steffen Mau’s “life-chances loan” (*Lebenschancen-kredit*) and the “starting balance” (*Startguthaben*) suggested by German Federal Minister of Labour and Social Affairs Andrea Nahles, can be used as a basis for such a social inheritance. With increasing employment flexibility, the social security system has to be explicitly adapted to the needs of those who deviate from the norm of the male skilled worker in secure full-time employment. Especially in times of heightened job insecurity, political parties and other actors must do more to promote the interests of such “atypical” workers.

Another worry is that, due – among other things – to digitalisation, returns from capital have been outstripping labour income. Indeed, a new IMF study finds that the labour share of income has been falling across the advanced industrialised countries since the early 1990s. According to the IMF, around half of this can be explained by technological progress (IMF 2017: 125). The rising importance of returns from capital is particularly problematic, because in Germany wealth inequality is even worse than income inequality. In the absence of state intervention the gap between rich and poor is set to keep on widening. There are two fundamental ways in which governments can counteract this: either capital ownership itself can be spread in such a way that everyone benefits directly from increased returns from capital, or redistribution through taxation could retroactively produce a more equal wealth distribution. To achieve the latter, the British economist Anthony Atkinson suggested, among other things, a progressive lifetime capital receipts tax for inheritances and gifts, as well as a proportional or progressive property tax (Atkinson 2016: 389).

In his model of a universal basic income, Thomas Straubhaar suggests equalising taxation on income from labour and from capital, which, to be sure, politicians could consider whether a basic income is introduced or not. Furthermore, the redistribution of primary income could be boosted by strengthening the trade unions in order to ensure that productivity gains are accompanied by corresponding wage increases.

CONCLUSION

Ultimately, there is no one-size-fits-all solution for the social policy challenges mentioned in this paper. The welfare state and its necessary adaptation to ensure future viability are complex issues and require a serious political discussion focused on the long term. In part, this is already happening, but more courage to innovate would be very welcome. Proactive efforts are needed to adapt the welfare state to the needs of younger generations and to cope with the sheer variety of future problems. A universal basic income, however, is not up to the task.

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