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### Abstract

Basic income advocates see a universal income grant, no questions asked, as bringing many potential benefits, not in the least as an ironclad protection against poverty, if set high enough. It is hard to know with any certainty what a world with a sizeable basic income would look like but we can make theoretically and empirically informed guesses about its likely first-round impacts. Neither the insights we get from (quasi-)experimental research nor those from (micro-)simulation modelling are very encouraging. The estimated first-round effects on poverty are for the most part disappointing, especially in countries with comparatively well-functioning social protection systems. Aggregate employment is likely to fall, especially affecting women. It requires an enormous leap of faith to assume that the effects further down the road would be miraculously better. Moreover, there seems to be a vast gap between what people think a basic income would bring them and how it would actually impact them. Under any plausible scenario there would be many net losers. In short, there are few sound reasons at this time to argue for replacing the better performing social protection systems currently in place with a basic income, especially if a more adequate social floor is the main concern.

**Keywords:** Basic income, poverty, income distribution, policy interaction

**JEL-classification:** D31, H55, I38, C81

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## **A basic income is a basic income**

The idea that every person living amidst the relative affluence of the rich world has a right to minimum means of existence enabling at least physical survival and preferably also a modicum of social participation, be frugally and soberly, holds as a fundamental matter of social justice to most people. For that reason rich countries have minimum income schemes, in addition to elaborate income maintenance provisions in the form of social security. Some countries spend up to a fifth of their GDP on social transfers. Yet poverty persists.

What if we would just make it simple and send every citizen a sizeable amount of cash every month, no questions asked, no conditions imposed?<sup>1</sup> Lazy or thrifty, rich or poor, sick or healthy, everyone gets a guaranteed income from the state, every week or month. It is hard to imagine a more ironclad guarantee against poverty, at least if such a universal income grant was high enough to allow for a life in dignity.

Of course, we are referring here to basic income. But let us be clear from the beginning: many real-world debates about basic income are not in fact debates about basic income. Schemes such as negative income taxes, refundable income tax credits and even social assistance schemes are often taken to represent a basic income of sorts in debates. While some, like fully refundable tax credits, come close, most are in fact not a basic income. Social assistance, the most common embodiment of a basic economic right, does not even come close to a basic income. It is important for that reason that we restrict the discussion that follows to basic income proper.

The flight that basic income has taken is spectacular. While debates about minimum income protection tend to arouse only relatively small circles of academics and policy wonks, debates about basic income are sure to draw engaged interest from all corners of society. In a way this can be seen as encouraging. Apparently many people care about the issue of basic economic rights. But it is also true that people engage in basic income debates with different agendas, some far removed from the issue we are concerned with here. There is also a lack of terminological hygiene. When talking about basic income, people often mean very different things. And even when they talk about a basic income proper, amounts and criteria for eligibility often remain frustratingly vague (De Wispelaere and Stirton, 2004). Are we talking about a basic income for the whole population, elderly and children included? Is the basic income restricted to citizens only or do (new) immigrants with non-citizen status also qualify? Are we talking about a small amount of money or about a sizeable chunk of GDP, such as the 25 percent of GDP some propose?

This is not the place to repeat in much detail the many philosophical and ethical arguments that have been put forward in defense of a basic income. Excellent summaries of such arguments exist, especially in Philippe Van Parijs' and Yannick Vanderborght's summing up "Basic Income –A Radical Proposal for a Free Society and a Sane Economy".

The question we address here is essentially this one: is a basic income a good idea if our goal is better minimum income protection and thus poverty relief? At first sight the answer seems to be obviously yes. But then again, a full basic income, defined as an unconditional monthly payment high enough to ensure a life in dignity on its own would represent an intervention of monumental proportions, with a budgetary cost to match. That is not to say that it would be infeasible but, as we will argue here, replacing existing income protection provisions with a basic income would not make much sense in most advanced welfare states, especially in countries where existing income protections perform comparatively well.

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<sup>1</sup> This paper is a draft chapter of a forthcoming book on minimum income protection, entitled "Zero Poverty Society: Ensuring a Decent Income for All", co-authored with Sarah Marchal to appear with Oxford University Press later this year.

We do not know with certainty what a world with a sizeable basic income would look like but we can make theoretically and empirically informed guesses about some of its likely outcomes. Those suggest that, even for all their flaws, gaps and shortcomings, it would be a foolish gamble to simply replace well-performing social protection with a basic income, at least if poverty prevention is the main concern.

The real discussion, we think, boils down to the role a partial basic income can play in providing one of several layers of minimum income support. A partial basic income would be a lower amount not replacing but complementing and at most only partially replacing existing social security, social assistance and other transfer programs. After all, many countries already have universal child benefits effectively granting a basic income of sorts to households with children. Extending such a right beyond households with children is not an unimaginable leap and may also make more sense than a full basic income.

## **Basic income claims**

While this is not the place to review in great detail the many arguments made in defense of basic income, it is worth highlighting some striking aspects.

A first thing to note is that basic income advocates almost invariably entertain a rather dystopian view of the future. At the very least one can say they see a future of disheveling change. Crucially, they envisage a world in which there will no longer be work for everybody, certainly not decent and interesting work. It is perhaps useful at this stage to quote at some length from Van Parijs and Vanderborght, two of the most prominent basic income proponents.

*“We live in a new world, remade by many forces: the disruptive technological revolution brought about by the computer and the internet; the globalization of trade, migration, and communication; a fast-growing worldwide demand running up against the limits imposed by a shrinking pool of natural resources and the saturation of our atmosphere; the dislocation of traditional protective institutions, from the family to labour unions, state monopolies, and welfare states; and the explosive interactions of these various trends.” (Van Parijs and Vanderborght, p4)*

To deal with this vortex of upheaval, basic income is being advocated as a radically different and superior alternative to the dominant model of social assistance.

*“Thus, the expectation that meaningful work will be lacking easily leads to the conviction that the growing jobless population must be provided with some means of livelihood. But there are two very different ways of fleshing out this conviction, and one of them is very unattractive. It consists of expanding the old model of public assistance first born in the sixteenth century and instantiated by today’s guaranteed-minimum-income schemes of a conditional sort.” (Van Parijs and Vanderborght, p.7)*

A basic income is put forward as the superior alternative.

*“More than on any other front, action is needed to restructure radically the way in which economic security is pursued in our societies and in our world. In each of our societies and beyond, we need a sturdy floor on which we can stand as individuals and as communities. If we are to stem our anxieties and strengthen our hopes, we must dare to introduce what is now commonly called a basic income: a regular income paid in cash to every individual member of a society, irrespective of income from other sources and with no strings attached.” (Van Parijs and Vanderborght, p.4)*

They then go on to list all the well-known advantages of a BI: its simplicity, predictability, lack of bureaucratic intrusiveness and complexity, and of course its supreme compatibility with free individual choice. A BI makes it easier to take a break between two jobs, reduce working time, make room for more training, take up self-employment, or take up volunteer or care work. Or do nothing at all.

If set at a sufficiently high level a basic income would almost by definition provide ironclad protection against financial poverty. But basic income advocates claim that the benefits go beyond the financial (Standing, 2017; Torry, 2019). A basic income could reduce stress caused by insecurity and thus improve health and well-being. Add to that claims that a basic income can help bring about a more sustainable way of life and it adds up to a potentially wonderful thing (Howard et al., 2019).

## **What we know about the impact of basic income on poverty and welfare state performance**

What do we know about the possible effects of a basic income on poverty? Several lines of empirical research provide some guidance. There is an increasing and fast-growing body of experimental and quasi-experimental research to draw on (Lain, 2022; Widerquist, 2018)<sup>i</sup>. This research gives us an idea of how people or, in the best case, communities might react to a basic income or something approaching one. They tell us less about what the economy-wide impact would be.

Researchers have looked for example at lottery winners to see what happens if people suddenly receive free and unconditional money. Imbens et al. (2001) found that large lottery winnings had sizeable but not necessarily dismal effects on how much people work, a key point of contention in the debate. A boost in unearned income was found to reduce labour earnings at the rate of approximately 11 percent, with larger effects for older people.

Similar studies exist for other countries. A (relatively small-scale) study for Belgium is particularly insightful because it looks at lottery winners receiving an unconditional monthly grant of 1,000 euro for the rest of their lives (Marx and Peeters, 2008). That comes uncannily close to a sizeable basic income, at least for the lucky winners. About 80 winners were retraced and interviewed. Almost none of them had quit working, and less than a handful of winners had reduced their working time. The few that did quit employment cited reasons other than winning the lottery. And nobody switched from paid employment to self-employment, going against claims by some basic income advocates that people will become more entrepreneurial if they have a secure income. In short, receiving a sizeable, unconditional monthly income did very little to people's labour market behavior. Interestingly, many respondents spontaneously stressed that the major effect of winning Win-for-Life, as the lottery is called, was that they had become less stressed about the future. It provided them a more relaxed way of living.

Such studies give an insight into how people react in isolation. That also applies to experiments such as the ones recently conducted in Finland and the Netherlands. In the much-publicized Finnish experiment, a sample of 2,000 unemployed people had their unemployment benefit or labour market subsidy replaced with a relatively small unconditional basic income (560 euro) for a period of 2 years (Kangas, 2021; Kangas et al., 2021). In the Netherlands, municipalities experimented with relaxing the conditions imposed on social assistance recipients and rules regarding how much extra they could earn. These experiments suggest that people, or at least unemployed people, are relatively unreactive to measures that transform their conditional welfare benefits into an unconditional basic income (Verlaat and Zulkarnain, 2022). In the Finnish case, the effect on employment was small but people reported improved economic security and well-being. In the Netherlands the results suggested that relaxing conditions on social assistance recipients did not have a major effect on their likelihood to exit social

assistance. But of course, the recipients of unemployment benefit or social assistance in both countries were well aware that their new situation was temporary. Participants in these basic income experiments would have had to be very naïve to think that the default regime of fairly strict conditionality, monitoring and sanctioning in place would not resume at some point. Also, societal norms and thus social pressures related to benefit recipiency and work had presumably not changed in any substantial way because of the experiment. It may well take a much longer time and a changed policy discourse and climate for such (internalized) norms to change, thus also altering the way people behave when they receive a guaranteed, unconditional income.

There is also a smaller body of research looking at experiments in communities. David Calnitsky has written a couple of wonderful articles on the 1976 Manitoba Basic Annual Income Experiment, or Mincome (Calnitsky, 2016; Calnitsky and Latner, 2017; Calnitsky, 2020). His research focuses on Mincome's 'saturation' site, the town of Dauphin, Manitoba, Canada where all residents were eligible for unconditional payments. This involved real money: Dauphin participants were offered guaranteed incomes equivalent to \$19,500 for a four-person family, which was about 49 percent of median household income in 1976. But very important to add here: the payment took the form of a negative income tax. The payment diminished as earned income went up, be it at a slow rate. But to be clear: it was not a pure basic income.

Calnitsky's work confirms the picture we get from other research. He finds an 11.3 percentage point reduction in labour market participation among the people of Dauphin. Young and single-headed households withdrew from the labour market disproportionately. Participants cited as reasons care work, disability and illness, uneven employment opportunities, or educational investment.

Such findings are revealing but again they tell us little about longer-term effects and nothing about economic, let alone macro-economic effects. However, there are some hints. Calnitsky (2020) also looked at how firms reacted when the whole labour force in Dauphin had access to a guaranteed income. This matters because it is not clear what a basic income would mean for firms. One view argues that the guaranteed income is an employer subsidy, facilitating low wages and a 'low-road' industrial strategy. The second view suggests that in providing an alternative to work, the guaranteed income tightens labour markets and pulls wages up. Calnitsky finds more support for the second view.

All this is quite informative but still individual and local experiments essentially run on money falling from the sky. We know that in most countries, bar the unearthing of wells of additional revenue, a sizeable basic income would require additional taxes unless public spending on other items were to be slashed. A substantial basic income might well alter wages and thus the prices of goods and services. In short, (quasi-) experimental research, fascinating and informative as it is, does not really tell us much about the question of what a basic income at the scale of an entire economy could do for poverty and the living standards of the least advantaged.

Over the last couple of years a number of studies have sought to provide at least a partial answer to this question. These studies mostly use micro-simulation techniques. The purpose of microsimulation models is simply to generate some counterfactual situation which can be compared with the existing situation (Sutherland, 2018). A well-known limitation of most existing microsimulation models is that they only allow to create a hypothetical "morning-after-the-reform" situations that makes abstraction of any behavioral responses. Of course, in the case of a radical reform like basic income, these would likely be quite substantial. People might reduce working hours, stop working altogether or demand higher wages. People on means-tested benefits, entrapped in situation where they have little to gain from earning a little extra money, might become more inclined to accept a job. Such changes might prompt further round effects on wages and prices altering the working of the economy and the labour market.

Such changes in behavior are not usually modelled or only partially. Still, microsimulation does offer great insights into the first-round mechanics of a basic income. And these are revealing.

Browne and Immervoll (2017) have explored the impact of a basic income on inequality and poverty in France, Italy, Finland and the United Kingdom. In their study, a basic income is paid to people who have not reached the statutory retirement age in their respective countries. The reform is financed by abolishing the majority of the existing system of social support, including social benefits (such as unemployment benefits and social assistance) and fiscal benefits (for example work credits). Moreover, the basic income is made taxable. The Basic Income they simulate is set at the level of the “Guaranteed Minimum Income” (GMI), which differs across the four countries. Rather unfortunately, this makes the comparability of the results harder.

The first striking and important finding: A basic income at the level of existing GMI’s is at least on paper perfectly doable without extra government revenue. For France the cost of the BI is almost fully compensated by abolishing the existing social and fiscal benefits and making the BI taxable. In Finland and Italy the operation would also be close to budget neutral, be it for different reasons. Finland already has a strongly targeted benefit system while Italy had at the time of the study a comparatively low guaranteed minimum income. In the UK taxes would have to be raised considerably to give every working-aged adult a basic income at the level of the GMI.

Second striking finding: the introduction of this Basic Income reform would result in a diverse pattern of winners and losers across the four countries included in the study. But in no country except Italy would poverty actually go down as a first-round impact. That is because the current benefits in Italy are advantageous to those on higher incomes, effectively distributing money from the poor to the rich. But in the other countries poverty goes up after the introduction of basic income. This is notably the case in the UK, a country with substantial benefits targeted at the lowest incomes.

That means that a redistributive measure of massive proportions would result in more people living in poverty than is now the case in three countries. A comparable exercise for the Netherlands yields a similar result (see box).

The impact of basic income on poverty levels in any country clearly depends on the system of income protection currently in place there. In countries with relatively generous benefits for unemployed and the sick or disabled, levelling down to the level of the GMI would naturally result in poverty going up. On the contrary, the winners of such a reform would be people currently not receiving any type of benefit, or those receiving only small amounts.

It is worth highlighting a couple of things a basic income does compared to existing systems:

1. If existing social and fiscal expenditures were used to finance the basic income, it would level down benefit entitlements for those receiving more than the GMI. That typically hurts people on social insurance benefits, for example unemployment, sickness and disability benefits. These benefits are often, but not always, above the poverty line whereas GMI are not.

2. Basic income potentially removes or reduces the income taper for existing claimants of GMI benefits<sup>ii</sup>, thus allowing them to earn extra money without losing transfer income as is currently the case. That is a potential positive effect and one usually not taken account of in simulations.

3. Basic income, by definition, expands the coverage of a non-means-tested benefit set at GMI level to all (legal) households. This matters because quite a substantial number of non-employed adults at working age do not receive benefits at all, for example unemployed people whose benefit has expired, school-leavers or homemakers who are still a substantial group in some countries. That may have a

positive effect depending on where these people are in the income distribution. Homemakers, for example, can be relatively low but also very high up the income distribution if the partner has a well-paying job.

4. Basic income completely individualizes the benefit, creating an entitlement that is independent of family circumstance. This in effect hurts single adults and especially single parents, while large households are effective winners.

The ‘levelling down’ of any existing transfer payments to the GMI amount would result in losses for all income groups, which would be larger relative to income at lower income levels<sup>iii</sup>. Further results show that average losses from levelling existing benefits would be more sizeable for families without children.

An in-depth study for Finland using micro-simulation is quite instructive about what basic income does and how it compares to an alternative approach of providing minimum income protection in the shape of a universal credit, similar to what exists in the UK (Pareliussen et al, 2018).

Finland already has a comparatively targeted approach to benefit provision be it that, as all targeted systems, the system suffers from well-documented of complexity. The complex combination and interaction of working-age benefits, childcare costs and income taxes in Finland reduces work incentives and holds people back from moving into work or working more.

The study by Pareliussen et al. (2018) compares Finland’s benefit system with two benefit reform scenarios: a uniform benefit for all (“basic income”) and a universal tapering rule (“universal credit”). It finds that replacing current benefits with a basic income would improve work incentives for many, but it would involve a drastic redistribution of income and an increase in poverty. Under a fiscally neutral BI, a fifth of Finns would see income losses of more than 10 per cent and poverty would go from 11.5% to 14.3%.

Merging working-age benefits with similar aims and coordinating their tapering against earnings would on the other hand consistently improve work incentives and transparency, while preserving or improving social protection. This is what a UK-style Universal Credit aims to achieve. Under the UC scenario, the poverty rate would fall by 1.7 percentage points to 9.4%. The UC variant is perhaps less appealing in its simplicity, but it is a better compromise between the somewhat conflicting goals of keeping overall expenditure within limits while still providing adequate protection and maintaining acceptable work incentives. (Of course, it is well documented that there are in fact many problems with UC as it actually works.)

This is also what a study for the UK, where Universal Credit has been gradually rolled out since 2013, suggests. Martinelli (2017a, 2017b; 2020) compares a range of BI schemes, from full to partial, to the baseline scenario of means-tested supports prior to the introduction of Universal Credit. The conclusion is again that Basic Income schemes lead to large household losses, including some disadvantaged groups falling deeper into poverty. A BI generous enough to avoid such losses would cost a lot. Partial schemes which retain the existing array of means-tested benefits largely avoid such losses but fail to achieve many of UBI’s broader goals – including drastic reductions in bureaucratic complexity and the minimization of poverty and unemployment traps. Martinelli (2017) concludes that “an affordable UBI would be inadequate, and an adequate UBI would be unaffordable.”

Now, a careful reader of microsimulation studies of basic income will notice that the outcomes do differ. This has naturally to do with context. As the Brown and Immervoll (2017) study shows, the effects of a basic income are entirely different if it replaces a generous and well-targeted social protection system,

as in Finland, as opposed to when it takes the place of an underdeveloped and even to some extent pro-rich targeted system as in Italy.

But the reasons for divergence across studies go deeper. Outcomes depend on the exact specification of the basic income. Basic income advocates are often frustratingly vague about many of the choices that need to be made. In fact, on both sides of the debate, basic income is still presented in overly simplistic terms, while in reality it raises many complex policy issues. Crucial considerations are being swept aside, many of which apply to any basic income proposal.

A universal basic income is better understood as a myriad of potential schemes that can differ substantially along a range of policy dimensions rather than as one uniform, ready-made policy. Indeed, there are multiple design details at play when it comes to BI that need to be determined carefully. Key design dimensions include: coverage, adequacy, uniformity, financing, integration and accumulation (De Wispelaere and Stirton, 2014). Many choices have to be made; choices that go beyond the mere size of the benefit amount. Unless one is advocating the elimination of the entire existing tax-benefit system, it is especially crucial to consider which parts of the system remain, and how the basic income will then interact with the set of policies still in place.

Which parts of the existing tax/benefit system are maintained, and which parts are abolished, modified or replaced? Is a basic income made taxable? Are amounts of other benefits affected by the basic income? Such issues hardly feature in many basic income debates but they matter in fact a great deal.

In a paper with Elise Aerts and Gerlinde Verbist (2023) we show that such choices matter. Although the level of the basic income is a crucial dimension of variation, even apparently ‘minor’ choices regarding the transformations to the tax/benefit system matter, sometimes a lot. Strikingly, we find that a higher basic income will not necessarily always have “better” distributional consequences, especially if poverty reduction is the goal. That is because a lower or what we may call “partial” basic income is potentially much more complementary, if not supportive, to existing (targeted) provisions than a full-fledged basic income replacing existing provisions. This shows that besides the amount of the basic income, there are many other design details that matter just as much, if not more. When a basic income would be implemented as a wholesale replacement of existing social protection arrangements, poverty would increase without exception. Alternatively, replacing tax allowances – which tend to benefit those with higher incomes – with a basic income would reduce poverty rates. (But then again, any rechanneling of tax benefits away from the middle and higher incomes towards the lower ones, even via existing benefits, would reduce poverty rates.) Whether or not a basic income is included in the means-test of other benefits also matters for the amount of poverty-reduction that can be achieved. Even the tax structure matters. A basic income accompanied by a flat tax would for example overall be far less redistributive compared to a progressive tax. As De Wispelaere (2004) rightly puts it, "There is no such thing as a preferred basic income scheme independent of the overall institutional and policy context”.

In conclusion, the microsimulation exercises we have at present show that some of the most vulnerable sections of the population would lose out from replacing existing benefits with a basic income, except if social expenditure and thus tax levels were to be vastly increased. This is less the case in countries with large coverage gaps in their existing social protection systems or extremely bad targeting of benefits. Basically, the hard truth is that despite the noblest of intentions, a full basic income replacing existing benefits essentially involves taking from the unemployed, sick and financially needy to give to people with jobs, good health and money. The story is somewhat different for a partial basic income. This type of scheme is potentially more complementary with existing benefits, which are usually far more targeted towards the most needy. While a partial basic income can help to ‘lift the floor’, it cannot bring the sizeable improvement in work incentives a basic income proper can bring, at least for those

with the lowest earnings potential. A full basic income, on the other hand, does have that potential but it will bring a dramatically higher effective tax rates for high earners, making it politically unrealistic.

### **What we do not know yet (but still have reasonable guesses about)**

The key limitation of virtually all existing simulation studies of basic income is that they only consider first-round effects. That is to say: the effective assumption is that a basic income does nothing to people's behavior. This assumption says that a basic income, however small or large, would have no impact on whether people will work or not, and how hard they would choose to work. Of course basic income proponents will argue that behavioral change is *exactly* why they advocate a basic income (Van Parijs and Vanderborght, 2017). The argument is that it would radically alter behavior, especially for people trapped in dire situations. For example people who do not have enough to make ends meet on their current meagre benefit but cannot find sufficiently stable and well-paying jobs to make an exit from the little they have really worthwhile.

Take people currently living on social assistance. A large share of them live in financial poverty because the benefit they receive tends to be below the poverty threshold. In theory they find themselves in a situation where any additional income they earn is deducted from their social assistance benefit. Until the total income they earn exceeds their benefit, they effectively face a 100% marginal tax rate. In reality many countries have earnings disregards to avoid this situation. That is to say: people on social assistance are sometimes allowed to earn some extra money, but usually not very much or indefinitely. Also, rules tend to be complex and administrative procedures tedious and discouraging. In part this stems from an understandable concern that people already in low-paid jobs will enter social assistance.

Now, the cruel thing is that some extra money would of course make a world of difference for people on social assistance. If they could complement their social assistance benefit with only a couple of hundred euro (or an equivalent amount in other currencies) they would in many cases escape financial poverty by commonly used thresholds. But at present they cannot because they would see their social assistance support curbed.

Here is where basic income, even a partial basic income, could make a vast difference. Remember that people can complement their basic income at will. If we assumed that most people currently on social assistance were in fact capable of earning some additional income, aided or not by labour market liberalization friendly to part-time and gig work, the outcome of any micro-simulation exercise could look dramatically different. This is the big unknown.

Birnbaum and De Wispelaere (2022) make the case that a basic income-induced exit strategy effectively amounts to a hollow threat. Given how labor markets operate in reality and how the opportunities of disadvantaged workers are structured, a basic income-centered exit option might as well become an exit trap rather than an empowered fallback position.

A crucial point at any rate is that the segments who would see their labour incentives potentially (again: details matter!) improved under basic income are relatively small in size. Essentially we are talking about people currently on social assistance and in long-term unemployment, especially if they are in means-tested unemployment assistance schemes. Perhaps we should also count in a portion of people in sickness and disability schemes. Altogether these groups make up a small minority in most countries.

It is in this context that the experiments that have been conducted are particularly instructive. At the risk of oversimplification, it seems fair to say that a reduction in conditionality and less punitive treatment of additional earnings does not yield wonder outcomes among those facing the worst work incentives.

The municipal experiments in the Netherlands involving more generous earnings disregards for social assistance recipients and reduced monitoring of conditions and sanctioning in case of non-compliance did not very significantly impact on work and mobility outcomes (Verlaet and Zulkarnain, 2022). Simply allowing social assistance recipients to work without tapering their benefit has a limited impact on their work effort. Similarly, the much publicized Finnish “basic income” study, which basically involved a reduction of conditionality for long-term unemployment beneficiaries, found very small employment effects leading the researchers to conclude “the problems related to finding employment are not related to bureaucracy or to financial incentives.”<sup>iv</sup>

This points to a problem perhaps that has marred “making work pay” efforts for a long time: the idea that people are rational utility optimizers combined with the notion that long-term benefit entrapment is mainly a problem of financial incentives. Since psychologists and economists started working together the naivety of that reductionist conception has become clear. Social work research has also documented that people’s realities are far removed from the work incentive graphs that have been so central to activation efforts (Bertrand, Mullainathan and Shafir, 2004; Mani et al., 2013; Mullainathan & Shafir, 2013). They are loved by economists and policy wonks but there is increasing evidence that they matter less than we thought. People on social assistance often face multiple hurdles to work, financial incentives being only one and not necessarily the most important.

The idea that a basic income by and of its own will propel people into new orbits of self-realization simply amounts to wishful thinking. There is no reason to believe that a basic income will help people overcome the multiple problems and challenges they are facing: a lack of qualifications and work experience, social isolation, lack of self-esteem, addiction issues, physical separation from jobs, bad housing, problematic indebtedness etc. That is not to say, of course, that this applies to all long-term social assistance recipients but there is no denying that such problems are more prevalent among this group of people.

By contrast, the population that would likely see their work incentives deteriorate is much larger in relative size, especially for higher amounts of basic income. Those on higher incomes would see their marginal tax rates rise, unless sizeable alternative sources of revenue are available, which is very rarely the case, unless in countries with vast precious natural resources (think Norway). The idea that a sizeable basic income could be financed in full from taxing the wealthy or wealthy corporations is completely illusory, at least within reasonable limits<sup>v</sup>.

A full basic income would almost inevitably imply higher personal income tax rates on higher incomes. Some segments of the population do respond fairly strongly to financial incentives, as a sizeable empirical labour economics literature shows (Ashenfelter and Card, 2010). The employment rate of single persons and men in cohabiting couples is relatively insensitive to financial incentives but the work effort of mothers with young children is.

It is quite possible for that reason that people already in work would reduce their work effort if a sizeable basic income were introduced, especially women with working partners. This is in effect what macro-economic modelling for the Netherlands shows. The Dutch Central Planning Bureau has sophisticated models that estimate aggregate labour supply effects, among other outcomes. Those models predict that a basic income would have a very sizeable negative impact on employment, especially second-earner work effort (see also box). It would, in effect, reduce women’s employment (see Goderis & Vlekke, 2023; Olsthorn et al., 2020)

## Political feasibility

This brings us to the issue of political feasibility. There is quite a bit of political science research on support for basic income. Surveys have at times suggested people like the idea of basic income in great numbers. A Eurobarometer question gauging support for basic income in 2001 found massive support levels, upwards of 70 per cent, but the question was distinctly vague: “The government should provide everyone with a guaranteed basic income.”

There is a big difference between people instinctively warming to a vague idea superficially presented to them in a survey and actually supporting a basic income once they are made aware of what it exactly entails. The more precisely one seeks to gauge people’s attitudes to basic income the more complex and for basic income enthusiasts encouraging the picture becomes.

The European Social Survey took a more refined approach in 2016, quizzing people about a hypothetical scheme that involved a monthly income to cover essential living costs while replacing many other social benefits. They were told the purpose is to guarantee everyone a minimum standard of living, that everyone receives the same amount regardless of whether or not they are working and that people also keep the money they earn from work or other sources. They were informed that the scheme itself was paid for by taxes.

Support levels remained quite significant if people were presented with a concrete proposal like this. The weakest support came from respondents in Sweden, Switzerland and Norway. In the UK and the Netherlands, support was split almost 50/50. More than half the respondents in Slovenia, Belgium, Poland, Ireland and the Czech Republic supported universal basic income. Levels of support were below 50% in France, Estonia, Austria, Iceland and Germany.

Those are very substantial support levels indeed but keep in mind that the level of the BI remained unspecified in the question posed by the survey. There was no clear indication of whether, how and by how much taxes would have to be raised. Moreover, it was not clear which social benefits would have been replaced (Vlandas, 2019). As we show in a paper with Elise Aerts and Gerlinde Verbist (2023) such issues are absolutely crucial. It is almost useless to gauge support for a basic income unless one is very specific indeed about how it is funded and what the impact would be on other benefits and tax advantages.

All the available BI simulations reveal that the policy switch would result in a substantial amount of losers, some incurring very heavy losses. Patterns are diverse across countries but they all confirm that simple observation (Brown and Immervoll, 2017; Martinelli, 2017). Basically, the higher the basic income, the more polarized the outcomes in terms of winners and losers (Aerts et al, 2023). This matters because we know that voters are particularly averse to losses. Political turmoil has erupted over reforms that in terms of impact pale in significance compared to what a basic income would entail.

The simulation by Brown and Immervoll for Finland, Italy, France and the UK suggests that approximately 30 to 40 percent of the working age population would be net losers. Around 1 in 5 people would experience a more than a 5 per cent drop in income. Around 15 per cent of the working age population would face a 10 per cent drop or more. Early retirees would be particularly hard hit. On the flip side, there would be many gainers too. In the order of 20 to 30 per cent of working age adults would gain more than 10 per cent. At any rate, the outcomes are so uneven that it is hard to envisage a broad coalition naturally emerging under any scenario. In scenarios where a basic income replaces existing social benefits the almost inevitable consequence is that the unemployed, sick and elderly lose out, unless the basic income were set at a very high level. But that of course would imply many higher income losers and near punitive marginal tax rates.

There is an interesting paradox here. In-depth analysis of the ESS data shows that low-income individuals, the unemployed, workers in elementary occupations and left-leaning individuals are more likely to support a BI (Vlandas, 2020). Presumably these people do so because they think that they will be better off with a BI. But in reality a BI would likely make many of them worse off. Would they still support a BI if they were aware of this? That is a very big if.

This points to a key weakness in much of the sophisticated research crunching the ESS data on support for BI. There appears to be a large gap between what a BI would actually do and what people believe it would do (for them). Would people still support a BI if they were made aware that introduction of a BI would drive up inequality and poverty and make them personally worse off?

Qualitative research also gives reason to doubt that the public is actually ready for BI.

In-depth interviews conducted in the Netherlands suggest that people there still adhere to the well-known deservingness criteria of control, need and reciprocity (Rossetti et al, 2020) . Even in the case of a BI, people still distinguish between those who are considered “unable” to reciprocate to society and those who are “able” to earn an income for themselves. The latter are judged undeserving and should be encouraged if not forced to participate in the labour market. Interviewees often indicate that benefit recipients, if they can, should do something (useful) in return. People cannot get “something for nothing,” and they have a duty to engage in work. Support for conditionality in terms of job seeking, training and social obligations seems to triumph over the unconditionality of a UBI.

Rossetti et al. (2020) conclude “In their strong reliance on the deservingness criteria, it seems that our respondents generally reject the idea of equal redistribution, in the sense that everybody should receive the same. In this way, they also reject an important foundation of a UBI as unconditional in terms of assessed financial need, a person’s present or past contributions and/or their willingness to work.”

Research also shows that insofar that there is support for BI among both left-wing and right-wing voters, their motives are different (Vlandas, 2020; Roosma and Van Oorschot, 2020). Mixed support among the left means a pro-BI coalition has to draw on right-wing voters who may support it only with lower taxes (which is quite unlikely) and market liberalization. That is unlikely to appeal to the left. Add to that the fact that support among unions and organized labour remains lukewarm to say the least (Vanderborgh, 2006; Van Parijs and Vanderborgh, 2017). That is perhaps not surprising given that basic income would empower individual workers and reduce their need for union representation. Moreover, organized labour played a large role in bringing about many of the existing income maintenance provisions, think unemployment insurance, sickness benefits, pensions and so much more. In some countries they remain involved in the governance of social security and even in some cases in the actual provision of benefits, notably unemployment insurance benefits in the so-called Ghent systems found in the Nordic countries and Belgium. It would require quite an altruistic commitment to social justice - if that is what basic income brings - for unions to give up what they historically fought for and hold dear.

All this having been said, Van Parijs and Vanderborgh are certainly right that “political feasibility must not be treated as a parameter to be taken as a given. It is something that can be shaped by opinion and is indeed our job to help shape.” (p.170) Whether a universal basic income, especially as a lock, stock and barrel replacement for existing income protection provisions, is a good idea remains highly doubtful, to say the least. Partial basic incomes may make more sense, although even that is unsure. Yet that social and economic progress sometimes comes from radically new ideas that require a lot of relentless convincing before these to take hold, that we can agree on.

### **Basic income in the Netherlands: the ultimate test case?**

The Netherlands is an interesting case to examine the potential benefits of a basic income because on a range of measures it already ranks among the best performing welfare states in the world. On the EU's Social Scoreboard, for example, the Netherlands shows up as a top performer on a host of indicators. Especially relevant in this context is that the Netherlands is among the best performers in Europe when it comes to poverty prevention. While it has lost some of its luster over recent years – poverty has gone up – it still does better than many countries with higher levels of social spending. In addition, the Netherlands is also one of the best performing countries on a range of work-related outcomes. More than 80 per cent of the working age population has a job, close to the highest score in Europe. Long-term unemployment is very low.

All this matters because basic income advocates see inherent trade-offs between minimum income adequacy under conventional provisions and incentives for work and self-sufficiency. If anything, the Netherlands seems to illustrate that, contrary to often repeated claims, there is no such thing as an inescapable trade-off between comparatively generous social protection and a dynamic, well-performing economy, including a well-functioning labour market that provides work for people who need it. This is especially relevant because a basic income is often presented as an innovative and radical solution to overcome exactly such a trade-off.

When it comes to poverty reduction the Dutch approach can be summed up as “targeting within universalism”. That is to say: relatively generous universal benefits and services are supplemented by a range of income and household situation tested supplements. As a consequence, minimum income protection levels are among the highest in Europe, both for working as non-working people. (The focus here is on the working aged population but it is worth noting that the Netherlands has in effect a basic pension, making a full-blown basic income perhaps less incongruous than in other contexts.) In fact, the Netherlands ranks as one of the few countries where the guaranteed level of minimum income protection exceeded the relative poverty threshold for a while, a feat matched or exceeded by very few countries. The level of minimum income protection there still ranks among the most generous in Europe.

The Netherlands is also an interesting case to look at because of its in many ways atypical labour market, seen sometimes as a precursor to what postindustrial economies are heading towards. Part-time employment is so common that it has almost become the norm. With about half of all women working part-time and close to one in four men, the Netherlands has been dubbed the “first part-time economy in the world”. There is also a lot of temporary and temp agency work. In addition, many people already combine earned income and transfer income. This is in major part because activation into work has been a priority of successive Dutch governments. Benefit systems have thus been reformed to stimulate and accommodate such combinations.

Critics will however argue that the situation in the Netherlands looks much rosier on paper than in reality. This is perhaps best illustrated by the “Toeslagenaffaire” (supplements affair) which has rocked Dutch society and politics to its core. This affair erupted after it had come to light that households holding double nationality and characteristics indicating that they belonged to an ethnic minority were being withheld child care supplements by the Dutch tax authorities. Apparently the tax authority was running algorithms to that effect, illegally denying people benefits to which they were eligible. The affair brought accusations of institutionalized racism. The “Toeslagenaffaire” thrust

the issue of targeting to the front pages of the newspapers, prompting parliamentary enquiries and resignations of senior civil servants, ministers and eventually the entire government in 2021.

It is in this context that basic income retains much traction in Dutch society. Basic income proponents like publicist Rutger Bregman, a best-selling author, sway significant influence over the public debate. A number of political parties have embraced basic income ideas.

Consequently, several studies have sought to model the potential first-order (“morning after”) effects of a basic income on poverty and inequality levels in the Netherlands. A report for the Dutch GAK foundation we did (cfr. Boone et al., 2018) followed the approach taken by Brown and Immervoll (2017). The results are thus comparable to those generated by the OECD for Finland, France, Italy and the UK.

Three different Basic Income scenarios are examined. The main (or “Medium”) scenario sets the Basic Income at the level of the GMI for an individual on active working age with a partner and no children (then around €702 per month). Children receive a lower Basic Income of €165 per month. To finance this reform social and fiscal benefits are abolished and the Basic Income is made taxable. A “Low BI” scenario gives each adult €415 per month and children €80. These monthly benefits can be financed by abolishing most existing social and fiscal benefits. Finally, a “High BI” scenario gives €982 per month to adults. This corresponds to the amount that a single person with no children received from social assistance at the time of the study. The child Basic Income remains unchanged. This reform is financed by abolishing most existing social benefits and tax benefits and by making the Basic Income taxable. Personal income tax rates would need to rise by 24% to get the whole reform financed.

The number of winners and losers is almost “fifty-fifty” in the three scenarios, but their profile is completely different. The gains and losses become more polarized as the basic income increases. Winners are mainly found among students and the economically active population. Losers are mainly found among the unemployed and others relying heavily on benefits, especially in the Low and Medium scenario’s. This should not come as a surprise. Basically, implementing a basic income by abolishing or curbing existing benefits effectively amounts to taking away from the unemployed, sick and financially needy to give to people with jobs, good health and money.

Poverty and inequality levels would increase significantly in the “Low BI” and “Medium BI” scenarios. Only in the “High BI” scenario do poverty and inequality levels decrease but the effect is limited compared to the size of the reform. Recall that a basic income would require a very substantial increase in personal income tax rates. The highest tax bracket would go up from 52% to 65%.

A similar microsimulation exercise by the Dutch Social and Cultural Planning bureau in cooperation with the Central Planning Bureau of an even more generous variant yields a stronger reduction in reduction against the poverty line as the SCP defines it. This is a reference budget-based poverty line that differs from the frequently used relative one. The most interesting and unique feature of this particular simulation is that it also looks at the macro impact of the reform, notably on overall employment.

The simulation shows that the impact on taxes is massive. In the SCP calculation the lowest tax rate would go from 37.1% to 52.7% and the highest from 49.5% to 70.2%. In addition and importantly, the SCP/CPB study, which also involves macro general equilibrium modelling, estimates a strong

negative impact on employment. That is due to both the extra non-earned income a basic income brings and to the higher tax rates needed to pay for it. The expected impact in terms of reduced employment is strongest for second earners, in couples with children under 12. To a lesser extent this applies to second earners in couples with older children and couples without children. The effect is smallest for singles (both with and without children). An earlier study found a milder impact on employment for the reason that it assumed a lower basic income, which meant that tax rates had to be raised less.

In conclusion, the Dutch would have to be very adventurous if not more than a tad reckless to give up a system that demonstrably yields comparatively good if not exemplary outcomes on a host of other social and economic indicators with a system that in terms of its projected initial effects has little going for it. Under most scenario's modelled thus far employment decreases (especially among women), taxes increase and poverty is not significantly or at least commensurately reduced. Of course, the existing models mostly give us an idea of the "morning after" effects. But one would have to be very optimistic indeed to believe that the further round effects would eventually bring a complete reverse of the projected first round effects.

### **Basic income advocates, sober up**

In conclusion, what we know so far should sober up basic income advocates. There is no denying the appeal and power of a simple, radical idea like basic income. The idea that everybody, rich or poor, smart or not so gifted, thrifty or lazy, has the right to one vote was quite radical at one time. It took a long time and many a struggle but the principle of one person-one vote has not only become widely accepted, it has become an unshakable cornerstone of Western democracy. Perhaps we will see the day when in addition to equal rights before the law and equal political rights, every person has a basic economic right. Still, the idea that an identical money transfer every month or so to every citizen is the best way of realizing such a basic economic right is a different matter altogether<sup>vi</sup>.

We have been concerned here mainly with the question of whether a basic income would be a superior way of ensuring adequate protection against financial poverty. The available research allows us to think in an empirically informed way about the (partial) first-round effects of a sizeable basic income. Neither the insights we get from (quasi-)experimental research nor those from simulation modelling are exactly very encouraging.

True, we can only make informed speculations about the "day after" effects of a basic income. It requires an enormous leap of faith to assume that the effects further down the road would miraculously better. Also, we can actually make empirically informed speculations about at least some potential next-round effects. But as these dynamically interact to produce new outcomes -work patterns, wages, prices, etc - things become more uncertain. It is hard to model with any degree of scientific accuracy how a sizeable basic income would affect an economy, even under *ceteris paribus* conditions.

Of course *ceteris paribus* is very unlikely. A basic income is likely to trigger political and institutional change. It is likely to make employers and unions behave differently. Central banks and so many other relevant actors would behave differently if a basic income was in place. One can well imagine that some of the societal and economic changes that a basic income is said to remedy or buffer will themselves be reinforced by a basic income.

Efforts to automate human labour might shift into even higher gears, driven by fears that people will not want to do certain jobs any more or demand higher wages to do certain jobs. Unions and political parties representing workers may become less resistant to robotization and automation.

Deregulation of labour markets might well intensify if a substantial basic income were to be introduced. Remember that basic income advocates argue that a basic income would be good for the poor because it would allow them to acquire any additional earned income they can get at will. Presumably the logical step then is to make sure that such additional income is available even if it comes in the form of part-time work, gig and platform work. What else would be the point of having a basic income?

In short, a basic income might well precipitate exactly the many transformations it is presented as an answer to. Basic income is presented as something akin to an economic life vest protecting people against the ever rougher currents of change. Even if it is not a very high amount, the fact that it is guaranteed and unconditional will help people to keep afloat. True perhaps, but not drowning is not quite the same as enjoying an existence in human dignity, as a surfer or in any other capacity.

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<sup>i</sup> Lain (2022) reports that experiments have taken place in places such as Namibia, Finland, Barcelona, the Netherlands, Canada, Iran, and India. Others are still running in the USA, Kenya, Uganda, Macau, Brazil, and South Korea, while others are being designed in Germany, France, Wales, Scotland, and Catalonia, and that list is not exhaustive.

<sup>ii</sup> That depends on the exact specification of the Basic Income and its interaction with existing benefits. In the case of a partial basic income means-tested top-ups are likely to remain necessary (see Aerts et al. 2022).

<sup>iii</sup> In the Brown and Immervoll exercise the BI amount is also adjusted up or down to make the reform budget-neutral.

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<sup>iv</sup> <https://stm.fi/en/-/perustulokeilun-tulokset-tyollisyysvaikutukset-vahaisia-toimeentulo-ja-psykkinen-terveys-koettiin-paremmaksi> Note also that the Finnish basic income experiment was not a pure RCT because in the second experiment year (2018), the government introduced a punitive labour market activation reform that forced the standard UB recipients in the control group to seek work or have their benefits cut. The year before the ALMP reform (2017) no statistically significant difference in employment between control and treatment group could be found. The year after the ALMP reform (2018), the control group (standard UB recipients under punitive ALMP) worked less than treatment group (basic income recipients). Basic income did not have substantive employment effects, but increasing the conditionality of standard unemployment benefit apparently made things worse for that group. Comparing the effect of two policy changes at the same time makes it very hard to establish any causality which is also why the Finnish BI reports tend to be so careful in their conclusions.

<sup>v</sup> Even the most ambitious, progressive proposals on wealth taxes do not raise anywhere near enough to finance a substantial basic income, see for example Landais, C., Saez, E., G. Zucman (2020)

<sup>vi</sup> We refer here to the thoughtful analysis by Daniel Dumont (2022), who contrasts principles in contemporary social protection systems with an ideal-typical basic income. He concludes that while the difficulties of contemporary social protection systems identified by basic income proponents are relevant, a basic income cannot be considered “the most convincing solution” to these ailments. Rather, he proposes to use some of the main basic income claims as inspiration to update social insurance systems.