

SPECIAL

The Financing
Question:
*Exploring
Possibilities
to Finance an
Unconditional
Basic Income*

ISSUE

Exploring Possibilities to Finance an Unconditional Basic Income

JANUARY 2024

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Received: 07/05/2024

Accepted: 07/05/2024

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The idea of Unconditional Basic Income (UBI) has received widespread attention in recent decades as a possible policy solution to some of the most pressing social justice challenges facing contemporary societies. Despite not being a new idea, it remains a radical proposal that has so far failed to garner widespread political support. A UBI is an income of sufficient amount to guarantee decent living conditions, paid unconditionally in cash to all citizens and legal residents of a political community without considering the financial situation of the recipients. A UBI is characterized by being unconditional, meaning obligations-free, individual (contrary to other benefits which are given to households), universal (ensuring everyone in a given political community the same guaranteed minimum income), and ideally of a sufficiently high amount to guarantee a dignified existence and civic participation (Van Parijs & Vanderborght, 2017). The radical nature of a UBI resides in its unconditional nature: it secures for everyone the same universal minimum income, independent of whether they meet requirements such as having assets under a certain threshold or being unemployed.

While there is a strong literature on the moral value of implementing a UBI (to name a few: Van Parijs, 1991, 1992, 1995, 1997; McKinnon, 2003; Gheaus, 2008; Birnbaum, 2019; Van Parijs & Vanderborght, 2017; White, 2017, 2020; Lazar, 2021), discussing both objections to the policy but also how it can be superior to other mechanisms or promote freedom for everyone, there is only an emergent literature on the costs and ex-post benefits of implementing a UBI (Harvey, 2006; Arcarons Bullich

et al., 2014, 2020; Widerquist, 2017; William Danson, 2019). Combined with recent findings from various guaranteed income experiments internationally, it has been demonstrated that UBI recipients were far more adept at improving their living conditions and extricating themselves from poverty than anticipated by most researchers, even with cash transfer amounts slightly below the official poverty level (Merrill et al., 2022). The moral grounding for a UBI has thus changed in recent years and requires a thorough integrated analysis of both the moral and the socio-economic dimensions of the potential benefits of a UBI, one that considers the full cost of poverty and the public savings available from guaranteeing all citizens a sufficient basic income to offer decent living conditions. It is important to keep in mind that questions on how to finance a UBI are both moral and empirical since how to finance a UBI changes its distributional implications. This is a key concern that will be discussed in the papers of this special issue.

This special issue is thus focusing on tackling the financial question, with a specific emphasis on the Portuguese case. It will focus and challenge what is usually called the feasibility objection to UBI, which states that it would not be possible to implement it in most countries, given its financial costs, but also the inherent trade-offs with current tax systems and welfare states. Because of its emphasis on the economic costs or financing question (both terms will be used interchangeably, alongside financing objection), this issue has a strong interdisciplinary nature. It embraces different perspectives on how the financing question should be analysed. It discusses the questions of the economic and social costs of a UBI, but also delves into what we should do about the financing question, and how the socio-economic analysis is reliant on broader discussion on the political project where a UBI will be inserted.

This special issue is part of two broader projects run by the Centre for Ethics, Politics, and Society (CEPS): the *UBIEXP - The Political Philosophy and Epistemology of Basic Income Experiments*, an international research team based at the Centre for Ethics, Politics & Society (CEPS), at the University of Minho, in Braga, Portugal, who received a grant of € 196.029.25 from the Portuguese Foundation for Science and Technology to do research on UBI experiments, for the period of 2018-2022. The team has also received an additional grant to do research for the period of 2022-2024. This led to the project *The Moral, Economic, and Social Value of Basic Income (UBIECO)*, whose main goal is to expand and systematize the methodology and analysis regarding the emergent

literature on the moral, economic, and social benefits of the UBI, and to uncover more about the mid to long-term socioeconomic benefits of implementing a UBI¹.

In 2022 the UBIEXP team launched a Prize Essay Competition entitled “Unconditional Basic Income in Portugal: How Can We Afford It?”. The essays of this essay are a result of this call for papers.

The papers in this issue

Thiago Souza’s article “Fundamentals of an Ecological Unconditional Basic Income” argues for an ‘Ecological UBI’, as a policy that actively contributes to defying the capitalist system, working towards a non- or de-growth economy. The proposal is contrasted with an “Environmental BI” which is said to be a less transformative policy, insofar it focuses on adjusting society towards sustainability, without questioning existing social structures. Besides contributing to emerging literature that argues for a UBI that promotes an ecological agenda, Souza’s article also introduces what features should a UBI have to ensure it meets its ecological purposes. These include arguing for a UBI financed from resource extraction, wealth, and income concentration, but also combine a UBI with a set of policies aimed at promoting “decommodification of fundamental needs”, promote regional/circular economies and ensure that the basic income amount is enough to ensure a post-work agenda.

The two aims of Souza’s paper – that of arguing in favour of a Ecological UBI, and that of advancing with specific design principles that such a policy should have – give us a more complex discussion on the issue of basic income and the current climate crisis. Existing data from basic income experiments is still mostly muted on what can be the impacts the policy can have in concentrated efforts to mitigate the climate crisis. Moreover, the discussion on which funding sources we should use to implement a UBI tends to be mostly related with political and fiscal feasibility, disregarding how a change in system would also mean a different take on which funding sources we should use and why. Hence, Souza’s article provides a take on the financing question, while also relating the scarce data of basic income’s impact with the normative defence of an ecological transition.

1 To know more about the UBIEXP and UBIECO projects, can visit the teams’ website: <https://ubiexperiments.weebly.com/>

Richard Pereira's article "Rare Earth Metals and Sovereign Wealth in Portugal: A Basis for Preserving Common Wealth and Establishing Unconditional Basic Income" is an initial exploration of the 'financing question', namely how much can a UBI cost, but also, what are the financial options available if one wishes to implement a basic income. In his piece, Pereira surveys existing literature and argues two things: first, we have evidence that a UBI might be a revenue-neutral or even a surplus policy for several countries in the world, especially those with a mature welfare state. Looking at data from Canada, Spain and the UK, Pereira discusses this evidence to point out that the costs of UBI can both be minimized if one considers the net instead of the gross cost of the policy, but also if we consider 'natural redundancies', namely "those programmes that are no longer required because a UBI provides a superior or equal alternative" (p. 32). Both would amount to a lower figure than often assumed, especially in political debates on the policy in Europe. But Pereira also argues that most of the costs of basic income can be offset by its socio-economic benefits, and hence its potential savings. He cites existing evidence on decreases in hospitalization rates, or potential savings from reducing poverty rates. All of it, Pereira believes, implies acknowledging that a UBI is affordable and can be implemented. Secondly, Pereira discusses what revenue sources one should consider, focusing in the Portuguese case, while considering models and discussions for other contexts. He offers 25 financing options, which include sovereign wealth funds, or financial transactions taxes, which would grant the possibility of financing a UBI without having to exclusively rely in the politically more-challenging VAT (value added transaction tax) or income taxes.

This discussion is less normatively charged than other papers, insofar it focuses on providing options, and discussing their validity, their possibilities and also their challenges. Thus, it contributes to offer a baseline for discussing the financing objection with more information of the possible alternatives. Perhaps more importantly, Pereira's piece reinforces the idea that a UBI can be funded. Both his discussion of cost-estimates in several contexts, but also his survey of 25 financing options for Portugal, show that we have options when it comes to financing a UBI. However, these decisions are reliant on which society we wish to accomplish, and some of them might be more politically challenging to implement. Nonetheless, the fact remains that we don't have a lack

of options. Instead, we just need to engage in broad debates where the financing question is articulated alongside normative concerns.

Jorge Vasco Gama's article "Unconditional Basic Income in Portugal: How Can We Afford It?" is the last piece of this issue. It is also the winner piece of the UBIEXP Prize Essay Competition 2022. It tackles head-on one of the key questions of this special issue, namely the economic costs of implementing a UBI, focusing particular on the Portuguese case. On the one hand, Gama clearly states that financing a UBI is feasible, even in the current scenario of the Portuguese economy. The article surveys existing attempts to estimate the cost of a UBI in Portugal (Castro, 2018; Teixeira, 2019), and complements them by either considering different possible interactions with existing welfare state expenses, or by discussing financing sources beyond income tax or consumption taxes. One such sources are "Pigouvian taxes", which have been considered as important tools to address environmental problems, as Gama rightly points out. Gama's article offers a complex and detailed picture of how much can a UBI cost, and what are the policy options we can take when it comes to deciding how to finance a UBI. But it also offers Gama's view of choosing a gradual implementation as a strategic political move. In the piece, Gama claims that despite the evidence pointing out that a UBI is financially feasible, political will is feeble, and existing estimates, namely the ones for Portugal and the one Gama presents, are reliant on excluding so-called 'second-order effects', namely impacts on poverty alleviation, health, education, among others. Hence, Gama argues for gradual implementation, coupled with the implementation of basic income experiments as a first step, where a UBI would cost 104.1€, increasing the disposable income of 62% of Portuguese households.

Gama's proposal is a much-welcomed contribution to the literature on the costs of a basic income in general, and specifically in Portugal. Moreover, it weaves the financing question with a strong claim for environmental mitigation strategies, since it estimates the cost of a UBI, by focusing primarily on a financing strategy based on "Pigouvian taxes". Hence, it is somewhat in line with Souza's discussion of a UBI that serves a broader agenda of climate change mitigation. Perhaps most importantly, it shows that any estimate on the cost of a UBI has to be anchored on a broader normative debate on which society are we aiming to achieve, and what are the key policies, and their design features, that can help in fulfilling that vision. Something which is echoed by all the papers in this issue.

What can we learn for basic income research and advocacy?

The financing question cannot be isolated from the normative debate on UBI.

This means acknowledging the importance of the philosophical debates: what do we want to equalize? Why? Who should be worst-off, and who must be better off? Who pays for the extra burden if needed? What taxes and why?

The normative debates should inform what is the main societal project in which a UBI will be included as a policy tool. To choose a UBI financed through Pigouvian taxes, as Gama does, means acknowledging basic income must come in line with policies that promote an ecological transition. Pereira's claim that we should consider sovereign wealth funds, is also an acknowledgment of a political aim of ensuring the democratization of wealth (i.e., of natural resource extraction or others). Hence, the normative implications of basic income are part and parcel of any analysis of the potential costs and benefits of the idea.

Any discussion on UBI must come in line with questions about the current climate disaster.

The papers in this issue were directly or indirectly concerned with the climate crisis when considering their cost-estimates and when surveying financing options for a basic income. This is not surprising, given the gap in our understanding of UBI's impact on the environment, but also the complexity and sense of emergency of the challenges we are facing. It is safe to say that no basic income proposal should disregard how it could impact climate change discussions, and strategies for mitigation. Hence, we believe the papers in this issue show that basic income proposals should have a clear position not so much on the notion of "climate change", but rather on the direction we should be heading when it comes to dealing with it. As Souza points out, UBI researchers, advocates and policymakers should consider alternatives such as environmentalism or ecological transition proposals, which in turn yield different policy design decisions, when it comes to implementing a basic income.

Concerns with political feasibility are key – and should always be in the conversation.

Given that this issue focuses primarily on the financing objection, instrumental concerns take central stage. But we often discuss policy design without giving much thought to political feasibility; or we do so without considering anything else. We might start by choosing specific design features because of a normative background – we want more people to be able to work less, and hence the amount is higher; we want to avoid the exploitation of children, so the amount of UBI to children is lower – but then, we tend to subordinate these questions to the instrumental concerns – maybe do not tax it, because it is political unfeasible, maybe only a dividend granted to the youth, amongst other proposals.

The articles in this issue show that political feasibility should be discussed alongside the choice of moral ends, and both should inform the policy design of a UBI. Gama's discussion is illustrative: define the UBI we want, and the financing options, and then opt for a gradual implementation (reduce the amount of stipend initially granted), coupled with basic income experiments, to better understand the key impacts that should inform the design of the roll-out of the main policy, but also to be able to politically sell the idea. This is an example of how normative concerns are associated with a debate on instrumental strategies, including the question of political feasibility.

More information has not resolved some of the main debates on UBI.

While we have plenty of data on basic income experiments, we are still crippled by important gaps in our understanding of the policy. These are particularly salient in the realm of ecological transition (i.e., will people make more ecologically sound decisions if granted a UBI?), but also in the so-called “second order effects”. These might be tremendous, as both Pereira and Gama point out. However, our capacity to estimate them is limited, leaving us with little options. More basic income experiments might do the trick, as Gama argues for, but we might have to admit the possibility that only once we implement a large scale UBI, will we have a sense of its potential side-order effects, and their impacts in the cost-function of a basic income. This acknowledgment is important for both basic income researchers, but also activists and policymakers arguing for UBI.

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