

# Basic Incomes: No More Magical Thinking

*By Clément Cadoret*

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**Given the large number of social transfers that already exist in France, would a basic income provide a more efficient way of fighting poverty? To do so, it would have to be set high and supplement existing forms of social protection. On these grounds, Clément Cadoret questions this idea's financial and political feasibility.**

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The publication in the early fall of a report by the French Senate on basic incomes, which proposes experimenting with different kinds of basic incomes with local governments on a voluntary basis, has contributed to the idea's rebirth in public debate. Since it proposed "to clarify and offer expert advice on various proposals and experiments relating to basic incomes" in January 2016, the National Digital Council (Conseil national du numérique) has set the tone for a year in which basic incomes have been a recurring theme. In France, politicians on the left and the right are coming out in favor of this idea with increasing frequency. [[Proposals have been put forth by a number of political actors. On the left, after a resolution was submitted by the ecologist group in the Senate, the issue was incorporated into the candidates' platforms for the primary of Europe-Écologie les Verts (France's main green party), as well as those of the socialists Marie-Noëlle Lienemann (for individuals under the age of 28) and Benoît Hamon. Prime Minister Manuel Valls mentioned it on several occasions. On the right, the idea has been advocated for some time by the Christian Democratic Party and, more recently, by Frédéric Lefebvre and Nathalie Kosciusko-Morizet.]] The question has also been widely discussed in other countries: the Swiss recently decided not to add it to the federal constitution after a referendum organized at the citizens' initiative, and the main proponents of basic incomes never miss an opportunity to refer to the "Finnish example."

Is this infatuation justified? Is the basic income the most suitable tool for fighting poverty with greater effectiveness, at a time when social transfers are facing criticism, notably

for their complexity? Given the importance of mechanisms ensuring vertical income redistribution, it is worth analyzing on a case-by-case basis the possible effects of a basic income on the circumstances of the poorest citizens, the means for financing this income, and the possibility of testing it over the short term.

## {{{The Quest for a “Social Democratic” Basic Income}}}

The terms used to refer to this idea are striking in their number and diversity: “basic income,” “basic income,” “living income,” and even “basic allowance.” The idea encompassed by these terms builds on thinking from the often distant past, from Thomas More to Thomas Paine and, more recently, Friedrich Hayek and Milton Friedman. In this essay, we will use the terms “basic income” and “basic income” interchangeably, as the principles of these two projects are almost identical: the idea is to pay each individual the same income, unconditionally (i.e., for nothing in return) and with no restrictions on resources. A basic income thus differs from minimum social benefits (*les minima sociaux*), such as France’s active solidarity income (*revenu de solidarité active*, or RSA), which is often allocated on a family basis, subject to means testing, and which imposes obligations on recipients, in keeping with the contractual logic of “rights and duties.”

Yet over and above these broad principles, the different projects that have recently been advanced vary considerably in the goals they pursue. Whereas some supporters, like the French Movement for a Basic Income (*Mouvement Français pour un Revenu de Base*, or MFRB), claim that this idea belongs “neither to the left nor the right,” [[Stanislas Jourdan, “[10 mauvaises raisons de ne pas croire au revenu de vie -> <https://stanislasjourdan.fr/2011/04/21/mauvaises-raisons-revenu-de-vie/>”].]] other proposals rest, to the contrary, on strong (if conflicting) ideological foundations. While one version proposes a large sum that would supplement existing social protection, another is based on a smaller sum designed to replace the existing system of social protection in part or in its entirety.

A basic income can, in the first place, be conceived from a liberal perspective. Marc de Basquiat and Gaspard Koenig’s particularly precise and detailed proposal is one such example. Their “Liber” (as they dub it) would offer a basic monthly income of € 450 per person (€ 225 per child). Thus conceived, the goal of the basic income is to bring about a radical simplification of the social protection system: it would eliminate many social benefits (family allowances, minimum social benefits, and support for higher education), while also radically simplifying the tax system, by creating a fixed withholding for all forms of income (i.e., a flat tax). This approach could, however, result in the ultimate disappearance of the current system of social protection. As it would result in massive social transfers and an erosion of toleration for taxation among the wealthy, its prospects for implementation seem unrealistic. [[See, for

example, Denis Clerc, “Le revenu d’existence: beaucoup de bruit pour pas grand-chose?,” debate organized by the Observatoire Français des Conjonctures Économiques (OFCE), October 13, 2016.]]

The purpose of a basic income can also be to free individuals from the bonds of work, along the lines of what André Gorz proposed near the end of his life. This vision can be found in contemporary debates concerning the transformation of work. Thus the basic income is touted as a device that would ensure the remuneration of value-adding digital activity that is practiced for free (hence the concept of “digital labor”) and bolster economic change triggered by the digital economy, such as the automation and elimination of jobs, the “uberization” of the labor market, and so on. This seemingly self-evident approach could, however, prove misleading. Robert Castel criticized the “exodus from work society,” which he saw as “both sociologically mistaken and politically dangerous.” [[Robert Castel, “[Salariat ou revenu d’existence? Lecture critique d’André Gorz -> <http://www.laviedesidees.fr/Salariat-ou-revenu-d-existence.html>],” December 6, 2013, *{La vie des idées}*. Indeed, for Castel, work remained a site of social struggle and victories. And, statistically speaking, the “end of work” and the rise of “bullshit jobs” remain to be proven.

A final approach, which the Jean Jaurès Foundation describes as “social democratic,” conceives of the basic income as an instrument for adapting social protection to new forms of work, making it possible to “guarantee emancipated conditions and a life of dignity for all.” Understood in this way, the basic income would be a response to three major challenges that France is currently facing: it would intensify the struggle against poverty, support economic change in a digital age, and, more generally, transform the relationship between the individual and society by ensuring emancipation. Is it possible, at present, to establish a basic income while also confronting these challenges? If the answer is “yes,” would the basic income be the best way to do so? Or, to the contrary, does infatuation with this concept and often biased interpretations of foreign experiences not reveal the difficulty of adopting new ways of thinking that could propose adapted responses to poverty, employment, and individual emancipation?

## **{{{Basic Incomes Must Be Set High}}}**

Existing projects, including those that have been linked to a “social democratic” way of thinking, differ, in the first place, concerning the sum proposed. The determination of a basic income’s amount is, moreover, inextricably tied to the question of how much it would replace or supplement existing forms of social protection. The higher the sum, the more explicit the question of whether it will replace current social protection expenses becomes. This substitution would, to begin with, make it possible to finance the system, as the elimination of some expenditures would represent a potentially important source of funding. Moreover, the two approaches could prove redundant, the need for some expenses tied to social protection being directly called into question by the existence of a basic income.

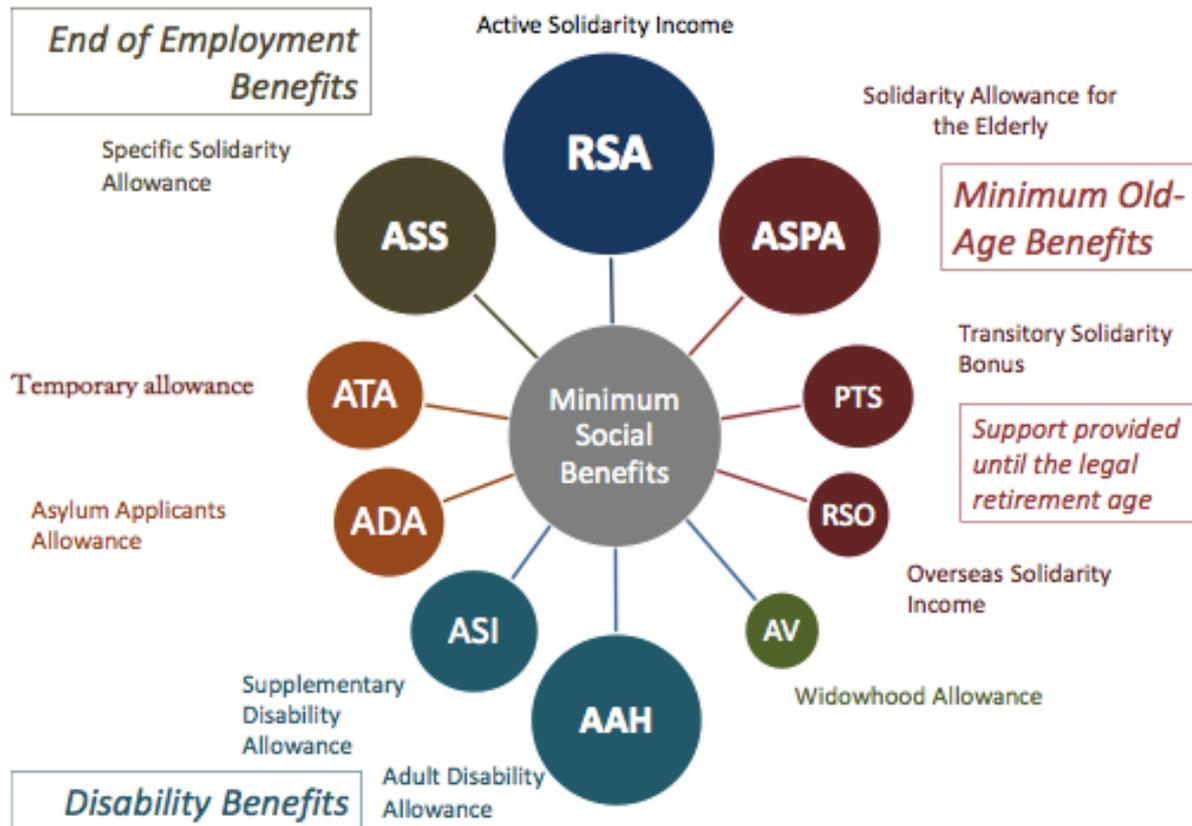
Given the current system of minimum social benefits, it is possible to estimate the effect of establishing a basic income on the most vulnerable populations through a detailed comparison of what recipients of these benefits are currently entitled to and what a basic income could offer them. Often, public debate has focused exclusively on a single measure, such as the RSA, overlooking the fact that France has nine other minimum social benefits that each seeks to address particularly fragile circumstances. Comparative work of this kind is especially interesting in light of the fact that all supporters of the basic income propose that, at the very least, it would replace minimum social benefits, which in France are received by 4.1 million people at a cost of around 24 billion euros, or 1.5% of GDP. Thus one could take as a starting point (as does, for example, the MFRB) a hypothetical basic income that would be equivalent to the maximum sum paid to a childless RSA recipient—that is, €472 [[Since housing assistance is part of the resources that are taken into consideration when calculating the sum to be allocated as the RSA, a “housing voucher” is deducted from the guaranteed amount, which results in single RSA beneficiaries receiving an RSA of 472 €, and not 525 €..]]

At first glance, the basic income would obviously improve the situation of the most vulnerable individuals and reduce the risk of poverty in three ways:

- The simplicity of a system that makes automatic payments to every individual and that is fully combinable with work income would, in the first place, end the practice of opting-out, which currently affects a third of households eligible for the RSA;
- The availability of the basic income to all individuals over the age of 18 would make it possible to significantly improve the situation of 18-25 year olds, who currently only have access to minimum social benefits under very limited conditions; [[In 2014, a little more than 130,000 young people under the age of 25 receive the basic RSA, which can be granted in the case of parenthood, domestic partnership with an RSA recipient over the age of 25, or if one has worked two out of the past three years (the “young employees RSA”).]]
- The individualization associated with the basic income and the elimination of scales of equivalence applied in the case of the RSA would increase payments made to couples. For example, a childless couple on the RSA currently receives € 660.44 (deducing the housing voucher), compared to € 944 with the basic income.

## Minimum Social Benefits in 2016

France Currently Offers Ten Measures that Count as Minimum Social Benefits:



Source: excerpt from Christophe Sirugue's report, *Repenser les minima sociaux. Vers une couverture socle commune (Rethinking Minimum Social Benefits, Report to the Prime Minister, April 2016.*

Even so, starting once again from the current maximum RSA level, it is easy to point out disadvantageous configurations. While the difference may seem marginal between the latter and long-term jobseekers receiving the specific solidarity allowance (*allocation de solidarité spécifique*, or ASS), the maximum value of which is around €494, which comes to €22 per month (or €264 per year), it is far more significant in the case of other categories of vulnerable populations. Thus the beneficiaries of the solidarity allowance for the elderly (*allocation de solidarité pour les personnes âgées*, or ASPA, which replaced the minimum old-age benefit) are entitled to a maximum allowance of €801. The pure and simple elimination of minimum social benefits in favor of a basic income would result in the loss of €329 per month for concerned beneficiaries. Individuals receiving the adult disability allowance (*allocation adultes handicapés*, or AAH)—over a million beneficiaries at present—are also entitled to payments greater than that of the RSA, the maximum levels of which are set at €808. And 20 % of them—which adds up to 200,000 people—also receive supplementary income aimed at facilitating their ability to live independently, which amounts to either €105 per month (the

{*majoration pour vie autonome*}, or MVA) or €179 ({*complément de ressources*}, or CR). In this case, too, the introduction of a basic income instead of minimum social benefits would inevitably mean there would be losers. Finally, the proponents of the basic income anticipate that receiving this revenue would be contingent on regular residence in French territory. While the duration required for becoming eligible is already variable (five years for the RSA, ten for the ASPA), one minimum social benefit is specifically aimed at asylum seekers—the asylum seekers allowance ({*allocation pour les demandeurs d'asile*}, or ADA). Around 85,000 people were recipients in 2015 and they would, in theory, become destitute if entitlement to the basic income designed to replace all minimum social benefits was subject to the requirement that one be a regular resident on French soil.

Thus those who propose setting the basic income at the same level as the RSA in order to fight poverty more effectively than the current system of minimum social benefits must choose. They can agree to penalize vulnerable categories of the population on the grounds that these effects are offset by the fact that many will benefit from a basic income. They can, alternatively, choose to exclude specific circumstances from the basic income's parameters, which would open the door to additional rights. The downside of the latter option is obviously that it would rule out possible sources of financing, since specific forms of social protection under the current system would be preserved. Most importantly, it would, in practice, reintroduce a degree of complexity into the system, since additional rights would not be unconditional. For example, supplementing a disabled person's basic income with an adapted payment would require that they take medical tests, as is currently the case for those requesting the AAH.

Beyond these minimum benefits, some authors have proposed that a basic income also replace family benefits (which would be replaced by the allotment of a fraction of its basic income to each child), as well as housing allocations. As for family benefits, which are increasingly redistributive, implementing a basic income for individuals under the age of 18 in exchange for the elimination of these benefits would create many winners, notably one-child families with resources above the maximum RSA income threshold. For housing allowances, a case-by-case analysis suggests that the sums provided through the basic income would at least be the same as those for vulnerable persons benefiting simultaneously from minimum social benefits and housing allowances. Thus a single individual living in the Paris region and receiving nothing but the RSA is currently entitled to €310 in individualized housing allowances ({*allocations personnalisées au logement*}, APL). In this case, too, any proposal seeking to establish a basic income of an amount lower than the sum of these two benefits (i.e., €782) would thus result in losses for people who are already in precarious situations.

# {}{}{The End of Social Insurance?}{}{}

Finally, plans have also been considered to replace much larger components of our system of social protection with the basic income. In the work previously cited, the Jean Jaurès Foundation has proposed implementing a basic income of €750. This income would entirely replace health insurance[[The project does how exclude complementary retirement benefits (AGIRC and ARRCO) and plans to keep some contributions for covering long-term allocations.]] and retirement[[It does this by planning a 1.5% surplus for retirees.]] expenses. The proposal it puts forward is surprising. It quite simply does away with the insurance-based logic of our social protection system. This is particularly blatant in the case of basic retirements as, under this system, the contributions paid into the system would vanish and individuals would receive identical retirements. In addition to cutting off solidarity between working and non-working populations, this model eliminates entitlements resulting from retirement contributions—and, by the same token, creates a huge market for private insurance.

This fact is all the more striking as it relates to health insurance. The project being proposed, beyond *ad hoc* coverage for the most serious risks, would amount in practice to a return to individualized insurance and the well-known risks tied to it, as Nicholas Colin has, for example, recently reminded us.

The previous considerations allow us to make two key points relating to basic income. First, the establishment of a basic income equivalent to an RSA for a single individual would result in many losers. Second, given the already highly redistributive character of the French social system, the loss of income on the part of the most vulnerable would be all the more significant in that the financing for the basic income is to be ensured simply by reallocating existing allowances. A basic income that would be effective in fighting poverty must thus be set high and supplement existing social protection mechanisms. It cannot be financed by a shell game involving existing minimum benefits and allowances.

If the point, then, is to fight poverty even harder, other solutions must undoubtedly be considered. They have, for example, recently been mentioned by Henri Sterdyniak[[Henri Sterdyniak, “Des minima sociaux aux revenus de base,” debate organized by the OFCE, October 13, 2016.]] in his proposals for improving the system along the margins: simplifying access to the RSA, increasing the amounts paid out by pursuing the efforts undertaken in the context of the multiyear struggle against poverty and indexing the latter to the minimum wage (the “SMIC”), providing an integration allowance to young people seeking employment, and offering a higher RSA to those who have been denied work for some time. The report submitted in April 2016 by Christophe Sirugue, who at the time was a member of parliament, proposed, moreover, to allow 18 to 25 year olds access to the RSA under the same conditions as those over 25, which would abolish an age barrier that has existed for thirty years. It is undeniably more difficult to complete the reform and the simplification of social protection

mechanisms, which require paying close attention to individual situations and analyzing in detail the redistributive mechanisms currently in place.

## {{{A Measure that is Impossible to Finance ?}}}

To fight poverty effectively and to benefit everyone, the basic income must be sufficiently high and, most importantly, be financed by new revenue sources, bearing in mind that any financing that comes from a reduction in social benefits entails major social risks.

If one wants to use the basic income to fight poverty effectively, the “base” sums that have been proposed are not realistic. Sterdyniak has recently estimated that, in light of the projects that have been proposed, this income should amount to €785 per month for the working population, and be raised to €1,100 for individuals over the age of 65 and people with disabilities. Paid every month to each French citizen of 18 or older, the basic income would cost approximately 560 billion euros. Including savings that may be achieved in the realm of minimum social benefits, family and housing benefits, and dependents’ allowances, it would represent a new expense of around 463 billion euros.

To grasp the sums at stake, one must compare the financial effort required to France’s public expenditures and revenue in their totality. In 2015, social protection expenses as a whole amounted to 715 billion euros, and France devoted around 24 billion euros to minimum social expenses. On the revenue side, taxes brought in a total of 600 billion euros.

Because such a system seeks to be permanent, some possible sources of financing cannot even be considered. This is the case of behavioral taxes (such as the Tobin tax on financial transactions, the carbon tax, and so on): their goal is, in the first place, to reduce the negative externalities resulting from the phenomena being taxed and thus to gradually eliminate their own tax base. Similarly, the use of European Central Bank’s “helicopter currency” [[This term, which was first coined by Milton Friedman, refers to a policy of monetary creation that is distributed directly to citizens, without the mediation of banks. It has also recently been termed “quantitative easing for the people.”]] cannot constitute a permanent source of financing. Rather, this instrument is a means for stimulating demand through monetary creation, which by its very nature is temporary: once the target has been reached, direct financing by the bank would be suspended.

There is no way around it: it is implausible to dispense with taxing household income. Thus the CSG (*Contribution sociale généralisée*), a payroll taxes that helps to finance the French social security system) is often mentioned as a possible way it could be financed. One additional CSG point would, for instance, bring in around 10 million euros of additional financing. But to finance a basic income of slightly less than €800 would require increasing the CSG by nearly 40%—a rate that would, in other words, be much higher than it is currently (7.5 % of gross income, with the exception of special cases and other forms of

income). On top of this, two other difficulties remain. What is needed is a way of ensuring financing at a macroeconomic level and to ensure its long-term viability: the financial transfers that would be required of the wealthiest citizens raises the question of whether such taxation would even be accepted.

The paradox of the basic income is ultimately simple and has long been known: to be sustainable, it must be kept at a low level, lest it minimize the effectiveness of other anti-poverty programs. But if it is increased, its financial feasibility becomes dubious.

## {{{How to Measure Basic Incomes' Effects?}}}

Finally, debates on basic incomes run into the impossibility of measuring the full range of such a major reform's effects as it relates to employment, standard of living, income redistribution, and work incentive. This is particularly true given that incomes of this kind exist nowhere else.

The scope of foreign experiments that have been conducted in this realm are in fact very limited, and have often been poorly described. The recent Senate report devoted to basic incomes sheds some light on the matter. The frequently cited case of Alaska is symptomatic of this confusion. Alaska did not have to find a new source of financing for its basic income (which is financed by oil revenue), the sums offered (€157 per month in 2015) did not significantly alter the previous economic equilibrium, and the number of beneficiaries remains limited (around 645,000 in 2015). Most importantly, this income did not replace a preexisting system of social protection, which is almost non-existent in this state; to the contrary, the Alaskan state government deliberately chose to redistribute its petroleum windfall to its citizens instead of building a public and universal welfare system. Finally, this benefit is only payable on demand, rather than being automatically distributed: thus the problem of opting-out, in this instance, persists. In these ways, the Alaskan example has little in common with the basic income's core stipulations.

Most importantly, the same report shows that there are no experiments underway to test the basic income in Europe. In the case of Finland, the experimentation that is supposed to have begun in January 2017 is far more limited in scope than is generally recognized. It involves a "middling" income and will be paid only to jobseekers between the ages of 25 and 28. The Finnish experiment will thus make it possible only to measure the effect of supplementary income on finding employment, consistent with the conservative program of the Sipilä government, which sees the basic income as an instrument for eliminating disincentives to work arising from the previous system. Similarly, some Dutch towns, including Utrecht (but not the national government), have considered experiments that would also be aimed at recipients of minimum social benefits.

Finally, in the French case, on the recommendation of a Senate information report, several local governments (notably Nouvelle Aquitaine and the Gironde) are getting prepared to undertake experimentation of this kind. This comes in the wake of similar efforts relating, for example, to the RSA, the Youth Guarantee (“Garantie Jeunes”), and, more recently, the “Territories with Zero Long-Term Jobseekers” (“{Territoires zéro chômeur de longue durée}”) program. The system under consideration concentrates, however, on current recipients of minimum social benefits, and the anticipated sum would be that of the RSA (while still allowing the concerned populations to receive any social transfer of a greater amount, in contrast with the simpler system that had been announced). The ability to measure the results of this experimentation will, consequently, be particularly limited. The latter will not have a fiscal component, nor will it be able to include in its sampling of the basic income’s beneficiaries the reform’s possible losers, due to the lack of a comprehensive vision, nor its net contributors, as it will not consider the way the experiment is financed. Evaluation will be limited to measuring whether the income has an incentive effect on returning to work. In this respect, it might have been simpler to experiment with an RSA stripped of the contractual logic of “rights and duties” or simply to have tested the effects of opening the RSA to 18 to 25 year olds.

Because it would have to be set at a high level if it is to play a role in fighting poverty, while being difficult to finance and experiment effectively with, the basic income finds itself at an impasse. True, the debates it has triggered have the merit of bringing back to the forefront of public debate a number of essential progressive ideas. Even so, the current infatuation with basic incomes remains problematic. By placing too much faith in the virtues of a basic income and in the necessarily distant future in which it might be established, we too often overlook the immediate problems posed by the economic and social crisis and the importance of acting quickly to solve them.

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