WHAT IS THE ‘NET COST’ OF A BASIC INCOME? SOME CONCEPTUAL PROBLEMS

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GROSS COST vs NET COST OF BI

- **Gross cost**: multiplying the number of recipients (the whole population) for the amount of BI (perhaps different for underaged).

- **Net cost**: usually much lower according to many BI concrete proposals.
TWO CONCEPTS OF NET COST

1. Net cost as the **gross cost minus the savings** generated by BI. Usual candidates are:
   - Social cash benefits with lower amount.
   - Tax benefits and allowances.
   - Administration costs of integrated benefits.

2. Net cost as the (static) **distributional impact**: Under a tax-integrated BI (which would be better called a NIT), this would equal to the amount of money that ‘changes hands’ through tax-benefit reform.

Call them NC1 and NC2.

In many proposals NC2 < NC1.

Note that this is usually the consequence of proposing a NIT (with *ex-post* payments after income-tax checks) rather than a pure *ex-ante* BI.

A possible rationale for using NC2 is making the costings estimations of BI politically more palatable than they would be in strict budgetary terms.
COMPARING COSTS OF DIFFERENT INCOME GUARANTEE SCHEMES

- Analysis and assessment of different income guarantee proposals **should compare similar concepts of net cost**! (and this is not always the case in the public debate).

Annie Miller, *A Basic Income Handbook*: “Discussions about costs can be confusing and counter-productive if discussants use different concepts without realising it” (Miller, 2017: 148).

- An example from recent debates in Spain:

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Party / organisation</th>
<th>NC1 in % of GDP (round)</th>
<th>NC2 in % of GDP (round)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed income plus wage supplement</td>
<td>Podemos</td>
<td>1.5</td>
<td>0</td>
</tr>
<tr>
<td>Wage supplement</td>
<td>Ciudadanos (liberal)</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>Minimum income</td>
<td>Socialist Party</td>
<td>0.6</td>
<td>0</td>
</tr>
<tr>
<td>Minimum income</td>
<td>Unions</td>
<td>1.1</td>
<td>?</td>
</tr>
<tr>
<td>Guaranteed work</td>
<td>United Left</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Universal Basic Income</td>
<td>Spanish Basic Income Network</td>
<td>18.7</td>
<td>3.5</td>
</tr>
</tbody>
</table>
USING NC2 AS IF IT WAS NC1: SOME THOUGHT EXPERIMENTS

- When NC2 is used as if it was comparable with NC1, it is often implied politically that the strict budget cost (and therefore the need for funding) would be lower than it really is.

An hypothetical example:
- Imagine a country with a universal health service paid out of income tax.
- Income tax revenue also funds a lot of other expenditures.
- Income tax rates are progressive.
- But imagine the consumption of health services is also progressive (the rich consume proportionally much more than the poor).
- Imagine that we are able to estimate exactly which part of individual income tax is going to fund health services, and that, for each individual, that part equals exactly the cost of the services they consume.
- In that country, one could say, using NC2, that ‘the net cost of the health service is zero’! (So no need for funding?)

USING NC2 AS IF IT WAS NC1: SOME THOUGHT EXPERIMENTS

- Imagine that we want to improve the service at the price of raising the income tax rate, but the raise equals the additional health consumption for each individual. Again, the ‘net cost’ of the reform could be said to be zero!
- Imagine we introduce budget cuts, so the quality of the service is worsened, but the tax rates are adjusted so the consumption distribution again equals that of the tax paid. Then, with a much less generous health service, the ‘net effect’ of the reform is zero again.
- That is, with NC2, reforms never have net effects (neither costs nor benefits) provided you ensure there is no distributive incidence.
USING NC2 AS IF IT WAS NC1: SOME THOUGHT EXPERIMENTS

- Imagine that everybody pays MORE health-related tax than needed for the health consumption of that year. Then that year the net cost of the health service was ‘negative’! (While the net cost of other alternative health service where such is not the case and there is some redistribution is higher!).
- On the contrary, imagine that everybody pays LESS than needed. Then the ‘net cost is also zero! (so the money, for example, came from public debt or from other public revenues).
- In fact, NC2 could be applied in the same way to the whole building of the welfare state when discussing its costs, but in practice it never is.

SOME ADDITIONAL CONCERNS WHEN ESTIMATING THE COST OF BI

- Integrated tax-benefit BI would be ex-ante BI, so not without some means-test and not universal.
  - If we insist that the BI for many is authomatically ‘vanished’ by corresponding income-tax retentions at source, then this is to acknowledge that it is not a universal and non means-tested BI, since there is an ex-ante income control, and income loss or reduction should be notified and checked by the administration before becoming a net recipient.

- Administration costs:
  - We often take into account only the ones that would be saved with a BI, but not those that a BI may generate.
  - A reliable estimation is difficult.

- Which benefits are integrated with BI when calculating the net cost?
  - Contributory benefits? Better think twice...
CONCLUSIONS

- Two confusions that should be generally avoided in public debates on BI
  - The budgetary net cost of a BI vs. the ways to fund that cost.
  - The budgetary net cost of a BI vs. its distributional impact (the amount of money that ‘changes hands’).
- Before using NC2 as if it was NC1, we should consider the balance between possible gains in political support vs. political disappointment when the real budgetary costs and funding needs become evident if a BI is ever implemented.
- NC1 matters because the size of the budget (and of tax revenue) matters:
  - Size is correlated with redistribution and poverty rates.
  - Size has important implications in terms of opportunity costs.

More here:

THANKS FOR YOUR ATTENTION!