

# UNIVERSAL BASIC INCOME, POSSIBLE ECONOMIC POLICY INSTRUMENT REGARDING LABOUR MARKET

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## **Abstract:**

*The study addresses the possible effects of the implementation of the basic universal income on the balance between the demand and the supply of work, in the context of the fourth industrial revolution. Highlighting the economic growth determined by the technological evolution, questions are asked about the income inequalities and the implications on the labour market. Obviously, as an economic policy instrument the basic universal income establishes a direct causal relation with the standard of living of the human being, but it eliminates the causal relation between income and work, which implies a clear distinction from the minimum guaranteed income, the minimum guaranteed wage. The distinct conditions imposed by objectives, potential beneficiaries, institutional and financing mechanisms are highlighted, which determines different economic and social impact on the labour market.*

**Keywords:** *universal basic income, economic policies, labour market, income, wage*

**JEL classification:** *I3, J17, H53*

## **Introduction**

The purpose of this presentation is to bring to the attention a concept that becomes of interest, a challenge for economic and social policies. I want to draw attention, perhaps even initiate a debate on the Universal Basic Income (UBI) base as a policy instrument for the labour market. It is not a comprehensive scientific study of all current problems, rather an introduction to research into a possible revolutionary social change, correlated with the fourth technological revolution. In terms of economic growth, income inequality and the possible effects of the labour market, two important issues need to be taken into account. Basic universal income establishes a *direct causal relationship with human life*.

*Work brings new dimensions:* a competition between technological development and the development of new skills (new knowledge, skills and attitudes) through education, *controversies about national minimum wages and their change*, illusions of aid and social assistance, new indicator systems, access to health, inequality of earnings and non-recovery of gaps, and so on. As a possible solution to all these and other labor market issues, employment, unemployment, new forms of work, job insecurity, wage inequality, social dialogue, could be the Universal Basic Income (UBI).

## **Description of the problems that justify interest for UBI**

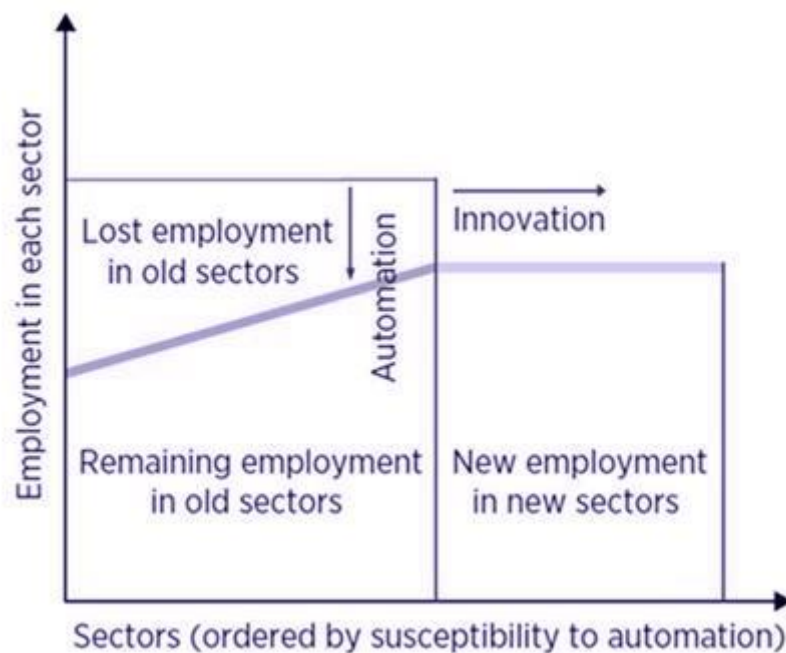
The revolutionary aspect comes from eliminating economic and legal causation between income and labor. Its global implementation or even a differentiated implementation at the level of all states would require new ways of individual thinking, new systems of economic and social thinking, new institutions or even state. So far, some approaches to the concept are known, especially in the form of a social experiment, different in size and coverage that keeps the attention of researchers and theorists, as well as the governors.

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## Automation

Future of work is future of robots, of artificial intelligence, and of diverse disruptions created by the 4th Industrial Revolution. The idea that “machines are coming to take our jobs” has been an ancient concern, maybe for hundreds of years, since the first technological leap that both raised productivity and fears that thousands of workers would be thrown out on the streets. Now, we know that innovations and technological progress have caused disruption, but they have created more prosperity than they have destroyed. Also, today, we are riding a new wave of uncertainty as the pace of innovation continues to accelerate. Seems that technology affects every part of our lives in our days, automation and globalization effect employment .As far as technological development is concerned, new skills are needed that a person can acquire if education would not provide the right knowledge to previous generations and not to today's children. Hence the impression that the main factor of equilibrium or breakthrough on the labour market is this race between new and innovative technologies and appropriate education. Our own conviction is that future jobs will be modeled, but not eliminated by technical progress. Picture no1 reflects how the forces of automation will shape employment.



**Figure1 - Employment and automation**

*Source: after Glaeser (2018)*

In the future, innovation will continue to accelerate, and policy maker will need to take rapid decisions and do actions to ensure that economies of countries can compete in the economy of the future. They urgently will have to invest in their people especially in health and education, which are the building blocks of human capital. Only in these ways we will could to harness the benefits of technology and to blunt its worst disruptions. But right now, too many countries are not making these critical investments. Many children currently in primary school will work in jobs as adults that do not even exist today. The current technological revolution is undoubtedly disruptive to the labour market and, although it can accelerate economic growth, will continue to exacerbate inequalities, including labor incomes. UBI would lead to broader wage sharing and widen access to education.

## Economic precariousness

Economic precariousness of the individual mean lack of job security, non-assurance of transition from one job to another, instability of income and lack of predictability. Maslow explaining the Pyramid of Necessity says that immediately after fulfilling basic physiological needs (food and shelter) needs to be met (the need to know that even tomorrow can satisfy hunger and a roof is provided), even before they belong and love.

Reflecting on the characteristics of man and his everyday life, some risks can be identified:

- Dumbbell (Temporary work incapacity = sick leave, medical care, long-term incapacity for work (invalidity) = temporary sickness retirement, definitive incapacity (disabled) = retirement from permanent illness)
- Unemployment
- Accident or occupational disease
- Maternity
- Responsibility for family care „Government actions to support investment in human capital go well beyond spending on health, education, and social protection programs. In Nepal, investments in sanitation are contributing significantly to preventing anemia. Housing programs improve the education and labor market outcomes of the most disadvantaged by changing the quality of the peers with whom they interact. The earlier children are exposed to better-off neighbors, the stronger are the effects.”<sup>8</sup>
- Aging
- Death of the legal supporter

Covering these risks is a matter of personal security and resolves through social security policies through social benefits. Ensuring employee security comes under his responsibility, but also to the employer and the state.

John Rawls includes free time on the list of basic needs. Freelancers are a form of showing the need for free time without giving up work, but whose income instability is high.

In European Union, the introduction of a guaranteed minimum income scheme shall be governed at Member State level by Council Recommendation 92/441/EEC of 24 June 1992 on common criteria to ensure an adequate level of resources and social assistance through social protection systems.

Could UBI be the guarantor of full coverage of basic, physiological security and free time needs, and increase the possibility of advancement to development?

## Poverty

In this world where living standards are on the rise, poor people are increasingly at the center of society in any world economy, as statistics show. Poverty (the poverty trap, the welfare state's inability to remove poverty, debts) and the relative poverty line are constantly in the attention of economists and governors.

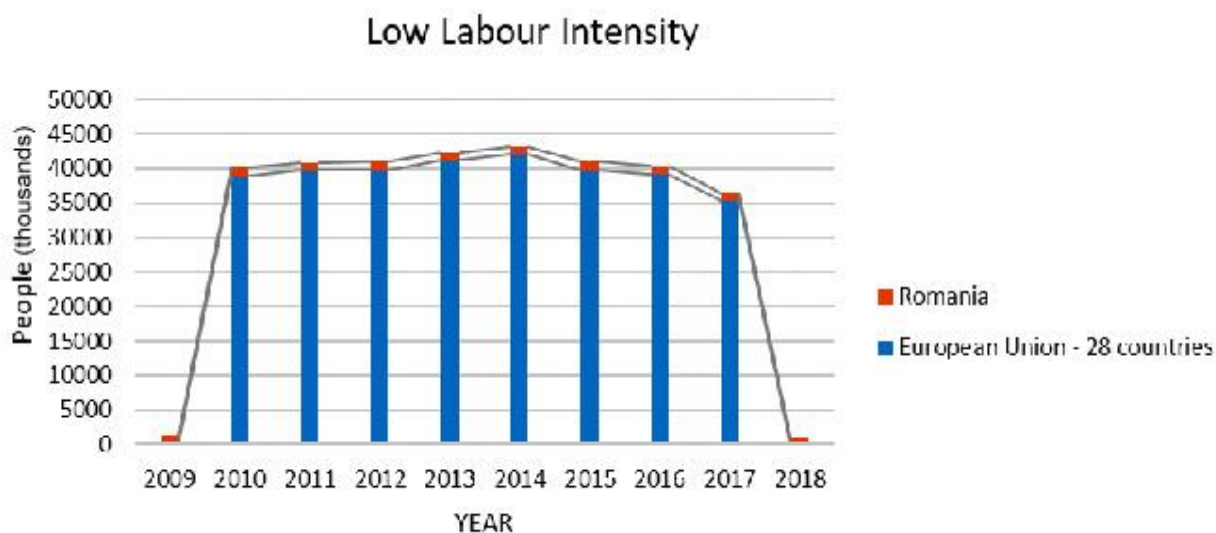
The poverty threshold is used to determine benefits and subsidies as an eligibility standard, but not being updated in line with developments in global economies does not determine a satisfactory or at least decent standard of living, so it remains a still open problem.

The risk rate of poverty and social exclusion (AROPE) is an indicator involving the verification of the population's situation relating to: poverty threshold (60% of the median disposable income per adult-equivalent) severe material deprivation reduced work intensity.

The AROPE shall reflect the proportion of the total population, those in at least one of the three situations mentioned. AROPE, indicates in 2017 112.8 million people living at risk of poverty and social exclusion, representing a high percentage of 22.4% of the entire EU population -28. Figure 2 shows the evolution of low labour intensity in Romania and the EU on the data available at EUROSTAT.

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<sup>8</sup> WDR- World Development Report – World BANK, 2019, page 53



**Figure 2 – Risk of poverty**

Source: the author's processing Eurostat

In calculating the indicator as shown in the figure, the total number of months of the reference year in which working-age workers (18-60 years) obtained work-age income (18-60 years), not including young people aged 18-24 years who are a form of education. Full-time fractions of work are estimated by full-time equivalent terms. The figure sees a slight decrease in 2017 compared to 2016, but not enough to support the level proposed by the 2020 Strategy EU. Poverty means the lack of resources needed for a decent life, unemployment means the impossibility of obtaining resources for a decent living, so the poor are unproductive for society, and generous social assistance will discourage their employment in and the cycle resumes, without reducing inequality, we face an adverse positive feedback effect if we judge from a work point of view. Poverty reduction to the level set as an objective and exit from that loop certainly requires changes in the establishment of wage income policies, the tax system, protection and protection in the decision-makers' agenda social security, green jobs, etc. UBI may not be able to eliminate people's debt, not succeed in eradicating poverty, but can draw attention to the re-establishment of the poverty line and the level people think it should have. The poverty line is used to establish benefits and grants as an eligibility standard but is not upgraded in line with developments in global economies does not determine a satisfactory or at least decent living standard, so it remains an open problem.

### Inequality

Inequality is expressed by increasing disparities in income and wealth and lack of perspective on the recovery of gaps. Income taxes are the essence of revenue policy, and progressive income taxing is a permanent controversy between the political and left right, reliant on redistribution and social transfers. UBI can trigger a new revenue sharing system that does not distort the market economy.

### Stress

The perceptive perspective of work appeals the affective (emotional, unconscious) „device” of the individual. The perceptive perspective is shared by employer and employee but, since it convokes especially the subjectivity, it is presented rather associated with the employee. According to recent developments in the cognitive psychology and in neuroscience, it seems the non-rational (or, more exactly, the unconsciousness) is faster in taking decisions and initiating actions than the rationality. For these studies two Nobel prizes have already been awarded (Daniel Kahneman, and Richard Thaler). Based on these results, the perceptive perspective on the work is of a great importance for understanding the behaviour on the labour market and, consequently, in administering (especially from the public policy side) this market.

We already know that the employee ( human capital) has the following characteristics has a long cycle of training (until he reaches the legal age for work) and of consumption (until he is retired or retired from the active population, generating job offers); is trained and to be instructed or self-instructing the whole life (up to certain levels that influence how he can respond to a job request or to the levels of self-development that correspond to the higher levels in Maslow's pyramid and is consumable (perishable and finished depending on the state of health and age)

"Interventions to improve learning and skills should place a greater emphasis on the areas of the brain that are the most malleable over the life course. Children's brains are most efficient at incorporating new information through exploration, play, and interactions with caring adults or peers. Because of this receptivity, preschool programs should concentrate on building foundational skills through developmentally appropriate program structures that emphasize play and interaction. Although foundational cognitive skills become less malleable after age 10, some areas associated with socio-emotional development remain highly malleable through early adulthood. Accordingly, interventions that aim to improve the school-to-work transition, as well as social inclusion for youth with weak foundational skills, may prove most effective when they emphasize socio-emotional skills.

Finally, intense stress or sustained negative emotions—such as those associated with crises or acute deprivation, where multiple stressors coexist interfere with the brain's ability to learn, retain, and use information. Extended exposure to stressors is toxic for biological systems, particularly for developing brains, and it may impede disadvantaged children from flourishing in the classroom (on the effects of poverty). Consequently, programs that increase the availability of protective factors to shelter children from stress (such as nurturing care from at least one meaningful relationship that teaches children how to cope) can improve not only schooling, but also overall life outcomes." (The biology of learning)

Stress at work is a stigma with implications in labor productivity, motivation and health (unemployed and shame of stigmatization, prejudices and exclusion, feelings of inappropriateness even declare physical and mental illness, suicidal tendencies.

Here are some less visible but relevant aspects of job security, and I refer to work stress, daily stress, physical and mental exhaustion, harassment, aggression, lack of satisfaction, lowering self-confidence, anxiety and depression. Perhaps UBI will not cure what we can already call a stress pandemic, but it would help reduce intensity and incidence.

### **Evolution of the environment**

Sustainable development implies, alongside the social and economic pillar, the pillar called ECOSISTEM and we can agree that all environmental issues will impact human evolution. The advancement of the technique leads to increases in production by default, to pollution. The ability of the environment to absorb pollution is reduced, so a sustainable approach must solve the problem of this balance.

The economy of the environment represents a challenge for the theory of sustainability insofar as it proposes an intervention in the economy, in the sense of humanizing and ecologizing the economy. The main problem is that of integrating the environment and its problems into the structure and philosophy of economic theory. It is a difficult task that derives from the inertia of a theoretical system, doctoral, academic, super-formalized, but detached from reality. Conversely, there are limits to the theory of concreteness of environmental phenomenology. The Nobel Prize for Economics in 2018 was presented for contributions that present fundamental perspectives on the causes and consequences of technological innovation and climate change.<sup>9</sup>

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<sup>9</sup> In 2018, the prize was equally divided between William D. Nordhaus "for integrating climate change into long-term macroeconomic analysis" and Paul M. Romer "for integrating technological innovations into long-term macroeconomic analysis".

## Methodology and data examined in different experience of the UBI

The methodology used in conducting the study consists of:

- Logical, institutional, procedural and behavioral analysis
- Statistical analysis and empirical experience, including the methodology provided by the Canadian Center for Policy Alternatives (CCPA), the living wage calculated for Revelstoke<sup>10</sup>
- Qualitative analysis, we began with a description of the genesis and character of the living wage phenomenon as presented in the existing literature.

Finland was the first European country to attempt an unconditional basic income through a two-year pilot project that started in January 2017; the unemployment rate was 9.2% - higher than among its northern neighbors. 2,000 participants - all unemployed - were randomly selected, but the government refused to supplement the funding, and the experiment will not be extended later this year, as the government is now examining other systems for reforming the Finnish social security system.

Another reform option considered by Finnish politicians is the negative income tax, meaning that people whose incomes fell below a certain threshold would be exempt from income tax and would receive state money.

A study by the Organization for Economic Cooperation and Development said that the income tax should increase by almost 30% to finance a basic income. He also argued that basic incomes would increase income inequality and raise the poverty rate, for example in Finland from 11.4% to 14.1%. Instead, the OECD said that universal credit could reduce the poverty rate to 9.7%, but that it would reduce it the complexity of the benefits system.

In 2016, a monthly income of 2,500 Swiss francs for adults and 625 Swiss francs for each child was proposed in Switzerland, but Swiss voters overwhelmingly rejected the proposal to introduce a guaranteed basic income for all.

The UK's campaign for a Living Wage was launched in 2001 in the East End of London. The objective of the campaign was simple – to persuade employers to pay wages that supported a decent standard of living.

Since 2011, when the system of accreditation began, more than 3000 employers have signed up to the Living Wage, who collectively employs approximately 1.35 million people, about 4.3 per cent of total UK employment. According to the most recent estimate, 150,000 workers have benefited directly from the spread of Living Wage accreditation, receiving a welcome boost to low-wage incomes.

The model Revelstoke requires wage distribution data in order to track the magnitude of wage changes needed to bring the lowest wages in line with the living wage. The model was unable to incorporate gender explicitly. The living wage calculation methodology is itself based on a two-income household, and cannot therefore address the underlying gendered aspects of poverty completely.

In case of Revelstoke, we proceeded to estimate the impacts on profits for each sector in economy. To do this, they work with an estimate of the wage costs. Table 1 lists ten steps in calculating the impacts of increasing the wage costs on profits.

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<sup>10</sup> The CCPA methodology can be found at <https://www.policyalternatives.ca/livingwage2016>; the calculation itself was undertaken by collaborators in the Revelstoke Community Social Development Committee (Zacharias and Lenzi 2015).

## Revelstoke algorithm

Description of steps of algorithm	Results
Multiply employment share by total workforce.	Employees in sector
Multiply sector employees by sector share in wage categories	Employees by wage category for sector
Multiply employees by wage category by midpoint of category	Total wages paid by category by sector
Sum wages across wage categories for each sector	Total wage bill by sector
Divide by estimate of labour cost as share of revenue	Total revenue by sector
Multiply total revenue by costs as share of revenue and subtract from total revenue	Total profit by sector
Multiply bottom increment employees by wage increment needed to satisfy living wage.	Wage bill increment
Add to total wage bill for sector	Adjusted total wage bill
Deduct wage bill increment from total profit	Simple profit impact of living wage
Subtract labour cost share from expenditure share	Non-labour cost share
Multiply by fixed cost share of non-labour costs and subtract from non-labour costs	Fixed costs and variable co

Source: adapting by Carlaw, K. (2016)

Using the existing data, calculations indicate the likely effect of a living wage on the total Revelstoke labour costs to be relatively minor overall, but potentially very disruptive to particular sectors and firms. These disruptions are potentially mitigated by increases in prices, productivity, and consumption, but the firm by firm or sector by sector calculation of the economic and social impacts require too many assumptions to be helpful.

## Results

1. The synthetic and logical **definition of UBI is income that covers the basic needs of a person**, paid individually, to all people.

The accepted definition in literature or scientific and empirical studies is that of financial income to cover the basic needs of a person, paid individually, to all citizens of a state.

The characteristics or criteria necessary to define the basic universal income are:

- Universality "UBI is assured to all people"
- Legitimacy "The right to UBI is given by living human life"
- Individualization "UBI belongs to the individual, without influence from his social relations (of couple, family, household)"
- Non-conditioning "UBI rejects the condition of any kind"

- Automation "UBI automatically rolls on a regular bank account"
- Definitive "UBI is absolute and irrevocable"

2. We need **new ways to invest in people and to protect them**, regardless of their employment status. Yet four out of five people in developing countries have never known what it means to live with social protection. With 2 billion people already working in the informal sector unprotected by stable wage employment, social safety nets, or the benefits of education, new working patterns are adding to a dilemma that predates the latest innovations.

Governments will need to take better care of their citizens, enacting universal, guaranteed minimum levels of social protection. It can be done with the right reforms, such as ending unhelpful subsidies, improving labor market regulations, and, globally, overhauling taxation policies. Investing in human capital is not just a concern for ministers of health and education; it should also be a top priority for heads of state and ministers of finance.



**Figure 3- Social Protection**

Source: *WDR (2019)*

The Figure 3 shows that only social protection included in the labour regulation can manage labour market challenges.

## Conclusions

1. Social Protection programs have little effect on long-term health and education outcomes. Adjusting to the changing nature of work also requires rethinking the social contract.
2. Change and improvements can only come from individual choices. I argued from the labour market point of view. The employee is an individual who has his own will, conscience, motivation, and interests that shape his economic behavior and decision making. An analysis of the individual as a human subject is probably more appropriate to the scientific research of psychology or philosophy. It can be seen that man creates, adapts, innovates, performs, that is, is flexible in shapes his behavior. A various factors t influences their decision-making.
3. It must be a mix of policies such as social protection and assistant programs, health and well-

being, early education and longlife learning in addition to other policies, such as fiscal, monetary, budgetary, environmental, commercial, other policies. The solutions that we suggest by this mix of policies are:

- Use UBI to enhance social protection, to ensure universal coverage and protection that not depend on having a wage employment
- Upgrading taxation systems, provide fiscal space to finance human capital development and social protection
- Invest in human capital to develop the new skills that are increasingly in demand in the labour market

## Future Directions

I think that a possible solution for achieving balance and demonstrating the sustainability of work in future is represented by flexicurity. I will finally define flexicurity as a mix of labor market policies, in line with the Europe 2020 Strategy and the 2030 Sustainable Development Agenda.

In the harmonization between the two aspects, the one of flexibility and the one of security, the employees, employers, the whole society and the real economy are involved. The realities of the global economy impose and support it, and as a policy on the balance of the labour market flexicurity reflects the European vision of sustainable development. The European policy (social model policy) on labour and the right to work emphasizes individual well-being, poverty eradication and social inclusion, so that flexicurity becomes a pillar of European social policy, an instrument of sustainable economic growth, determining and developing its own political components, as mentioned in the introduction, respectively:

- Flexible and reliable (secure) contractual arrangements (CFS)
- Lifelong learning strategies (LLL)
- Active (efficient) labor policies (PA)
- **Modern social security systems and good mobility (SSM), where UBI belong.**

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