Basic income in the Netherlands

Short version
The unconditional basic income (UBI) is simple: Every person receives a fixed amount of money from the government which is enough to live on, regardless of their income or who they are. This would replace almost all other benefits the state is offering right now.

Assuming it is combined with a flat or a progressive tax system, this would redistribute income.

Arguments in favour
- Less bureaucracy
- More incentives to work for those in welfare
- Increases flexibility
- Might be a solution to the automation

Concerns
- It’s expensive. (€135 billion)
- Might reduce labour effort

Expanded version

Pro’s
One of the big advantages of a UBI is that it will streamline the welfare system: Instead of countless subsidies and tax-breaks, everybody would just receive enough money to live a simple life. It would be easier to control, and therefore harder to abuse. This would decrease some costs for the government, but perhaps more importantly, it would make the system easier for the recipients, who have to spend less time and energy on it.

Especially for these welfare recipients, UBI might increase the amount they work: In the current system, the amount you get from the government depends on your income: If you start to earn more, you receive less from the government (although generally less than you gain). The marginal utility of labour is therefore low, and this puts people in the ‘welfare trap’: You almost can’t get out of poverty by working. The UBI would solve this problem because it is unconditional: Any extra income earned will (after taxes) go directly to the person without any negative side effects. This means that the marginal utility for working will increase, and this can encourage the poor to accept more small / not very well paying jobs.

Finally, it has been argued that a basic income will almost become a necessity in the (near) future, due to the automation of our society. Spending on robots is expected to increase with over 10% annually\(^1\), and it has been estimated that roughly half of the jobs are at high risk of being displaced by computerisation\(^2\). This can decrease the demand for labour (especially for those with lower education and incomes). A decreased demand in labour generally leads to fewer jobs and lower wages. Secondly, since capital (in the form of automated systems) can replace more and more labour, capital will become more valuable compared to labour. This will increase the return on

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\(^2\) Frey & Osborne, Oxford Martin School, The future of employment: How susceptible are jobs to computerisation (2013)
capital, which in turn means that wealthy people (who can afford more capital) have more opportunities to get wealthier.

Both of these effects can have the effect of increasing inequality and increasing poverty. Since the UBI does the exact opposite, it might mitigate or even prevent these problems

Concerns

Perhaps the most mentioned problem with UBI is the cost: It is estimated that the costs (taking into account the savings of removing many current subsidies) would amount to roughly €135 billion each year. For comparison, our GDP is around €680 billion.

This would necessitate raising the taxes, and this might have significant adverse effects on our economy. Since taxes decrease the money earned by persons per hour, the reward of labour will decrease/the costs increase, which could decrease the amount worked. There is also some empirical evidence backing this logic up³.

A UBI could also decrease labour through a different mechanic: People need to make a choice between time spent at working and leisure time. The costs of spending a lot of time on leisure time in the current system is a low income, but because UBI gives quite a lot of free money, it decreases these opportunity costs. This might cause people to choose for more leisure time, at the cost of labour.

Empirical evidence

UBI has not been tested on a large scale yet, so effects are not clear yet. Experiments are currently underway though, and one experiment was done in Canada in the 1970’s. (It was not exactly UBI, but quite close). Working hours dropped by a few percent, hospital visits decreased by 8.5% and there were less mental health problems. The experiments give positive indications, but are nowhere near conclusive.

³ Prescott, Federal reserve bank of Minneapolis quarterly review, Why do Americans work so much more than Europeans? (2004)