

BASIC INCOME AROUND THE WORLD

THE UNEXPECTED BENEFITS OF UNCONDITIONAL CASH TRANSFERS

Otto Lehto



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Introduction

The idea of a universal basic income (UBI) is that the state should give to all citizens (or residents) a modest regular cash transfer, regardless of their job situation, social status, family position or other discriminating factors. The only limiting conditions, in most UBI models, are 1) residency/citizenship, 2) age of reason (adulthood), and 3) obedience to the laws of the country.

A basic income is a “disarmingly simple”¹ but hotly debated idea. It has been variously called “universal basic income” (UBI), “basic income guarantee” (BIG) and “negative income tax” (NIT).² It is an old idea that was kickstarted by radical writers like Thomas Paine (1797). It has been revitalized in the 20th Century by economists and philosophers such as Milton Friedman (1962), James Tobin (1967),

1 Van Parijs 1992, p.3

2 Henceforth I will be mostly talking about UBI as the umbrella term for all versions of the same idea. Technical differences between a UBI and a NIT are rather minor, although non-trivial.

James Buchanan (1997), Philippe van Parijs (1992, 1995) and Karl Smith Widerquist (2013).

Practical UBI models have been developed, in the U.K. alone, by the Citizen's Income Trust,³ the Buchanan Institute,⁴ the Royal Society for the encouragement of Arts, Manufactures and Commerce (the RSA),⁵ and the Adam Smith Institute.⁶

But while support is rapidly gaining traction, the debate on whether such a reform is desirable or feasible polarizes people across the political and ideological spectrum. The commonest complaints include that it would be too costly or make people too lazy.⁷ Governments naturally prefer bureaucratic schemes that allow them to exert control over the private lives of citizens and micromanage labour markets. However, there are good reasons to believe that a “hands-off” approach would produce superior outcomes.

The public policy case for basic income has a moral component and a pragmatic component:

1) A moral case has been made for the proposition that we should give all people, regardless of the circumstances, sufficient access to some

3 <http://citizensincome.org/>

4 <http://buchananinst.org/>

5 <https://medium.com/rsa-reports/creative-citizen-creative-state-a3cef3f25775#.5gft8m7dv>

6 <https://www.adamsmith.org/blog/a-neoliberal-case-for-a-basic-income-or-something-like-it>

7 E.g. “Why Universal Basic Income is a Terrible Idea”, National Review, June 15, 2016:

basic amount of economic resources.⁸

2) A pragmatic case has been made for the proposition that minimally conditional cash transfers are efficient ways in which today's redistributive schemes could be improved (both in developing countries and in developed countries).

No nation has yet implemented a full-scale UBI model, but this is changing rapidly. We are living through what basic income scholar Karl Smith Widerquist has called "the Third Wave" of interest in basic income.⁹ Fresh, wild experiments are on the way to test UBI's feasibility.

This paper explores the rationale and the socio-economic context for UBI experiments around the world. As it turns out, this paper is also the story of the unexpected benefits of when governments dare to rely on the self-directed efforts of poor people to make autonomous decisions. It is the story of how poor people can regain their freedom and dignity – in poor and rich countries alike.

⁸ Cf. Locke 1689, Paine 1797, George 1879, van Parijs 1995, Widerquist 2013, Zwolinski 2014, Lehto 2015, etc.

⁹ Widerquist 2016 (unpublished)

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1. The Crisis of Liberal Democracy

INCOME INSECURITY AND WELFARE INSECURITY

There is a fundamental tension between the open-ended flexibility of competitive markets and the inflexibility of welfare state legislation. The welfare state creates bad incentives for people, which in turn increases the costs of the system. Partially as a reaction to spiralling costs, attempts to lower the costs of the system have led to unreasonable demands on poor people in the form of punitive workfare schemes and various bureaucratic hoops. The recent Palme d'Or winner, "I, Daniel Blake" (2016) is a good showcase of the counterproductive suffering caused by welfare bureaucracies.

In "Why We Need a New Welfare State", Gøsta Esping-Andersen (2002) made the case for structural reform: "Technological transformation and the dominance of service employment provoke major changes in the social risk structure, creating a wholly new set

of societal winners and losers. (...) Those with insufficient skills or cultural and social resources may easily slide into a life course marked by low pay, unemployment, and precarious jobs.”¹⁰ And although the overall effects of economic transformations are clearly positive, there will always be some relative losers.

According to a recent study on the effects of automation and computerisation on the labour market, about 47% current U.S. jobs are at “high risk” of being automated in the next two decades.¹¹ Some authors, like Ray Kurzweil and Jeremy Rifkin, have extrapolated these trends to reach some pretty utopian conclusions; and both support basic income as a solution.¹² Critics of capitalism, like Paul Mason, envision a “post-capitalist” utopia.¹³ The visionary tech billionaire Elon Musk has repeatedly argued that “universal basic income [is] going to be necessary.”¹⁴ Facebook co-founder Chris Hughes is one of many tech entrepreneurs in Silicon Valley funding basic income experiments in Kenya.¹⁵ Such views are common among companies on the forefront of technological change.¹⁶

Yet another Silicon Valley firm, the seed accelerator Y Combinator¹⁷

10 Esping-Andersen 2002, p.3

11 Frey & Osborne 2016

12 Rifkin 1995 and 2014; Kurzweil on UBI: <https://www.youtube.com/watch?v=2FpPWg24WTE>

13 <http://basicincome.org/news/2016/11/paul-mason-post-capitalism-universal-basic-income/>

14 <http://nordic.businessinsider.com/elon-musk-universal-basic-income-2017-2?r=US&IR=T>

15 <https://medium.com/@chrishughes/the-case-for-cash-for-all-612db8ab7e94#.ut8sz8oyk>

16 “Silicon Valley’s Basic Income Bromance”, Backchannel, Dec 15, 2015:

17 <http://www.ycombinator.com/>

– a venture capital firm investing in such start-ups as Airbnb and Dropbox – is about to fund its own set of basic income experiments in the United States.¹⁸ The company’s president, Sam Altman, thinks that the rise of automation and artificial intelligence, with their potential to disrupt labour markets and generate massive inequalities of wealth, will make basic income both necessary and affordable.¹⁹

Not everybody is a tech billionaire. According to a 2007 report by the IMF, the effects of globalisation on the lower middle class and the “working poor” have been ambiguous. Free trade has “boosted productivity and output, and contributed to rising real labor compensation”, but also “negatively affected the share of income accruing to labor in the advanced economies.”²⁰ They conclude that welfare states ought to “ensure adequate social protection for workers during the adjustment period. This includes *providing adequate income support to cushion, but not obstruct, the process of change*”²¹ (my italics). The crucial task is to design a safety net that provides economic security without slowing down economic, social and technological development.

The failure of traditional welfare states has become very apparent in the age of massive and persistent structural change brought about by technology, global trade and demographic shifts.

Due to the long-term benefits of these trends for the whole of

18 The Guardian, June 22, 2016: <https://www.theguardian.com/technology/2016/jun/22/silicon-valley-universal-basic-income-y-combinator>

19 “Moving Forward on Basic Income”, Y-Combinator Blog, May 31, 2016: <https://blog.ycombinator.com/moving-forward-on-basic-income/>

20 Jaumotte & Tytell, p.19

21 Jaumotte & Tytell, p.20

society, the aim of public policy should be “continuing along the path of trade liberalisation, while ensuring that domestic economies are sufficiently flexible to be able to adjust and respond to the pressures of globalisation.”²²

Change can be terrifying. The transformation of the salariat into the precariat has been slightly blown out of proportion,²³ but labour markets in general are becoming more flexible. The ability to switch between occupations, when alternatives are amply available, brings social flexibility and individual autonomy. Of course, we generally want flexibility, but when one stands to lose one’s job permanently, the prospects look different. The changes brought about by progress do not benefit everybody equally. Many people face hardships – in fact, whole towns and regions do. They vote against change accordingly. This breeds structural conservatism and resistance to change.

THE SELF-DESTRUCTIVE RISE OF PROTECTIONISM

The current welfare state brings about resistance to globalisation and free trade, because it fails to provide sufficient compensation to the losers of economic globalisation, trade liberalisation and technological unemployment. Thus, it is fragile in the face of rapid progress that has the potential to benefit humanity in the long run. Only a safety net that supports people regardless of the chaos and flux of technological and social progress is able to overcome this resistance and defeat populism.

²² Jaumotte & Tytell, p.19

²³ Standing 2011 makes a bellicose case for the rise of “the precariat” as a rising (under)class.

In recent times, we have witnessed powerful challenges to the political orthodoxy from the left and the right. Over the past 18 months the rise of Trump and Corbyn were signals of the rise of protectionist and interventionist politics. I would argue that a lot of this stems from the failure of traditional welfare states to reform themselves to current realities. If it does not wish to succumb to the double-edged challenge of right-wing and left-wing populism, mainstream politics needs to provide its own bold alternatives that can justify globalisation (and, indeed, capitalism) in the eyes of the majority. As long as the destructive side of the market economy is emphasised to the detriment of the creative side, people will turn to short-term solutions that are destined to make poor people worse off.

Reforming capitalism need not equate to abandoning the benefits of a complex, interconnected civilization. Advocates of left-wing and right-wing populism are clamouring for protectionism, but setting up trade restrictions for temporary job security is not only short-sighted; it is self-defeating.

The harnessing of the productive power of global capitalism translates into the rising standard of living of ordinary citizens the world over. This is manifestly true in industrialised countries, but free trade is also important for developing countries: “Globally, the number of people living in extreme poverty has declined by more than half, falling from 1.9 billion in 1990 to 836 million in 2015.”²⁴

UBI provides security to all citizens in the face of the “creative destruction”²⁵ caused by the spontaneous²⁶ fluctuations of

²⁴ The United Nations: The Millennium Development Goals Report 2015, p.4

²⁵ Schumpeter 1944

²⁶ Hayek 1960 & 1982

capitalism. The welfare state built around basic income guarantee and free markets would be “antifragile” in the sense introduced by Nassim Nicholas Taleb:²⁷ it is not harmed by, but actually benefits from, the chaotic influx of new ideas, structural shocks and various social disruptions. The more the society opens up to new ideas, new goods and new people, the stronger it becomes. UBI ought to be married to an open and free marketplace, which effectively provides a robust framework that welcomes technological disruptions, free movement of labour and global trade. As we shall see, this is what many liberal thinkers have argued.

WHAT KIND OF BASIC INCOME? THE CLASSICAL LIBERAL MODEL

Differences in the policy framework within which basic income is embedded can make all the difference between a desirable improvement to the status quo and an undesirable utopian pipe dream. Hence I propose that UBI should be embedded in a framework of classical liberal reforms.

The case for UBI, under the name of Negative Income Tax (NIT), was made by Milton Friedman in his book *Capitalism and Freedom* (1962), where he argued that “[t]he advantages of [the negative income tax] are clear. It is directed specifically at the problem of poverty. It gives help in the form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect.”²⁸ Friedman emphasized UBI’s substitution and bundling effects: its capacity to substitute for less efficient welfare programs and to bundle them into a single program.

²⁷ Taleb 2012

²⁸ Friedman 1962, p.158

Another radical proposal to replace the entire welfare state with a single UBI program has been made by Charles Murray in his book “In Our Hands: The Plan to Replace the Welfare State” (2006).

The Chicago School economist George Stigler (1946) showed that minimum wage legislation was a suboptimal way of helping poor people, and that cash should be given to them instead as an effective substitute: “Society must determine, through its legislators, what minimum income (or addition to income) should be guaranteed to each family.”²⁹ There is a general consensus among neoclassical welfare economists that the government should establish “a national minimum of conditions, below which it refuses to allow the fortune of any citizen in any circumstances to fall.”³⁰

The Austrian classical liberal Friedrich Hayek likewise argued for a guaranteed minimum income, despite his well-known criticisms of the welfare state: “The assurance of a certain minimum income for everyone, or a sort of floor below which nobody need fall even when he is unable to provide for himself, appears not only to be wholly legitimate protection against a risk common to all, but a necessary part of the Great Society.”³¹ Hayek argued for a minimum income floor in all of his major writings (1944; 1960; 1982), so many Hayekians have made the case that “a nonintrusive redistribution [like UBI] might actually represent an improvement upon pure *laissez-faire*.”³²

²⁹ Stigler, p.364. Note that his proposal was for a family-based grant instead of an individual-based grant. He also argued that some supplementary in-kind benefits should be used on the side.

³⁰ Pigou 1912, p.394

³¹ Hayek 1982, p.55

³² Nell (ed.) 2013

Scholars John Tomasi (2012), Matt Zwolinski (2013) and the present author (2015) have proposed additional “bleeding-heart libertarian” arguments in favour of basic income. The consistent classical liberal approach to the welfare state is to “set principled limits on the redistributory ambitions of the state, while defining a threshold below which no class of citizens should fall.” (Tomasi: 94)

The take away message is simple. Consistent and sustainable UBI models recognise the value of cash in mediating people’s preferences and increasing distributive efficiency. Without competitive, open and free markets, cash loses its capacity to satisfy human preferences, which was the whole point of cash transfers! Thus, a nondefeatist UBI proposal simultaneously calls for the establishment of a complementary institutional framework of competitive, open and free markets.

2. Cash Transfers in the Developing World

CONDITIONAL AND UNCONDITIONAL CASH TRANSFERS

Cash transfers are usually categorized into two main groups:

- 1) Conditional Cash Transfers (CCT) are conditional on the fulfillment of some duties (e.g. school attendance, vaccination, crime-free life).
- 2) Unconditional Cash Transfers (UCT) can be either a) given to particular groups or b) given to all citizens (i.e. universal basic income).

Conditional cash transfers are, in fact, used in many developing and

developed countries. Arguably they can be preferable to unconditional schemes in conditions of widespread ignorance and lack of education, because they enable cash donors to make sure that children e.g. get vaccinated and schooled. Such programs are used even in middle income countries. In Brazil, the Bolsa Família program³³ that reaches 48 million Brazilians (a quarter of the population), hands out cash transfers to the heads of families (not to individuals) on the condition that kids are sent to school and properly vaccinated.³⁴ The model is spreading: Mexico's Oportunidas/Prospera³⁵ program has similar characteristics. The flip side of such conditions is that narrowing down on a particular objective prevents people from choosing their own objectives, which might or might not make them more satisfied. Choosing between unconditional and conditional programs means that "policy makers are faced with the tradeoff of improving overall welfare or improving specific outcomes."³⁶

GiveDirectly is a Californian charity, founded in 2008, that "gives" money "directly" to poor people in Africa. They are about to launch a ground breaking 12-year UBI experiment in Kenya. (More on that later.) A charity rating organisation called GiveWell recommends GiveDirectly for its outcomes: "Directly transferring money to poor individuals allows them to purchase that which they believe will help them most. Strong evidence indicates that cash transfers lead recipients to spend more on their basic needs (such as food) and may allow recipients to make investments with high returns, with no

33 <http://www.caixa.gov.br/programas-sociais/bolsa-familia/Paginas/default.aspx>

34 <http://mastercardcenter.org/2016/09/21/brazils-bolsa-familia-reaching-poor-addresses/>

35 <http://www.gob.mx/prospera>

36 Hidrobo et al., p.154

evidence of large increases in spending on items like alcohol or tobacco. (...) We believe that GiveDirectly effectively distributes cash to extremely low-income individuals.”³⁷

An independent study conducted by Princeton researchers Shapiro & Haushofer (2016), which surveyed the results of a GiveDirectly-funded randomized control trial in Kenya where unconditional cash transfers were given to poor rural households in 655 villages over a period of two years, found “significant impacts on economic outcomes and psychological well-being.”³⁸ They concluded that “UCTs have broadly ‘positive’ welfare impacts, with little evidence for ‘negative’ effects such as increases in conflict or temptation good consumption.”³⁹

CASH TRANSFERS VS. IN-KIND TRANSFERS

Many people still believe that cash transfers are too indiscriminate; and that charities and governments should focus their efforts on giving people help in the form of targeted in-kind benefits.⁴⁰ This conclusion can be valid as long as the society lacks basic functional infrastructure, public institutions and social services. However, although conditional cash transfers can, indeed, be sometimes preferable if we wish to achieve specific ends (such as educational,

37 <http://www.givewell.org/charities/top-charities>

38 Haushofer & Shapiro, p.1

39 Haushofer & Shapiro, p.37

40 The Indian-born Nobel laureate economist Amartya Sen, for example, has claimed that “it would be an ‘abdication of responsibility’ if the government were to provide people with money rather than providing better public services” as long as India lacks essential public services that should be fixed. <http://basicincome.org/news/2017/03/nobel-laureate-economist-amartya-sen-india-not-ready-basic-income/>

health or nutritional outcomes), in-kind benefits (of specific goods or services) are almost never the optimal method of administering particular redistributive patterns. Wherever market-based alternatives are available, and the markets are competitive, cash is a more efficient way to give people what they need.

A 2013 study that compared three types of food aid programs – in-kind, vouchers and cash – concluded in favour of cash transfers: “If the objective of these transfers is simply to improve welfare, cash is preferable. Cash is the modality that beneficiaries are most satisfied with, and it is the cheapest means of making transfers.”⁴¹ Giving people in-kind benefits is inefficient under most circumstances, so the real choice should be between cash transfers and market-specific vouchers.⁴²

The results of the cash transfer experiments, although only preliminary, proves the capacity of poor people to help themselves if given the right tools to do so. The notion that poor people cannot take care of themselves without paternalistic interference is sadly deeply embedded in public discourse to the detriment of effective welfare policy. But economic theory has long been aware of the benefits of direct cash transfers as means of creating incentives that encourage autonomic decision-making as opposed to dependency and subservience. As George Stigler emphasized (1946), when we have to choose between different types of benefits, “[t]here is a possible choice between grants in kind and in money. The latter commends itself strongly: it gives full play to the enormous variety of

41 Hidrobo et al., p.154

42 Vouchers, indeed, are very similar to cash payments, contingent on sufficient access to competitive markets. A food voucher in a supermarket works the same as a bill of money. Vouchers are effectively a type of CCT within particular (government-mandated) markets.

tastes and it is administratively much simpler.”⁴³ In fact, the fundamental theorems of 20th century welfare economics⁴⁴ argue strongly in favour of direct cash transfers: “The second theorem of welfare economics guarantees that (...) transfers of purchasing power [i.e. cash transfers] are “efficient” in the sense that they move the economy from one Pareto optimum to another.”⁴⁵

Buttressing this neoclassical paradigm, Brennan & Walsh (1977) have also showed that, at least in theory, “any Pareto-desirable [or Pareto-optimal] redistribution must be effected in cash.”⁴⁶ They even go as far as to claim that “Pareto-desirable redistribution in kind is conceptually impossible.”⁴⁷ If, that is, we believe that Pareto criteria should play at least some role in public policy debate – if we wish to design reforms that ideally leave nobody worse off – we should opt for cash transfers. This does not mean that other considerations cannot sometimes override Pareto criteria.

It is fashionable to argue that the sort of rational choice models that economists have employed in neoclassical economics are highly speculative and counterfactual.⁴⁸ But one doesn’t have to buy the mathematical assumptions of welfare economics or rational choice theory to accept the minimal diagnosis, dating back to Adam Smith’s “The Wealth of Nations” (1776), that recognizes the value of competitive markets and individual sovereignty in efficient welfare creation.⁴⁹ When we combine the theoretical insights of economics

43 Stigler, p.365

44 Cf. Arrow & Dubreau 1954

45 Blackorby & Donaldson, p.691.

46 Brennan & Walsh, p.990

47 Brennan & Walsh, p.990

48 See, e.g., Stiglitz 1991 and Sunstein & Thaler 2008.

49 Smith 1776

with the empirical evidence about how people actually behave when given cash and economic freedom, the economic case for cash transfers is strong.

TOWARDS EFFECTIVE ALTRUISM

The case for cash transfers becomes even stronger when you realise what the alternatives are. Doing good is not the same as feeling good. The road to hell is paved with good intentions. The popularity of movements such as “effective altruism” means that efficiency considerations are finally being taken sufficiently seriously in the academia.⁵⁰ But many charities and governments are still given a free pass for possessing good intentions and a good heart without the practical means and the requisite brains to put their good intentions into efficient use.

The reliance on foreign handouts has been linked to the erosion of the self-sustainability of domestic markets.⁵¹ Foreign aid incentivises the entrenchment of aid infrastructure run by an elite bureaucracy of experts in collaboration with corruptible local politicians. This is made worse by “the tyranny of experts.”⁵² In a nasty echo of colonialism, many aid programs rely blindly on the knowledge – or the pretense of knowledge – of self-appointed Western technocrats.

Excessive overhead costs and managerial provisions arouse lots of anger. A much more serious problem, however, is the fact that much of the money ends up in wrong pockets or is “lost in the mail.” With middle-managers and rampant corruption, only a portion of the

⁵⁰ Singer 2015; MacAskill 2016; See also the website: <https://www.effectivealtruism.org/>

⁵¹ Moyo 2009

⁵² Easterly 2014

money reaches its intended target. Even if the money does reach its intended target, the failure of the donors to have proper knowledge of local circumstances contributes to a massive waste of resources.

If our aim is to actually help people in the most efficient way possible (rather than merely feeling good about ourselves), we should aim to reform poor relief in rich and poor countries. In a world of finite and contested resources, we cannot afford not to worry about efficiency, however offended we are by the very thought of having to make tough decisions about altruistic goals.

In recent years, cash transfers have been studied quite extensively. The empirical evidence shows that they produce desirable outcomes across a number of different welfare metrics. Cash transfers (both CCTs and UCTs) are an efficient way of helping poor people, together with such in-kind programs as deworming, mosquito nets, schooling and public infrastructure construction.⁵³

Wherever competitive markets exist, cash transfers are the best policy alternative on the table. And where competitive markets do not exist, there are good reasons to foster their birth *ex nihilo*. Cash transfers and other complementary reforms are a good way of stimulating markets into existence. Cash transfers bypass corruption by giving the money directly to the local people. And they avoid the pretense of experts by letting the individuals freely spend the money by themselves.

What goes for direct cash transfers in the developing world should also go for rich countries. The type of program that is both sufficient

⁵³ See e.g. GiveWell's cost-effectiveness calculations between various policies: <http://blog.givewell.org/2012/12/19/cost-effectiveness-of-nets-vs-deworming-vs-cash-transfers/>

and affordable in local circumstances depends on the average income of the country. And yet the arguments are largely invariant across cultures. Helping out poor people requires the utilisation of market-based solutions and the power of price signals.

If we are to choose between conditional and unconditional cash transfers, there is no one-size-fits-all solution. There is a reasonable case for requiring governments to make sure that children are vaccinated and acquire basic education. Paternalism is not always a bad idea – especially when it comes to children. On the other hand, unconditional cash transfers, such as UBI, are often the best remedy for adults, who should not be treated like children, but helped to help themselves.

Next, let us take a look at the UBI experiments mushrooming around the world.

3. Experiments: Then and Now

TABLE 1⁵⁴

Country	Time period	How much (per month)	Level of generosity	Number of participants
USA and Canada	1960s-1980s	Various	Full UBI	8,000-9,000
Alaska	1982-today	Between 20-180 USD (given as annual lump sum)	Modest UBI	~ 630,000 (all permanent residents of Alaska)

⁵⁴ I have used the rough terms “modest” and “full” in the fourth column to describe how generous the grants are relative to the average income, and/or the poverty level, in the country. A “full” grant is assumed to be high enough to survive on; a “modest” grant, on the other hand, generally fails to satisfy one’s basic needs.

Namibia	2008-2009	100 NAD (= £7)	Modest UBI	1,000
Iran	2010-today	£35	Modest to full UBI	50 to 72 million (most Iranian households)
India	2010-2011	200 rupees (= £2,5)	Modest UBI	6,000
Kenya (GiveDirectly)	2016-2027	2,280 Kenyan shillings (= £18)	Modest to full UBI	26,000
Uganda (Eight)	2017-2019	£15 (adults), £7.5 (children)	Full UBI	200 (= 50 households)
Finland	2017-2019	€560	Full UBI	2,000
United States (Y Combinator)	2017-	1,000-2,000 USD	Full UBI	Stage 1: 100, Stage 2: 2,000-3,000
Canada	2018- (?)	2018- (?)	Full UBI	3,500 (?)
Scotland	2018- (?)	?	Full UBI	?

THE U.S. AND CANADIAN EXPERIMENTS: 1960'S-1980S

The earliest Western UBI/NIT experiments were conducted from the late 1960s to the early 1980s, in the United States and Canada. Almost 8,000 people took part in various experiments across the United States (New Jersey, Pennsylvania, Iowa, North Carolina, Seattle, Denver and Indiana). At the same time, 1,300 Canadians

took part in experiments in Winnipeg and Dauphin, Manitoba.⁵⁵

Evelyn L. Forget (2011) has recently shown that the Canadian “Guaranteed Annual Income” (GAI) experiments, also collectively known as the MINCOME experiments (1974-1979), had significant effects on the rate of hospitalisation, mental health and school attendance, suggesting that UBI “may improve health and social outcomes at the community level.”⁵⁶

The results of the U.S. NIT experiments⁵⁷ were ambiguous. The modest reductions in labour market participation, especially among mothers, alarmed policy-makers: “The experiments have confirmed that good deeds are not costless. Income redistribution to the poor has an efficiency price. The price is far lower than pessimists predicted, but it certainly exceeds zero.”⁵⁸ This had the result that interest in UBI/NIT waned for many decades, only to resurface in recent years.

Reflecting back on the experiments in 1986, the MIT economist Robert Solow, who was a supporter of NIT – although less vocal about it than his peers Milton Friedman (1962) and James Tobin (1967) – wrote the following: “The surest generalisation that emerges from all such experiments is that the implications for mass human behavior are weak. That does not mean they are not important; but they are uniformly weak.”⁵⁹ This casts doubt on the usefulness of small experiments as decisive evidence:

55 For a breakdown of the statistics, see “Table 1” in Widerquist 2005, p.53.

56 Forget 2011, p.300

57 For the U.S. experiments, see Solow et al. 1986; for Canada, see Forget 2011.

58 Gary Burtless, in Solow et al. 1986, p.48

59 Robert Solow, in Solow et al. 1986, p.219

“The prevalence of small effects opens the way to alternative interpretations of the research findings.”⁶⁰ Solow himself interpreted the experiments with cautious optimism, since they showed that “the kinds of changes we contemplate will not turn the world upside down.”⁶¹

As Karl Widerquist put it: “although what we learned from [the NIT experiments] was tentative and limited, it is worth knowing.”⁶² The results do not provide clearcut results, since, in the words of Solow, “experiments do not take place in a test-tube and they do not involve identical individuals. There is just a lot more going on than can possibly be controlled.”⁶³ One of the main uses of scientifically ambiguous social experiments is to drum up public support (or opposition) for controversial policies. As governments gather data, it will be coloured by prior ideological commitments. We should take this healthy skepticism at heart: experiments are no magic bullet, although they might give interesting insights into research and incentives for policy reform.

THE ANOMALY OF ALASKA AND IRAN: 1980S TO TODAY

There are a few “quasi-UBI” models we should take a look at first. Every year since 1982, the Alaskan Permanent Fund Dividend has distributed an end-of-the-year lump sum dividend, based on Alaska’s oil revenues, to all the permanent residents of the state.⁶⁴ The annual dividend is an unconditional, universal cash transfer

⁶⁰ Ibid. p.219

⁶¹ Ibid. p.222

⁶² Widerquist 2005, p.69

⁶³ Robert Solow, in Solow et al. 1986, p.220

⁶⁴ <https://pfd.alaska.gov/>

(UCT). It cannot be considered a full-scale UBI, however, since it is both meagre (insufficient to cover one's basic needs) and volatile (different from year to year). The annual sum has ranged from a few hundred dollars (min) to about \$2,000 dollars (max) per capita.

Oil revenue-based unconditional cash transfers have also been executed in Iran. In 2010, the oil-drenched government decided in to distribute oil revenues in the form of unconditional cash grants. This was done as a compensation for their plan to stop massive but inefficient fuel subsidies. The program gave “every Iranian residing in the country the equivalent of \$40-45 a month, unconditionally.”⁶⁵ At its peak, the program reached 72.5 million people, or 96 percent of Iran's population. The cash transfers constituted as much as 15 per cent of annual national income for Iran. The unconditionality conditions were relaxed in 2016, and only 2/3 of the population remain enrolled today.⁶⁶ The Alaskan and the Iranian cases are instructive, but also anomalies, since they are made possible by the presence of abundant natural resources. The main reason why they cannot be directly compared to full-blown UBI experiments, however, is not the source of their funding – since this should not affect recipient outcomes – but their limited scope: they are not high enough for people to live on without external means of support. In most countries, UBI would likely have to be financed through income taxation, although Georgist land taxation⁶⁷ is also a viable alternative.

⁶⁵ Tabatabai 2012, p.2

⁶⁶ <http://www.al-monitor.com/pulse/originals/2016/04/iran-cash-subsidy-payments-cut-parliament-24-million.html>

⁶⁷ <http://www.economist.com/blogs/freexchange/2015/04/land-value-tax>

INDIA AND NAMIBIA: THE 2000S

The 2000s saw a wave of important UBI trials in India and Namibia. These experiments were artificial cash-injections into local communities, rather than replacements of existing redistributive programs, so it is not surprising to see improvements in many social and economic outcomes (at least for the duration of the experiment). With the use of control groups, however, they were able to measure the effect of unconditional cash transfers on a number of developmental indicators.

One thing to keep in mind is that there is a difference between reforming an existing welfare system (e.g. in Europe or the United States) and establishing one where it does not exist (e.g. Namibia). Direct comparisons between countries with different levels of wealth are inadvisable, although cash transfers are useful tools everywhere. The type of UBI that is appropriate for one country may be completely out of the reach of another country. A relatively rich country can afford to spend a larger proportion of its national income on the provision of a minimum safety net than a poor country.⁶⁸

INDIA: The Indian UBI trials were organized by UNICEF, in cooperation with a local trade union SEWA (Self-Employed Women’s Association), in the rural areas of Madhya Pradesh, in 2010-2011. For an 18 month period, about a dozen villages (consisting of over 6000 individuals) were given small cash basic income transfers. Other villages were used as control groups. According to the final report (2014), there were significant outcomes in terms of improvements in the recipients’ “living conditions, nutrition, health, schooling, economic activity, agency” and other

⁶⁸ Pigou 1912, p.397

indicators.⁶⁹ Contrary to popular fears, giving people cash “did not lead to a net reduction in adult work.”⁷⁰

There have been suggestions to expand the UBI policies nation-wide in India,⁷¹ partially to replace other welfare transfers. In February 2017, the Indian Ministry of Finance released its annual Economic Survey 2016-2017, which argues that “serious consideration be given to the new idea of a universal basic income as a more effective way of achieving Mahatma Gandhi’s objectives of ‘wiping every tear from every eye.’”⁷² The report acknowledges that universalism makes sense since “India’s record of targeting welfare programmes to the poor has been suspect. (...) Targeting [has been] both inefficient and inequitable, a license to fraud that spawned an entire ecosystem of middlemen and petty abuse.”⁷³ However, as the current state of India is not ready for the immediate implementation of basic income,⁷⁴ the report argues for “gradualism” instead, which provides a long-term road map for the implementation of UBI.⁷⁵ The report concludes cautiously that “UBI is a powerful idea whose time even if not ripe for implementation is ripe for serious discussion.”⁷⁶ India remains on the fence: more than curious, but not committed to full-blown implementation.

NAMIBIA: The initial experiments in Namibia took place in the

69 SEWA Bharat, p.189

70 SEWA Bharat, p.190

71 See Davala et al. 2015

72 Government of India, Ministry of Finance: Economic Survey: p.23

73 Ibid., p.180

74 Ibid., p.191

75 Ibid., pp.191-193

76 Ibid., p.195

village of Otjivero in 2008-2009 with around 1,000 grant recipients. The experiments were organized by a “BIG coalition” consisting of numerous NGOs and church groups.⁷⁷ The results were promising,⁷⁸ but the experiments were plagued with serious “methodological shortcomings”, rendering their results dubious and arguably not fit to serve as “a valid pilot scheme.”⁷⁹ However, there was another follow-up experiment in 2013-2014, organized by the government, this time as an impromptu response to a famine crisis (euphemistically called “food insecurity”).⁸⁰ The second experiment’s success at mitigating a humanitarian disaster was said to make “a compelling case for the usefulness of a universal cash grant as a crucial intervention for poverty eradication”.⁸¹

THE FINNISH UBI EXPERIMENT: 2017-2019

In January 2017, exactly two thousand people across Finland, randomly selected from the ranks of the recipients of governmental unemployment benefits, received their first monthly instalment of universal basic income. A bump in a few lucky Finns’ bank accounts, and a blip in the evening news, marked the unceremonious beginning of the centre-right government’s much-touted basic income experiment. For two years to come, according to the Finnish Government’s (KELA’s) website, “a total of 2,000 unemployed persons between 25 and 58 years of age will receive a monthly

77 BIG Coalition of Namibia: <http://www.bignam.org/>

78 Haarmann et al. (2009)

79 <https://www.dandc.eu/en/article/disappointing-basic-income-grant-project-namibia>

80 Haarmann & Haarmann, p.III

81 Haarmann & Haarmann, p.57

payment of €560, unconditionally and without means testing.”⁸²

It comes with no strings attached, i.e. recipients can spend the money as they wish, take up any job (temporary or permanent), and do with their time as they please. They are to receive a guaranteed monthly payment for the next 24 months, until the end of the experiment in late 2019. The two-year experiment was designed by a group of expert in the government-run welfare bureaucracy of KELA (The Social Insurance Agency of Finland).⁸³ Unfortunately, the government failed to heed the advice of the researchers to enlarge the experiment and to include people outside the official unemployment statistics. In addition, the age limit is too restricted at 26-58, so the final experiment is a truncated version of what could have been a major sociological milestone. As a consequence, the experiment is neither as scientifically rigorous nor as ambitious as it could have been.

Compared to the status quo, however, the UBI experiment marks a significant departure. The Finnish benefit structure consists of over 100 different benefits with different rules and conditions attached to them. Even Theseus wouldn’t be able to find his way around this Labyrinth. If the program is eventually scaled up to encompass the entire population, which it might, people would no longer have to rely on the discretionary powers of the Kafkaesque bureaucracy.

After many decades of public debate, support for UBI is large. About half of the MP’s in the Finnish Parliament, and a majority of the

⁸² <http://www.kela.fi/web/en/experimental-study-on-a-universal-basic-income>

⁸³ <http://www.kela.fi/web/en/>

population, support a full-blown UBI.⁸⁴ Despite cultural differences, insecure and cumbersome welfare state bureaucracies are a commonplace across Europe and North America. A well-implemented UBI could change the way welfare states are organized – and thus make them more responsive to individual needs.

Any pragmatic reforms towards UBI will likely fall short of an ideal model. The Finnish experiment is a good example of that. This does not mean that incrementalism ought to be shunned. Perfection is out of the reach of mere mortals. Even incremental steps in right direction should be welcomed. In fact, the Finnish experiment heralds the way for an audacious string of global experiments.

INTO TOMORROW: UPCOMING UBI EXPERIMENTS⁸⁵

CANADA: Interest in basic income has swelled in Canada in recent years. In 2016, the Liberal Party passed a resolution to “develop a poverty reduction strategy aimed at providing a minimum guaranteed income.”⁸⁶ The mayors of Calgary and Edmonton have supported UBI in the past.⁸⁷ Several provinces have expressed interest in running UBI experiments, but the Liberal-dominated Ontario Province are set to go forward in 2017 with a NIT model of its own: many details of the plan are still undecided, but the

⁸⁴ For an extended discussion of the Finnish experiment, see my comments from 2016: <http://basicincome.org/news/2016/08/finland-governmental-announcement-basic-income-experiment-ministrys-comment-experts-concerns/>

⁸⁵ Caveat: the following information was accurate at the time of my writing (March 2017).

⁸⁶ <http://winnipeg2016.liberal.ca/policy/poverty-reduction-minimum-income/>

⁸⁷ The Star, June 5, 2015: <https://www.thestar.com/news/canada/2015/06/05/alberta-mayors-stick-back-guaranteed-minimum-income.html>

preliminary plan is to give some 2,500 people, in three different cities, roughly C\$1,320 a month; individuals with disabilities being eligible for an extra C\$500 or so.⁸⁸ According to the author of the preliminary plan, the Conservative political strategist Hugh Segal: “This [UBI] is not something which is in any way, in my view, the precinct of the left [but] the precinct of rational people [to] give people a floor beneath which they’re not allowed to fall. (...) What Ontario is doing is saying let’s have a pilot project, let’s calculate the costs, let’s calculate the positive and the nudge effects behaviourally.”⁸⁹

KENYA: Give Directly’s UBI experiment⁹⁰ in Kenya is similar to the future U.S. experiments in that it is privately funded, with a combination of small and big donors. It has so far collected about \$24 million, in private donations, for the sake of their ambitious 12-year-old experiment. (Both are also HQ’d in Silicon Valley.) It has already started. Since October 2016, “95 adults in a rural village in Western Kenya” have received the equivalent of £18 per month.⁹¹ The experiment involves more than 26,000 people, but only 6,000 people, however, across 40 villages, are to be paid for the whole 12-year period. Another group will be paid UBI for 2 years, while a yet third group will be given an equivalent (one-time) lump-sum cash transfer. As such, it promises to be the largest UBI experiment ever. According to Give Directly, the aim of the study is to measure the effects of these various UBI models – long-term, short-term and

⁸⁸ <https://www.ontario.ca/page/finding-better-way-basic-income-pilot-project-ontario>

⁸⁹ The Guardian, Oct 28, 2016: <https://www.theguardian.com/world/2016/oct/28/universal-basic-income-ontario-poverty-pilot-project-canada>

⁹⁰ <https://www.givedirectly.org/basic-income>

⁹¹ <https://www.devex.com/news/early-insights-from-the-first-field-test-of-universal-basic-income-89716>

lump-sum – on economic status, time use, risk-taking, gender relations and “outlook on life”, against a control group that does not receive any cash transfers.⁹²

THE NETHERLANDS: UBI experiments have also been planned in various Dutch cities, including Utrecht⁹³ and many other cities, but the fate of the experiments is unclear.

SCOTLAND: The Scottish Government has expressed “interest” in basic income.⁹⁴ The Scottish National Party (SNP) backed UBI already in the spring of 2016, stating that it can “potentially provide a foundation to eradicate poverty, make work pay and ensure all our citizens can live in dignity.”⁹⁵ Four areas - Glasgow, Edinburgh, Fife and North Ayrshire - have committed to launching regional experiments with financial support from the Scottish Government.⁹⁶

UGANDA: Similar to what GiveDirectly are doing in Kenya, a Belgian charity called Eight⁹⁷ are funding a two-year UCT/UBI experiment in the region of Fort Portal in Uganda. Starting in 2017, a single Ugandan village, consisting of 50 households, will receive monthly UBI payments of 18.25 USD per adult, and 9.13 USD per

92 <https://www.givedirectly.org/basic-income>

93 <https://www.theatlantic.com/business/archive/2016/06/netherlands-utrecht-universal-basic-income-experiment/487883/>

94 <http://www.bbc.com/news/uk-scotland-38757098>

95 <http://www.independent.co.uk/news/uk/politics/universal-basic-income-snp-scotland-independent-conference-vote-a6931846.html>

96 <https://www.theguardian.com/uk-news/2017/dec/25/scotland-universal-basic-income-councils-pilot-scheme>

97 <http://eight.world/>

child.⁹⁸

UNITED STATES: Y Combinator of Silicon Valley are funding a UBI experiment in Oakland, California, set to start in 2017, “to run a large, long-term study to answer a few key questions: how people’s happiness, well-being, and financial health are affected by basic income, as well as how people might spend their time.”⁹⁹ The first stage consists of giving just 100 individuals about \$1,000 to \$2,000 per month for 6 to 12 months. It is curious to note that the recipients will include both employed and unemployed people from all demographics. Contingent on the successful completion of stage one, the second stage will consist of expanding the trial to 2,000-3,000 people for a duration of 2 to 3 years.¹⁰⁰ It would thus equal or surpass the Finnish experiment in scope. (Independently of the machinations of Y Combinator, the nearby city of San Francisco has also toyed with the idea of a UBI experiment, but nothing has been decided yet).¹⁰¹

⁹⁸ <http://basicincome.org/news/2016/11/uganda-two-year-basic-income-pilot-set-to-launch-in-2017/>

⁹⁹ <https://blog.ycombinator.com/moving-forward-on-basic-income/>

¹⁰⁰ <http://basicincome.org/news/2017/03/stanford-panel-what-do-people-do-when-they-are-given-cash-with-no-strings-attached/>

¹⁰¹ <http://basicincome.org/news/2017/01/us-san-francisco-not-launching-basic-income-pilot-yet/>

4. Conclusion:

Cash in hand

Ours is not the “dawn of the post-market era”¹⁰² or the “post-capitalist”¹⁰³ era. Instead, our times might optimistically be described as the moment when capitalism and efficient redistribution can be vindicated in equal measure; and where bureaucracies are reformed to serve individual needs.

Yes, the robots are coming, and change is terrifying, but we better not let our atavistic and neophobic tendencies dominate the policy discussion. To borrow the words of Franklin D. Roosevelt, the only thing we have to fear is fear itself – especially the fear of the unknown, for the fear of the unknown has the apocalyptic power to bring about humanity’s self-prophesied ruin.

The fruits of global economic integration and trade liberalisation are clearly net-positive, but the summing of the negative and positive effects of world trade is a difficult task. Policy makers are thus faced

¹⁰² Rifkin 1995, p.219f.

¹⁰³ Mason 2016

with a dilemma: 1) to promote policies that produce the most net-welfare in the long-run; and 2) to make sure that the net-losers are sufficiently compensated for in the short run.

The analysis suggest that the UBI is politically feasible, socially desirable and financially sustainable. The biggest problems relate to its implementation and administration (de Wispelaere 2015). It requires inspirational political leadership to reform entrenched institutions and practices. A powerful palette of economic reforms is hard to achieve. Even if it gets implemented, UBI won't solve all our problems. Its parameters, scope and size will have to be fiddled with for a long time come. But no one can deny that it's a feasible reform that can nudge our society forward.

Among the welfare benefits provided by the state, the universal basic income guarantee has the lowest chance of being hijacked by special interests, and the highest chance of being useful to its beneficiaries regardless of the circumstance. Money is the universal solvent. Cash is a fungible "Swiss knife", capable of cutting any welfare dimension we want to tackle. It thus stands as the most robustly freedom-preserving and utility-enhancing tool at the disposal of the government. UBI of the sort I have proposed is an improvement from the point of view of economic efficiency and social welfare, but it ought to be embedded into a general framework of deregulatory reforms, so that it enables people to act as sovereign consumers in competitive, open and free markets.

In the final analysis, the question of welfare cannot be easily separated from the question of liberty. As long as welfare state structures are allowed to undermine individual freedom, people will oscillate between the Scylla of economic insecurity and the Charybdis of bureaucratic stagnation.

The incentives for higher productivity and innovation sustained by the market order should be rightly seen as the greatest and unacknowledged tool of welfare creation at our disposal. To sustain popular support for the invisible hand of the market – the mother of all welfare creation – we need the visible hand of the government. A limited and equitable government, knowledgeable about its own limits as well as its powers, can give people the confidence to pursue their own lives by endowing them with sufficient access to universal opportunities for personal flourishing.

Give everybody a little bit of money every month and tax it away (smartly and efficiently) from those who can afford it. If it sounds too good to be true, it's only because we have been conditioned to accept the premise that complexity in life situations requires complexity in governance. In fact, the very opposite is true: simplicity in welfare legislation is the best fit for a complex world. A modest UBI, while it may generate moral resentment and ideological resistance, would increase the welfare and liberty of the citizenry without imposing unreasonable costs on taxpayers. Replacing in-kind benefits with unconditional (or minimally conditional) cash transfers is likely to increase the efficiency of the benefit system for all parties concerned in rich and poor countries alike.

Counterproductive policy recommendations, like trade protectionism and excessive welfare paternalism, are likely to dominate the discussion for a long time to come. People are hungry for solutions, populists are ready to sweet-talk them into submission. Rapid social transformations are scary and can cause counterreactions. Only a combination of robust markets and a robust safety net can give people the incentives to take more risks, set up businesses and take up various jobs, in the knowledge that their basic security is taken care of, regardless of how creative – or destructive – the Schumpeterian maelstrom of global capitalism becomes.

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