Universal Basic Income: Lessons From a Failed Experiment

The world needs well-designed studies to move beyond the philosophical aspects of how wealth should be distributed.

Some 503 years ago, the English humanist and lawyer Sir Thomas More wrote *Utopia*, describing an ideal society that contrasted with the highly unequal social conditions that prevailed in his time. Referring to the routine hanging of petty larcenists, his protagonist remarks: "Instead of inflicting these horrible punishments, it would be far more to the point to provide everyone with some means of livelihood, so that nobody's under the frightful necessity of becoming, first a thief, and then a **corpse**."

The concept of a minimum income guaranteed by the government has been translated into myriad assistance schemes since then. The vast majority are means-tested: Only the poorest qualify and benefits decline the moment their economic situation improves. Recently, in reaction to the vertiginous increase in wealth inequality and growing fears that robots will soon replace all workers, various types of universal basic income – from schemes that provide money for every citizen to assorted guarantees of minimum income for those who need it – have come to the fore. They usually involve the government providing a guaranteed living wage to every resident, with no strings attached.

Before you dismiss the concept as, well, *utopian*, note that business leaders such as Bill Gates, Mark Zuckerberg and Elon Musk have all suggested that,

in a near future, some form of universal basic income would become either desirable or necessary. But until such a day – which may well never come given the way societies have always adapted to disruption – we should take a closer look at what basic income, in its more scaled-back, means-tested versions, could do to reduce wealth inequality.

Ontario's scientific experiment with basic income

In countries with a broad and often byzantine array of assistance programmes, would a system of recurring guaranteed payments allow people to manage their problems themselves, in a more efficient way? The Ontario's Basic Income experiment promised to bring much needed scientific data to the debate, as I discuss in a **case study** co-written by Ridhima Aggarwal and Maripier Isabelle, both from the James M. and Cathleen D. Stone Centre for the Study of Wealth Inequality at INSEAD.

In March 2016, Canada's largest province announced its intention to run a basic income pilot test in an effort to reduce poverty and inequality. The three-year project was designed to provide 4,000 individuals with a minimum income level through monthly payments, without conditions and

regardless of their employment status. This income support was to be gradually phased out should their earned income increase. By October 2017, Ontario had recruited 400 participants – half of them single mothers and two thirds in low-wage jobs, with the enrolment phase ultimately completed by April 2018.

The programme was meant to replace Ontario's social assistance programmes, a "patchwork system of **uncoordinated solutions**" often perceived as too complex, bureaucratic and stigmatising. Following a public consultation exercise, the experiment had the support of the majority of the population. In fact, among those who were in favour, nearly half found that the proposed minimum yearly income of CA$16,989 for singles (US$13,000) and CA$24,027 (US$18,000) for couples was too little.

The largest government-run experiment

The pilot put no restrictions on how the funds were to be spent and did not include routine monitoring by case workers. The only "catch" was that participants had to agree to withdraw their access to other social assistance programmes. The government did allow them to retain certain health and housing benefits so that no one would be worse off. If participants earned income through employment, their payment was to be reduced by half the earned income. For example, if a single individual received CA$10,000 in wages, the government would cut his or her basic income by half that amount, or CA$5,000.

While the Ontario's Basic Income experiment was hardly the only one of its kind, it was the largest government-run experiment. It was also one of the few to be originally designed as a randomised clinical trial. Using administrative records, interviews and measures collected directly from participants, the pilot evaluation team was mandated to consider changes in participants' food security, stress and anxiety, mental health, health and healthcare usage, housing stability, education and training, as well as employment and labour market participation. The results of the experiment were to be made public in 2020.

However, in July 2018, the incoming government announced the cancellation of the pilot programme, with final payments to be made in March 2019. The newly elected legislators **said** that the programme was "a disincentive to get people back on track" and that they had heard from ministry staff that it did not help people become "independent contributors to the economy". The move was decried by others as premature. Programme recipients asked the court to **overturn** the cancellation but were unsuccessful.

A concept with multiple appeal

When I teach basic income at INSEAD, I'm often struck by how the concept means different things to different people. Obviously, its potential to redistribute wealth intrigues many. Others see it as a mechanism that could improve a host of valuable outcomes. For example, as poverty is linked to poor health, lifting people out of it may have large benefits to their own health and relieve pressure on overextended public healthcare systems.

Others, thinking along the same lines as Zuckerberg, reflect that basic income could make entrepreneurship more of a fair playing field. After all, more people could act on their entrepreneurial instincts if they had a way of supporting themselves and even funding their ventures.

While the Ontario Basic Income experiment came to an abrupt end, hopefully there are more such well-designed trials to come in the future. I would argue that any such experiment would require its planners to ask themselves two main questions.

What is the problem that basic income is meant to solve?

In Silicon Valley, people like Musk worry about a day when automation replaces every single job. Universal basic income would then become necessary to avoid social unrest and stave off the hordes of unemployed brandishing pitchforks in an attempt to take down the 1%.

But when you sell basic income as a solution to a problem that hasn't yet come to pass, such as automation, we see the same trouble that policies aiming to deal with climate change encounter, namely "since the problem doesn't feel so bad, it means it's not real." Witness how difficult and fraught climate change policy is despite the overwhelming evidence available and now hard signs of change.

It is thus crucial to be clear about the expected outcomes, which has a bearing on the second key question.

What solutions are already in place?

While the Ontario Basic Income experiment was not guilty of this, basic income trials always have the potential to make at least some people worse off than they were before. In many richer countries, low-income families already benefit from some form of welfare. If basic income is funded through diverted monies for these programmes, what is the actual impact on recipients' lives?

Although the concept of replacing many social

assistance programmes with a single one is attractive, the more services are meant to be replaced, the more comprehensive the payments must be. From a public finance point of view, basic income, especially in its universal form, has costs that need reckoning. For example, if all Canadians received CA$1200 per month it would cost the government about CA$400 billion per year, more than the *entire* federal budget (around CA$340 billion).

There is no question that high levels of income and wealth inequality require new solutions. However, for these answers to be sustainable, we will need data and an ability to define problems with a clear head, beyond the otherwise entirely valid philosophical principles of solidarity, justice and fairness.

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