

## UNIVERSAL BASIC INCOME ECONOMIC AND SOCIAL PRECONDITIONS

Emilija WEBSTER<sup>1</sup>, Daiva ANDRIUŠAITIENĖ<sup>2\*</sup>,

Laima OKUNEVIČIŪTĖ NEVERAUSKIENĖ<sup>3, 4</sup>

<sup>1</sup>Independent researcher

<sup>2, 3</sup>Department of Economics Engineering, Faculty of Business Management,  
Vilnius Gediminas Technical University, Saulėtekio al. 11, 10223 Vilnius, Lithuania

<sup>4</sup>Lithuanian Centre for Social Sciences, A. Goštauto g. 9, 01108 Vilnius, Lithuania

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**Abstract.** Economic uncertainty accelerated the debate on how to improve welfare and provide basic standards of living in case of job loss. Although various welfare programs have been introduced, most matured to more mainstream economic consideration – Universal Basic Income (UBI). Purpose of the article – to analyse UBI economic and social preconditions. Tasks of the article: analyse the scientific literature and statistic data on UBI implementation based on economic and social aspects, discuss emerging questions and trials around the world. Research question: universality of the UBI model in differently economically developed countries.

**Keywords:** economics, universal basic income, social security, labor market.

**JEL Classification:** A01, O150, J480.

### Introduction

Economic uncertainty accelerated the debate on how to improve welfare and provide basic standards of living in case of job loss. Although various welfare programs have been introduced, most matured to more mainstream economic consideration – Universal Basic Income (UBI) – unconditional regular payments for the entire population. The idea is supported by a growing number of scientists, politicians and even the Pope.

Purpose of the article – to analyse UBI economic and social preconditions for success to implementation of UBI.

Tasks of the article – analyse the scientific literature on UBI (discussion of UBI concept, analysis of UBI social-economic model and social aspects); to analyse the problems of introducing UBI; overview of UBI experiments; summarize the research by presenting conclusions.

Research methods – analysis of scientific literature sources and empirical data. The main research question: universality of the UBI model in differently economically developed countries.

The findings discussed provide important grounds to the interpretation of UBI motives, theory and analysis

bringing in a economic and social security dimension. It also provides an overview of UBI experiments conducted throughout the last two decades.

### 1. Overview of research on UBI

UBI has persistently emerged in many scientific publications that covers different aspects and questions about the policy and its consequences in case of implementation.

Although the concept of UBI was analysed by most of the authors, it is worth mentioning Torry (2020) and Van Parijs (2021) that have been used as the main resource in this dissertation to describe UBI. Van Parijs (2021) and World Bank Group (2020) in the book “Exploring Universal Basic Income” provided a more detailed insight of the topic that derive direction for this dissertation.

The main UBI limitation that is mutually agreed on – affordability. This implies that authors, such as World Bank Group (2020), Marinescu (2019), Banerjee et al. (2020), Vanderborcht (2004) are unsure on the optimal financial decision and have limited information to agree on. However, we can distinguish two common financial options; spending cuts and additional revenue. Several

\* Corresponding author. E-mail: [daiva.andriusaitiene@vilniustech.lt](mailto:daiva.andriusaitiene@vilniustech.lt)

studies introduced alternatives to UBI financing, among those: UNESCO (2020), Mazur (2019), Marinescu (2019) and Haarmann (2020b).

Implementation of UBI will likely have strong ramifications for poverty. Oishi et al. (2011), Bezerra de Siqueira and Bezerra Nogueira (2020), Colombino (2019), Haagh and Rohregger (2019) examines the effect and concludes that setting a UBI level equivalent to the poverty rate would plausibly reduce poverty. Likewise, UNDP (2019), Olken and Hanna (2018) argue that due to financial constraints UBI might reduce the poverty rate, without eliminating it.

Oishi et al. (2011), World Bank Group (2020), Vanderborcht (2004), Haagh and Rohregger (2019) and Verho et al. (2022) concluded that implementation of UBI would have a positive effect on labour supply. Additionally, Gilroy et al. (2012) argues that UBI is an option to fight with unemployment trap. However, despite all of the positive findings there are various researchers who are still questioning this conclusion Perkins et al. (2021), Wong and Lui (2021), Colombino (2019).

Covid-19 and the 4th industrial revolution stimulated the need to reform the social security system that would adjust the risk of the labour market. Schwab (2016), Turunen (2017), World Bank Group (2020) consider social aspects and mutually express the need for new policy packages. E.g. Schwab (2016) and Acemoglu and Restrepo (2018) express the concern of an excessive number of employees losing their jobs due to rapid growth of AI demand and suggests UBI as a solution.

The authors: Lockwood (2020), Pech (2010) and Vanderborcht (2004) have proposed behavioural concepts – Present Bias and Prospect theory to explain what motivates human behaviour in determining the optimal UBI model.

The results of UBI trials are discussed and analysed by: Bezerra de Siqueira and Nogueira (2020), Weller (2017), Straubhaar (2018), Payne (2020), Gilroy et al. (2012), Banerjee et al. (2020), Eckas (2020), Hum and Simpson (1993), Calnitsky (2016), Vanderborcht (2004), Coelho (2018), McFarland (2016), Verho et al. (2022), Wong and Lui (2021), Kwong (2013), Jauch (2015), Centers for Disease Control and Prevention (2020), Central Bureau of Statistics, Namibia (2021), UN Women (2021), U.S. Department of Labor (2019), Haarmann et al. (2009), Haarmann (2020b). The results provide us with a real flavour of UBI effects to the different regions and cultures.

## 2. UBI: emerging questions and trials worldwide

### 2.1. Concept of UBI

The idea of UBI dates to 1516 – Thomas More publication “Utopia” – social-political model of public finances where the government pays every citizen a fixed income regardless of their financial situation, social and employment status. UBI is not a benefit scheme, it is an economic policy.

UBI takes into consideration a mix of economic and social aspects. The aspects are closely related to the central purpose of economic activity – satisfy people’s basic needs. Rapid development of AI along advanced economies and civilization encouraging economists and government to consider adopting social economic policies, which aims to meet the needs by offsetting poverty and alleviating of social tension (Schwab, 2016; Acemoglu & Restrepo, 2018).

Maslow’s hierarchy (Figure 1) of needs illustrates the pattern through which people’s motivations and effort move. It outlines five higher needs: physiological, safety, belongingness and love, esteem and self-actualisation (Taormina & Gao, 2013; McLeod, 2020).

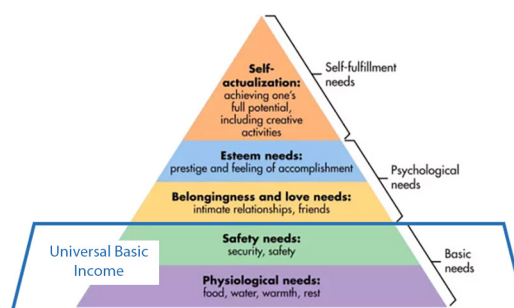


Figure 1. Maslow’s hierarchy of needs adjusted to UBI (McLeod, 2020)

UBI changes the idea that providing basic needs is every individual’s responsibility. It re-evaluates people’s function in society and the government’s role in our lives.

Self-actualisation – the final stage of the hierarchy – represents people living up to their full potential. To achieve self-actualisation an individual must have the characteristics that satisfies the initial levels and that cannot be fulfilled solely by receiving UBI payments.

### 2.2. Why is UBI (not) a good model

In 1962 American economist Milton Friedman’s book “Capitalism and Freedom” discussed UBI in the form of five main arguments (Figure 2) – UBI would: reduce government bureaucracy, encourage the efficiency of free markets, enable poverty trap, enable work, encourage justice and equality.

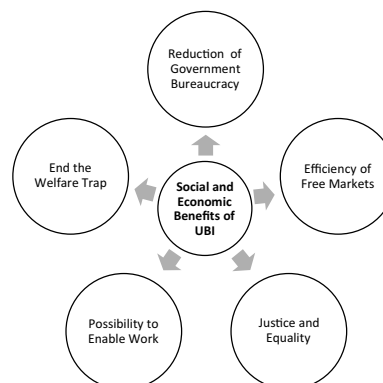


Figure 2. Social and economic benefits of UBI (Friedman & Appelbaum, 2020)

Although these are very significant economic and social aspects, the idea is not without flaws. It comes with a variety of obstacles and barriers that need to be looked at.

Though UBI plans come in various structures and sizes, all share a common challenge – affordability. Some argue that UBI would eliminate the cost of health, social security etc. and would grow the economy. Nevertheless, it is a costly social security system, which requires complete budget redistribution. To find a source of funding that would be acceptable by the community, is a burden that the government and fiscal system will have to overcome to implement UBI.

The most common source of funding – taxing the rich – is discussed by World Bank Group (2020). It suggests that additional taxation of the rich requires significant increases that would be widely resisted; Brazil from 7.2% to 24.5%, India from 2.2% to 68.4%, South Africa from 19.9% to 40.3% etc. An exclusive case is Russia with quite a moderate tax impact from 9% to 13.2%.

Other financing options suggested – re-prioritisation of the national budget or special taxes, such as carbon tax (Marinescu, 2019; UNESCO, 2020), natural resources tax (Haarmann, 2020a) and robot taxation (Mazur, 2019). Nonetheless, implementation of additional taxes would reduce financial costs, contradicting the original purpose of UBI – simplicity and universality of the system (Turunen, 2017).

Prior experiments shows that poorer countries are more favourable to introduce UBI due to the lower payments and accordingly lower budget. E.g., Namibia would only require N\$ 1.2–1.6 billion (GBP60-80 million) per year which could be achieved by exceeding 30% of the national income (currently 25%). Econometric studies shows that Namibia has full capacity to achieve it (Haarmann, 2020b).

Unlike developed countries where the primary purpose of UBI is to reform the social security system, emerging nations believe that UBI is an alternative for poverty reduction. Countries such as India, consist of more than 90% low-skilled workers who often struggle to move up the income ladder. UBI is seen as a tool that can ease the power struggle. Bezerra de Siqueira and Bezerra Nogueira (2020) and Mores (1516) argue that setting the UBI level equivalent or above the poverty rate will effectively fight and reduce it.

Oishi et al. (2011) have found the negative correlation between income inequality and happiness. It was explained by discerning unfairness and absence of trust, suggesting that consequently UBI should increase the receiver's happiness and demolish trust issues.

To evaluate the effectiveness of UBI in poverty reduction, it is necessary to analyse the impact on different types of poverty rates: absolute and relative (Foster, 1998). UBI would eliminate absolute poverty, by providing basic needs. However, the relative poverty rate

can be reduced if all families had the absolute same standards of living, which is not the case of UBI.

UNDP (2019) notes that due to limited funding opportunities, UBI most likely will fall below poverty level. This will be a disadvantage for the lower income community, who may no longer be able to meet their needs. Figure 3 shows an example of alleviation budget redistribution to UBI (red triangle is equal to blue parallelogram).

It shows that by implementing UBI in countries such as China, the poverty rate will be improved, but not fully eliminated. Olken and Hanna (2018) emphasises the importance of the question of whether anti-poverty programs should be focused on poorer communities or be universal.

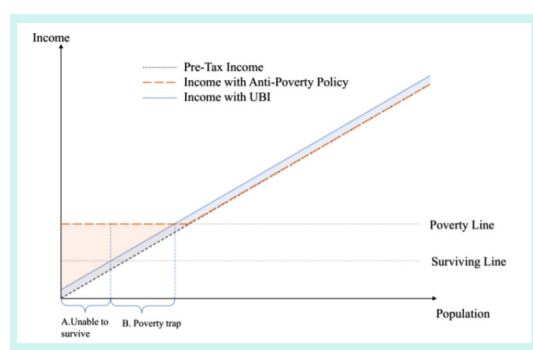


Figure 3. The impact on low-income people when comparing UBI and poverty alleviation (UNDP, 2019)

The evidence shows that current cash transfer benefits carry greater improvements to people's wealth contrasting with universal, as the higher amount can be distributed to the poor.

### 2.3. UBI and labour market

Financial barriers and lack of willingness to joining labour force is a big issue that is indicated by "unemployment trap". It occurs once income received from working is below opportunity cost – benefits (Carone et al., 2004). The financial barriers discourages people to accept work and makes it more challenging to find a job. Gilroy et al. (2012) see UBI as a solution to the unemployment trap. The article suggests that UBI would remove the stimulus for not working – unemployment benefits, and support "socioeconomic independence" as people would have more autonomy on decision making.

Oishi et al. (2011) argues that UBI would increase labour supply and protect the employees of low wages, long work hours and lack of security. It would also allow people to continue their development in schools and universities to improve their qualifications and evolve their skill sets. Many unemployed or inactive people would be able to open their own business.

In recent decades technological innovation has created more jobs than it has eliminated. The increase of wealth has a direct correlation to an increase of demand of luxury services such as private chefs, teachers,

assistants etc. Wong and Lui (2021) and Colombino (2019) express a concern of potential UBI labour reduction due to the negative impact on people willingness to stay in the labour market. People might struggle to find motivation to work and shift towards leisure. Negative labour effect is especially likely to occur if UBI would be financed by the rise of existing taxes.

It is very hard to conclude whether such effect might occur from the data collected due to its small sample and scale. Many of the trials resulted in no meaningful change in labour supply. However, most of the UBI experiments took place for a short period. There is a possibility that participants might simply be thinking about their future after the project and subsequently the decision to stay in the labour market might deviate from the reality if the UBI would be implemented.

### 3. The free money experiments results worldwide

A solid number of countries have tried to conduct UBI experiments (Figure 4), including China, Brazil, Sweden, Kenya, Canada. Switzerland being the first country to organise an official nationwide referendum on provision of a UBI.

There are mixed interpretations on an actual number of free money programs, including Stanford Basic Income Lab (2023) displaying a geospatial map with an excessive 143 experiment and UBI-related policies. Figure 4 visualize the main 48 basic income programs across the globe. The mapped programs combine planned, concluded and active experiments, together with newly launched experiments in Spain and Germany.

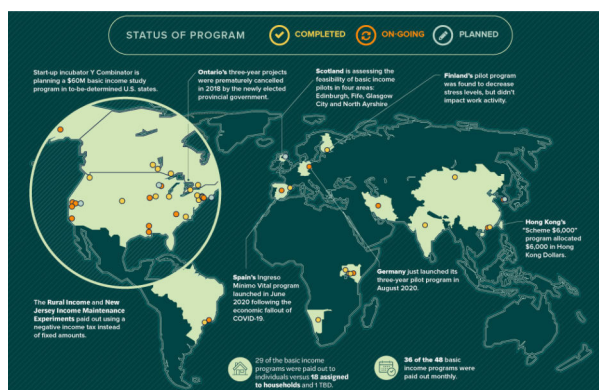


Figure 4. The summary of the UBI pilot programs around the world (Stanford Basic Income Lab, 2023)

Although there is no country who has managed to implement a full UBI, we can see a great amount of empirical evidence and important lessons produced by the small-scale experiments. The main aim of the projects was to assess whether the program works for certain parts of the world with different cultures, beliefs, country size and development growth.

*In the labour market:* UBI did not encourage people to stop working. Meaning that there was no reduction in hours worked (China, India, USA, Iran, Finland); it

provided more freedom to pursue a career they are desiring; helped to get out of the poverty trap which determined a slight increase in labour market (Namibia, Iran, Kenya and India). The effect on labour market in real-life is very hard to quantify from the data collected due the small – scale projects.

The significant improvement *in mental and physical health:* increase in medication affordability, healthcare accessibility (Namibia and Canada); 8.5% drop-in hospitalisation rate (Canada). This indicates long run ease of health services burden and direct improvements in school attendance, education, social trust, confidence etc.

*The willingness to receive UBI payments* (in developing countries – India, Namibia, Kenya); an increasing support (China and the US (the recent support rate risen to 48%)); disagreement – the attitude that UBI benefits is a waste of money (Sweden, Finland and Hong Kong).

*Poverty rate:* a complex and still-unsettled question; the relative poverty rate rose because of the increased taxes due to required UBI funding (in Netherlands by 3%; other rich developed countries); reduction of absolute poverty (Brazil, Kenya).

The diversity of the obtained results signals the scientist being unsure about the program's sustainability. Even though, most of the findings gather positive effects on the labour market, mental health, education and so on. The empirical evidence concurs with the remaining questions of poverty and affordability which suggest that the full implementation of UBI will not be possible until the answers to these questions are established.

## Conclusions

The theoretical evidence suggests that UBI – unconditional regular payments for the entire population – is an attractive socio-economic model that might be a key to the growing need of adjustment in current social security systems which ensures people's basic needs. The main effect discussed – positive results to the labour market (employment, unemployment, labour supply and demand and others), which are closely linked to economic behaviour.

The experiments reveal that UBI as a poverty reduction tool has a diverse effect on countries depending on their economic development: in emerging countries UBI reduces absolute poverty, improves people's physical and mental state; the trials in China, Brazil and Kenya indicated a minor decrease in poverty rate; in The Netherlands the effect is different – relative poverty increased by 3%. Experiments cannot confirm the effectiveness of UBI as a universal solution to poverty reduction.

The analysis of scientific literature and experiments reveal the biggest challenge – necessity of fiscal system adjustment for UBI implementation. Higher taxes for high-income earners, targeted taxes, and other measures are sensitive issues and the main risks.

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