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UNDP China Office

# Universal Basic Income: A Working Paper

A Policy Option for China beyond 2020?



## Universal Basic Income (UBI): A Policy Option for China beyond 2020?

### Foreword

*The idea of a universal basic income (UBI) – an unconditional cash payment paid to everyone – has been gaining a lot of attention recently. The appeal can be partly linked to major social-economic trends being observed across the world, including remaining levels of poverty and growing inequality. The intrigue is also rooted in the perceived risks of job losses due to technological advancement. In either case, UBI is being considered as a potential solution to the many socio-economic challenges confronted by the world today. Discussions on its feasibility have already been kicked off in many countries, ranging from those that are highly developed and to countries that are considered as emerging and transitioning economies.*

*UBI has its advocates as well as opponents. Both sides appear to have compelling arguments in theory for why UBI will or will not work. However, the ultimate conclusion cannot be made without convincing results on the ground. What is for certain is that UBI will not be a panacea. Its application and success will depend heavily on the specific development context, where a range of inter-related factors such as economic growth, fiscal and governance capacity, as well as social context could all weigh in to influence the eventual outcome.*

*The implementation of the UBI is still at the stage of infancy, and a handful of countries have either launched pilot projects recently or are considering one. The topic is relatively new to China, yet may become relevant especially when looking beyond 2020, when despite the projected eradication of extreme poverty at the national scale, other forms of social challenges could emerge or become more prominent. This may bring to light questions on existing welfare policies, and potential barriers to maintain effective support for those in need.*

*Against this backdrop, UNDP China initiated a discussion research project on UBI. The aim is to start exploring the potential of UBI as an alternative policy tool to provide social protection. Building on the theoretical discussions on the pros and cons of UBI, as well as an overview of its current or expected practices, the paper starts the discussion based on preliminary analyses of the potential application of UBI in China, including opportunities and challenges that might be encountered in the future.*

*With this paper, UNDP China hopes merely to invite thoughts and discussion from policy makers and development practitioners who dedicate their work to providing a decent life for all on a relatively new and debated topic. A lot of analysis will need to be done before this concept is considered, and the process will be long and complex. I hope that the paper can serve as a useful first step in opening some discussions on UBI, and contribute to the overall policy framework for social protection in China beyond 2020.*

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The analyses and recommendations proposed in this paper do not reflect the views of the United Nations Development Programme or its Executive Board, but are those of the authors.

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## List of Acronyms

APF	Alaska Permanent Fund
ATM	Automatic Teller Machine
CPI	Consumer Price Index
<i>Dibao</i>	China's Minimum Income Guarantee Programme
EITC	Earned Income Tax Credit
EU	European Union
<i>euro</i>	Euro (EUR)
FYP	Five-Year Plan
G20	G-20 or Group of Twenty
GDP	Gross Domestic Product
<i>Hukou</i>	China's Household Registration System
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MSAR	Macau Special Administrative Region
N\$	Namibian Dollar (NAD)
NGO	Non-Governmental Organisation
NIT	Negative Income Tax
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnership
<i>rupee</i>	Indian Rupee (INR)
SAR	Special Administrative Region
SDGs	Sustainable Development Goals
SOEs	State-Owned Enterprises
UBI	Universal Basic Income
UD	Universal Demogrant
UN	United Nations
UNDP	United Nations Development Programme
US	United States
US\$	United States Dollar (USD)
VAT	Value-Added Tax
WB	World Bank
WID	Wealth and Income Database
WPS	Wealth Partaking Scheme
<i>yuan</i>	Chinese Yuan Renminbi (CNY)

## Executive Summary

The idea of a Universal Basic Income (UBI) – an unconditional cash payment to all citizens – is back on the policy agenda. This renewed interest has grown alongside concerns that advances in digitalisation, coupled with shifts in demography, globalisation and work organisation, have altered and will continue to alter the structure and nature of work. These changes can disrupt jobs and polarise occupations by level and skill-sets, which in turn can lead to an increase in income inequality. The idea could be a relevant policy option to consider for many countries, including China, as certain types of development challenges such as inequality and job losses will gain greater salience as the economy transitions, populations grow, the society ages and technology progresses.

A UBI has numerous merits, including its potential to enhance personal freedoms, particularly by providing a more diversified range of work arrangements. It also has the potential to empower people, especially the vulnerable (e.g. women) and the poor, and to improve the operational efficiency of welfare programmes. However, there are concerns over the high costs associated with it, as well as possible socially and morally corrosive effects, given it may potentially reduce the incentive to work.

Despite this divergence, UBI is now being discussed and in some cases piloted in different parts of the world. Finland, for instance, has just launched its UBI pilot as part of a reform to its existing welfare system, while India is considering the idea of using a UBI to address poverty reduction challenges. The impacts of UBI will not be seen for years after its implementation, yet it may be worth experimenting with, given the observed positive outcomes of previous UBI practices on a selection of socio-economic indicators.

Past experience has pointed towards several contextual factors that are essential to ensure effective UBI implementation. Political will, sufficient financial capacity and basic infrastructure, among many others, are key ingredients in the ‘success recipe’. In the Chinese context, many of these factors hold promise, on account of a strong political commitment to delivering the 2030 Agenda for Sustainable Development – a growing domestic fiscal base to support development endeavours backed by multi-stakeholder participation, and rapid technological development which makes fast and efficient digital payments possible on a large scale. Yet, challenges exist as to how UBI could be enacted and financed effectively whilst balancing different development priorities, as well as addressing variations in development across regions, and between rural and urban areas.

UBI pilots already exist in China (e.g., in Macau and Huaidi), despite implementation on a small geographical scale. There are also ongoing discussions on potential financing solutions (e.g., social dividend derived from publicly-owned assets). More pilots could be implemented, starting by expanding to greater geographical areas or by focusing on specific groups, to gather data that can enable evidence-based policy making and set the foundation for scaling up across the country.



## 1. Introduction

A Universal Basic Income (UBI) is a regular fixed cash transfer payment provided by the government – or another institution in the public sphere – to every citizen or resident, regardless of whether he or she is rich or poor and/or wishing to be engaged in paid employment (Raventós, 2007). The idea of a basic income is founded on the three following characteristics (De Wispelaere & Stirton, 2004; Van Parijs, 2004):

- *Universality*: a basic income should be open to all population (however, some basic income proponents advise to start in a specific domain and then “universalise” gradually over time);
- *Individuality*: a basic income should be designed to cater to individuals, not households, since it is considered a truly individual right;
- *Un-conditionality*: a basic income should be unconditional (or it should employ conditions that do not violate inclusiveness).

UBI is not new. Early proposals of a basic income guarantee were first presented more than two centuries ago (Paine, 1797). However, the idea of a basic income only started gaining greater attention in the political debate during the 1960s. Many different proposals were produced over the years, backed by advocates of the welfare state, such as John Kenneth Galbraith and Anthony Atkinson, as well as numerous free-market and libertarian economists, including F. A. Hayek and Milton Friedman (Tanner, 2015).

The idea of a UBI has seen a “renaissance” in very recent years (The Economist, 2016; Sandbu, 2017). The discussion is partly triggered by digitalisation, which – coupled with shifts in demography, globalisation and work organisation – is changing the nature and structure of work. For instance, the advent of the ‘platform economy’<sup>1</sup> has led to increased opportunities to diversify work portfolios and enrol in more flexible and non-standard work arrangements, such as independent work (OECD, 2016). While presenting more options for some, digitalisation creates challenges for others. Certain industries and job categories are at risk of replacement by automation. The scale of jobs to be substituted is estimated at 9% for an average OECD country (Arntz, Gregory, & Zierahn, 2016).

Digitalisation is, therefore, regarded as one of the key influences on future work. There is optimism, given that historically, technological changes have brought about significant overall gains for populations, as manifested in the direct creation of more productive and rewarding jobs in the long term. On the other hand, short-term job loss can be disruptive. Associated with the growth of new forms of work then, is the potential challenge to provide sufficient social protection for those whom digitisation has negatively affected. Existing welfare policies, which are devised based on traditional employment contracts and rely on collective arrangements, may not work any longer (Vogelsang, 2010). This raises the urgency to revisit current policies and labour market institutions, which may soon be obsolete. Such need is also grounded in the perceived risk of increasing income inequality derived from the possible polarisation of jobs by level and skill-sets. Indeed, lower-paid lower-skilled jobs are much more susceptible to replacement by automation on a large scale than higher-skilled ones, thus risking worsening income inequality between socio-economic groups.

Consequently, owing to its potential to address the challenges brought on by a future

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<sup>1</sup> “A platform economy is one in which tools and frameworks based upon the power of the internet will frame and channel our economics and social lives (Kenney, M & Zysman, J., 2015).

characterised by increased joblessness and inequality, the UBI is back at the centre of policy debates. This is critical in the post-2015 era, where all UN Member States have signed up to the Sustainable Development Goals (SDGs) and committed to their implementation by 2030. The goals aim to direct policy making in a way that contributes to providing a respectable life for all through realising sustainability in the social, economic and environmental spheres. Eradicating extreme poverty is still the top priority, but the action plan extends further, emphasising the promotion of inclusive growth and creation of decent jobs.

Perceptions of UBI's feasibility are heterogeneous across countries, reflecting general differences in, among others, labour markets, work structure and ethics, investment in public services and related fiscal governance capacity. The idea is also relatively new to China, a country of extraordinary economic growth and poverty reduction achievements, yet fraught with multidimensional inequality rooted in unbalanced regional development and the rural-urban divide. China plans to eradicate poverty by 2020, through a 'targeted poverty alleviation strategy' that places great emphasis on precision in targeting, policy formulation, financing and leadership. The role of UBI in China will therefore begin to bear more relevance beyond 2020, when other challenges affecting well-being – such as inequality and technological unemployment – may increase in prominence.

Following discussions that have kicked off in several countries regarding UBI, this paper aims to tentatively explore its potential application in China beyond 2020. The main objective of the paper is to invite a dialogue and create an engaging platform for all relevant stakeholders to exchange insights on UBI's prospects in China. As a working draft, the paper aims to generate and participate in the global discussion on UBI. The paper can be of interest to policy makers and development practitioners who work to improve people's living standards through the implementation of effective policy tools.

This paper consists of three main components. First, it provides an overview of the pros and cons of UBI and their theoretical justifications. Second, it reviews past, existing and expected future UBI practices around the world and attempts to summarise the lessons learnt from them. Third, it considers the possible prospects of UBI in China. Preliminary analysis of the challenges and opportunities represented by UBI are conducted as a basis for future in-depth research.

## **2. Why is UBI (Not) a Good Idea?**

### **2.1. Advantages**

#### **2.1.1. Freedom and Justice**

One of the most common arguments in favour of a basic income, especially from a conservative-libertarian perspective, refers to the issue of freedom. As it does not presume that some activities deserve more income support than others, the UBI is expected to enhance "*real freedom*" by relaxing material constraints on people's decisions and expanding their range of available choices (Van Parijs, 2001; Birnbaum, 2012). As one of the earliest supporters of UBI, Fromm (1966) theorised that a basic income would induce a shift from the *psychology of scarcity* to the *psychology of abundance* that can improve social cohesion as it produces

initiative, faith in life and solidarity.

UBI can also give people a greater sense of agency over their life through a variety of mechanisms. First, the guarantee of an income can motivate people to make meaningful work choices not driven simply by financial needs but also by affinity and interest. Second, it can improve people's well-being by making them more independent of coercive and punitive policies that can negatively affect their mental well-being. For example, there is evidence that policies such as 'back to work' schemes generate stress for the beneficiaries since they attach conditions that may be difficult to meet (PFSC, 2017).

Other proponents of the UBI, instead, believed that a basic income would help to address concerns of justice, as everybody in a society should have a *right* to a minimum income and a good life. While for some scholars such as Van der Veen and Van Parijs (1986) the UBI represents a first step on the "*capitalist road to communism*" that they call for, UBI and communism are not inextricably linked. For many other proponents of the UBI, this measure has the fundamental role of promoting two levels of justice: providing fundamental rights to individuals and securing social interests, such as fostering a community's sense of well-being (Widerquist, Noguera, Vanderborgh & De Wispelaere, 2013).

### **2.1.2. Poverty Reduction**

Another fundamental argument in support of the universal basic income is that it could help to eradicate poverty, regardless of what the causes of poverty are. In fact, if the basic income were set above the poverty line, it should theoretically lead to the complete elimination of absolute poverty. As argued by James Tobin (1966), a basic income helps to treat the *symptoms* rather than the *causes* of poverty. However, for those individuals living in destitution, a basic income would provide material relief, thus contributing to satisfying their basic needs. In the case of families, the UBI scheme gives parents the capacity to invest in the human capital of their children. This investment would help break the vicious cycle of poverty that they are entrapped in, and in particular intergenerational poverty

Moreover, greater income security for the poor may create further positive outcomes, such as increased levels of entrepreneurship and of business creation. Indeed, the income transfer may act as a safety net for entrepreneurial risks and as a source of compensation for diseconomies of small-scale production. Additionally, it may also help to bridge the time lag between business investments and revenues (Nooteboom, 1986). Alternatively, the additional income flow from the transfer may allow poor people to obtain other investments and work opportunities that were previously limited by credit constraints, including education, training and migration, which produces positive spillover effects for human and economic development.

Furthermore, as the money is provided universally as a "*right of citizenship*" rather than as a targeted benefit, the stigma and shame typically attached to receiving benefits from the state should not be present (Standing, 2008). Also, compared to targeted welfare policies, a basic income is said to be less *intrusive and paternalistic*, as it does not require the government to monitor people's behaviour (Fitzpatrick, 1999; Tanner, 2015). Finally, the transfer is expected to help strengthen social solidarity and cohesion – which are particularly relevant in small and poor communities –, and avoid alienation and distrust (Ravallion, 2016).

### 2.1.3. An Economically Efficient Welfare Solution

From an economic perspective, one of the main criticisms of UBI is that it may reduce people's incentives to work (Pasma, 2010), as it is expected to generate an income effect on the demand for leisure. This may induce people to work less and decrease their labour market participation, unless they derive personal utility from their work (Van Parijs, 1990; Ravallion, 2016).

The incentive effects of welfare policies have long been debated in the literature. However, since the UBI should not generate any substitution effects, its potential distortionary impact on the economy may be relatively modest compared to other welfare programmes, such as benefit programmes that cut off or phase out at a particular income threshold or employment status. These existing welfare programmes can reduce people's incentives to find a job (or a better-paid job) and to advance their professional career, and may have the undesired effect of generating morally hazardous behaviour and *welfare dependency*, since some of the gains from a potential raise in salary would be offset by a reduction in benefits (Tanner, 2015). After accounting for welfare transfers, marginal tax rates for many welfare recipients in developed countries are extremely high and may consequently discourage recipients to take up work. Instead, a flat tax rate UBI would not modify the opportunity cost of work (Fitzpatrick, 1999), as individuals would not be penalised for working more hours or earning a higher income (*make work pay* effect). Therefore, the UBI could represent a less distortionary option compared to other policies (Ravallion, 2016).

Traditional welfare measures can also contribute to more rigid labour markets. For example, as predicted by neoclassical economics, an increase in the minimum wage may lead to a reduction in employment levels, as the market would not be able to clear. This may not only push firms towards more labour-saving methods of production, but it could also increase the incidence and severity of recessions. The theoretical advantage of the UBI compared to the minimum wage model is that it should not affect the demand for labour and, as workers are not wholly dependent on their wages for survival, it may even help to ensure a greater degree of labour market flexibility (Meade, 1990; Van Parijs, 1990). Consequently, the UBI could help to re-engineer the welfare system and make it more efficient at the same time.

Finally, another argument in favour of UBI is that it would reduce the complexities, bureaucracies and administrative costs of current welfare systems in developed countries (Tanner, 2015). As it would consolidate several different policies and targeted schemes into one single entity, the implementation of UBI would require lower administrative efforts and help the government to gather a clearer idea of the overall redistributive effects and costs of its welfare system. Moreover, it would avoid erroneous exclusions which may occur when targeting specific groups, as it is generally very difficult to identify the poor (Perkiö, 2014).

### 2.1.4. Promoting Gender Equality

Some arguments in favour of the UBI have originated from the feminist literature. In particular, the claim that a basic income may shift purchasing power towards people who perform domestic work – or any other work which is not rewarded financially – is often advanced. Since women perform the majority of unpaid work, especially in the household, this would result in an improvement of women's bargaining position in the household and would promote a decrease in gender inequality (Robeyns, 2000). It may also have the additional effect of helping to modify traditional definitions of what constitutes meaningful work.

Additionally, since UBI is granted to individuals and not households, a basic income could provide greater income security and autonomy for women (Pateman, 2004). However, to achieve greater efficacy, this support must be aligned with greater financial inclusion for them (Roy, 2016). In particular, women should be ensured to have access to a personal bank account and banking services.

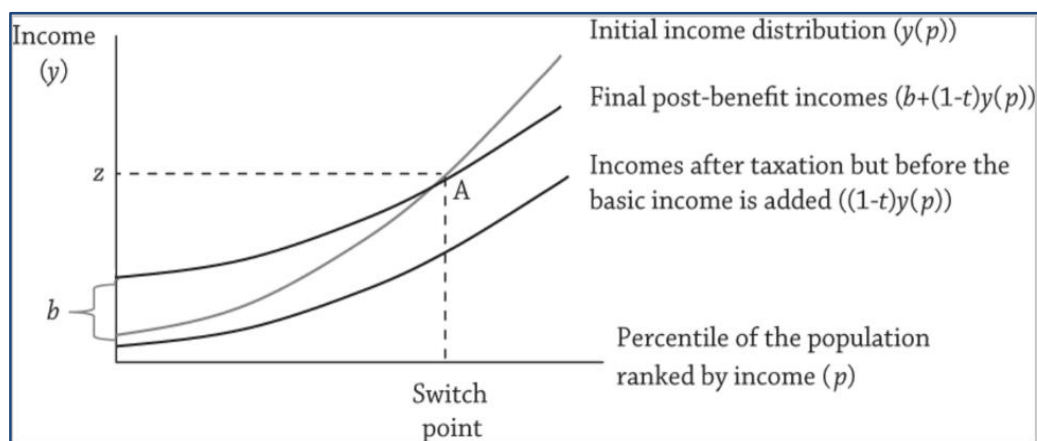
### 2.1.5. Reducing Income Inequality

More recent arguments advanced by the proponents of UBI, as mentioned above, relate to jobs and income inequality resulting from accelerating technological changes, such as digitalisation and automation. A basic income policy could be implemented as a solution to protect people from technology-induced job losses (Sheahan, 2012). The reverse relationship could also be possible, where a UBI would help to reduce public resistance to technological innovation by providing basic life security.

A basic income is generally advocated to help reduce income inequality, as UBI proposals are typically financed through a progressive income tax or by cutting subsidies favouring the non-poor. Figure 1 below (Ravallion, 2016) presents the case of a basic income transfer  $b$  given to everyone, financed by a proportional tax at the rate  $t$  on all incomes.

Another mechanism through which UBI could decrease inequality is by reinforcing the bargaining position of poor workers. With UBI, in fact, workers could refuse to accept degrading or unhealthy working conditions and low wages. This would in turn force employers to improve working conditions and generally make jobs more attractive (Perkiö, 2014).

**Figure 1.** A basic income financed by a proportional income tax.



Source: Ravallion (2016).

### 2.1.6. Post-Productivist Arguments

The idea of a basic income has also been supported by many post-productivists. They hold that, with societal and technological change, paid work and production should not be central to society any longer. Additionally, welfare models based on outdated economic and labour market structures are no longer relevant today, as employment, lifestyle and family patterns are becoming increasingly flexible (Perkiö, 2014).

In this context, a basic income provides a broader interpretation of valuable “work”, as it offers a compensation for unpaid activities, such as non-market work in the household, or domestic and irregular employment. Individuals can therefore choose to combine different types of work – *remunerated, domestic* and *voluntary*, as defined by Raventós (2007) – with each other and with leisure activities, ensuring a better balance between conventional work, non-conventional production and leisure for adults of all ages. Post-productivism thus attempts to disconnect employment and welfare, arguing that full employment is not only unattainable but also undesirable (Gorz, 1999).

### **2.1.7. Political Economy and Transparency**

Political economists provide further arguments in favour of the implementation of a basic income policy. Being universal, the UBI is expected to be less vulnerable to bureaucratic abuse and corruption compared to other welfare policies, where there are typically a host of interest groups that impact the allocation and implementation of benefits (Ravallion, 2016). James Buchanan (1997) found that a basic income policy, when combined with a flat tax, should be less likely to suffer from rent-seeking problems compared to other forms of welfare state policies.

Additionally, a basic income policy could make the public expenditure system more transparent and prevent problems of benefit fraud and non-reporting on income, which are typical disadvantages of means-tested benefit policies (Fitzpatrick, 1999). Moreover, universal schemes such as entitlement programmes are likely to build broader political support compared to programmes aimed only at a small underprivileged minority (Ravallion, 2016).

## **2.2. Disadvantages**

On June 5<sup>th</sup> 2016, the Swiss voted against a UBI initiative. A variety of factors could help explain the result. The program is perceived as financially challenging and morally disruptive; the fear is that the government will be left with a huge bill that it is not able to pay, and that the society is filled with unmotivated idlers. The worries of the Swiss have partly reflected why the UBI is disapproved to a certain degree. Its shortcomings are elaborated as below.

### **2.2.1. Financial pressure associated with the UBI**

Many opponents of the UBI argue that providing an income transfer to the entire population would result in very high expenditure (see below specific examples, e.g., India for a cost estimate). Moreover, the amount to be distributed can be cost-ineffective. An income transfer that is set too low would be insufficient in reducing poverty, while setting too high a transfer would be extremely costly, and therefore unfeasible (Fitzpatrick, 1999).

### **2.2.2. Administrative challenges**

Furthermore, despite being administratively easy to implement and free from the large information costs of other welfare policies involved with targeting, a UBI financed through taxation would still require a well-functioning taxation system and a vast amount of information on people’s income and wealth (Ravallion, 2016). Imperfect information and

limited administrative capabilities may therefore create similar challenges to those arising from the implementation of other welfare policies.

### **2.2.3. UBI as a ‘negative incentive’**

Supporters of the idea of the intrinsic merit of work have argued that the UBI may be morally and socially corrosive, by challenging the centrality of paid work in people’s lives, as it would generate undesirable effects such as discouraging work, increasing social alienation (as it would not be necessary to build communal spaces where people interact) (Phelps, 2001) and enhancing the gendered division of labour if more women than men decide to reduce their labour market participation (Withorn, 1993). In our modern societies, work has been a central principle of organisation: it contributes to people’s routines, feelings of self-worth and personal satisfaction, socialisation processes and their establishment of an identity and role in the society.

Additionally, some opponents of basic income believe that there should be some level of reciprocity between rights and duties. They argue that people should have the obligation to contribute back to a society that provides them with payments. With a basic income, people could choose to do nothing at all but still receive the transfer. This argument is defined as “*the reciprocity objection*” (Fitzpatrick, 1999; Widerquist, Noguera, Vanderborght & De Wispelaere, 2013).

### **2.2.4. UBI’s ‘leakage’ to the non-poor**

Universal programmes are – as previously mentioned – an excellent option for remedying social exclusion and for reaching economically vulnerable groups. The universal nature of the initiative, however, entails that beneficiaries will include people who do not need this form of public help; a problem defined as the *leakage* of benefits to the non-poor. This, depending on how UBI is designed, may cause severe cuts in public expenditure on social welfare benefits that are critical to certain vulnerable groups (e.g., disability allowances), or activate unsustainable tax increase. This could further aggravate inequality rather than helping to reduce it.

### **2.2.5. Impact on the labor market**

UBI schemes can potentially affect the structure and conditions of labor market in unintended ways. Some critics argue that UBI could lower wages since employers would consider it as a complement to reach the minimum legal wage. It could also increase flexible but precarious jobs that do not necessarily constitute a desirable path of reform. UBI can also reduce trade unions’ bargaining power since it facilitates self-employment, which can accelerate the decline of waged labor (Vanderborght, 2004).

### **2.2.6. Impact on migration**

Critics also argue that a fully implemented UBI could attract a considerable influx of migrants that could jeopardize the sustainability of the scheme. Research has found that this is unlikely to happen because migrants do not appeal to a country due only to their benefits; many other factors could weigh in migration decisions (e.g., language skills, job availability, education environment). To address the potential migration inundation, solutions have been proposed.

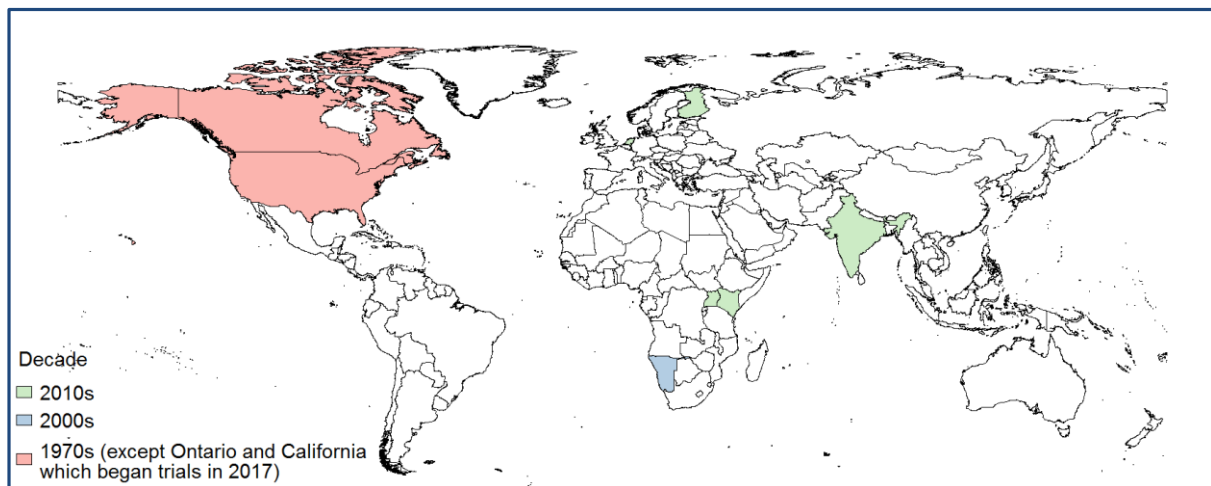
For example, van Parijs (2006) has advocated for a UBI scheme based on residency - not citizenship - and based on the condition that only after a certain number of years of residency has been met. But this approach could potentially create a dual labor market where migrants take low-income jobs.

### 3. UBI Trials Around the World

#### 3.1. Past Practices of UBI

Various types of UBI projects have been piloted or discussed in different parts of the world for different purposes (Figure 2). Some developing countries such as India and Namibia endorse the idea as an alternative approach to eradicating extreme poverty. Developed countries including Finland, Canada and the Netherlands consider it as a potential saviour of the existing social welfare system, which is deemed by some as dysfunctional and ineffective (Tiessalo, 2017).

**Figure 2.** Countries that have implemented or designed UBI pilot schemes.



#### 3.1.1. UBI Modalities and Impacts

Essentially, UBI modalities can be classified into two categories: Negative Tax Income (NIT) and a Universal Demogrant (UD)<sup>2</sup> (Pasma & Mulvale, 2009). Under the NIT scheme, people are exempt from taxes if they earn below a certain income level. Those who earn more than that income level will pay a proportion of their income that exceeds that level, and those who

<sup>2</sup> Kela, the Finnish Social Insurance Institution, identifies five types of UBI models. 1. *Full basic income*: The working group coordinated by Kela to advise the government about UBI schemes defined “full basic income” as the model where the amount granted to the individual is higher than the current social security benefit. This amount is delivered with the purpose of replacing existing social benefits. 2. *Partial basic income*: In this model, the amount allocated would be smaller than a full basic income, since the aim is not to replace other current transfers to the same extent as in the previous model. As a result, the transfer would be considered insufficient to meet a person’s basic needs. 3. *Negative income tax*: It is a social security and tax scheme based on an income compensation by means of taxation when an individual’s income remains below the agreed minimum level. 4. *Participation income*: This model is similar to a full basic income but with conditions attached, for example, the beneficiary would have to engage in community service, and 5. *Universal credit*, where the idea is to receive a monthly payment that replaces several benefits. Generally, the amount received will depend on several factors such as income and children under care. These can be grouped under NIT and UD depending on whether the beneficiaries are those below a certain threshold (and whose benefit decreases gradually with income) or whether everyone is entitled to receive it independent of income level.



earn less will receive subsidies proportional to the amount that falls short of that income level. NIT has many variants. One prominent example is the Earned Income Tax Credit (EITC) – the support provided is inversely proportional to a person’s income – which was promulgated in the US in 1975. In a UD system, every person receives a certain amount of tax-free benefits, while any other income sources may be taxed. Each modality has its own strengths and weaknesses (Forget, Marando, Surman & Crawford Urban, 2016; Pereira, 2015) (Table 1). UD has been more widely utilised so far, while NIT has mainly been experimented in the US and Canada.

**Table 1.** Advantages and disadvantages of the different UBI models.

Model	Advantages	Disadvantages
<b>Negative Tax Income (NIT)</b>	<ul style="list-style-type: none"> <li>● In comparison to other models, it generates less budgetary pressure because the amount allocated to each person would depend on his or her income, with some of them earning above the threshold and receiving a smaller amount, or none of the available credit.</li> <li>● Directing the money to low-income earners may be easier to justify politically.</li> </ul>	<ul style="list-style-type: none"> <li>● To be fully functional, the model requires an updated income register, which in most cases is not available, making it difficult to implement.</li> <li>● Moreover, a system of real income monitoring would be needed to identify the target population. While self-reported income data is an option, previous experiments in the United States have shown it to be unreliable (Kela, 2016).</li> <li>● There are important trade-offs with the reduction rate. On the one hand, if the reduction rate is high at greater levels of income, it may reduce the incentive to work because the person will receive a smaller tax credit if they reach a higher income level. On the other hand, granting a larger amount of cash transfers to more people will result in higher programme costs (Lammam &amp; MacIntyre, 2015).</li> </ul>
<b>Universal Demogrant (UD)</b>	<ul style="list-style-type: none"> <li>● Some researchers state that the universality of the benefit will prevent stigmatisation and enhance social cohesion. (Pasma &amp; Mulvale, 2009).</li> <li>● This universal component will also reduce administrative costs because the programme managers will not be required to identify a target group and monitor its efficiency in delivery. In countries such as Finland, social security would be simpler to implement (replacement of social insurance based benefits); housing allowance, which is problematic from the perspective of incentives, could be replaced.</li> </ul>	<ul style="list-style-type: none"> <li>● A universal cash transfer will benefit people who may not need it.</li> <li>● Implementing this model requires a larger budget than a NIT. However, depending on the taxation scheme, the total cost to the taxpayer may not necessarily be higher.</li> <li>● Depending on the amount received, the individual may have fewer incentives to work.</li> </ul>

Results of these programmes have found little effects of UBI on labour market participation; however, the evidence available indicates that beneficiaries increased work participation and are more likely to begin entrepreneurial activities when compared against a control group. Anecdotal reports from the experiments in India show that households were also more likely to acquire assets that could enhance women's ability to earn an income and many perceived their influence on household decisions had grown (Schjoedt, 2016). Other positive benefits have been observed on multiple dimensions of non-economic benefits, such as better health conditions (as indicated through fewer hospital visits) and stronger social cohesion (Perkiö, 2014; The Economist, 2016). However, these results are not conclusive since none of the basic income schemes trials have yet been implemented at large scale and for a sufficient amount of time to ensure these identified benefits sustain in the long term.

### **3.1.2. Lessons Learnt from UBI Experiments**

Past practices have offered some insights for UBI implementation (Table 2). First and foremost, consistent political will and support is one of the key cornerstones required to get the UBI rolling, and more importantly to keep it functioning in the long term. Experiences in Namibia and Canada serve as good references. In both cases, UBI projects were ended due to shifts in leadership and ensuing changes in policy priorities.

Project design is also important for the impacts of UBI. Varying experiment parameters can maximise the breadth of results and help to identify the most adequate UBI in a specific context (Forget, Marando, Surman & Crawford Urban, 2016). For instance, an experiment conducted in Kenya by the *GiveDirectly* NGO with an unconditional income transfer suggests that differences in the treatment plan, such as the amount of money allocated and frequency of delivery, have affected a household's consumption pattern (Haushofer & Shapiro, 2016). This information could help policy makers identify the optimal amount of money to be disbursed as well as the suitable time framework within which to do so.

Furthermore, effective communication strategies are needed to facilitate a better understanding of UBI. Research conducted by Widerquist (2005) discovered that media and the public have failed to capture the complexities of the relationship between UBI programmes of the 1970s and labour market participation. In many cases, contradicting interpretations of UBI experimental results exist, which has led to much unnecessary confusion. As a result, support for UBI programmes has gradually waned.

**Table 2.** Details of previous UBI experiments.

Parameter	Mincome, Manitoba, Canada <sup>3</sup>	India	Namibia	Kenya <sup>4</sup>
<b>Level of basic income</b>	<p>There were two experiments. One in Winnipeg and the other in Dauphin.</p> <p>1)Winnipeg: there were 9 guaranteed income plans with a guaranteed income at enrolment of US\$3,800, 4,800, 5,800 (family of four in 1975: 2 adults and two children below 15). There was also a tax rate that determined how much of the guarantee would be removed per dollar of family income and net worth. The percentage amount would be 35%, 50% or 75%.</p> <p>In Dauphin, there was only 1 plan available that consisted of a tax rate of 50% and a guaranteed income of US\$3,800.</p>	<p>Three pilot projects were conducted in India (see below).</p> <p>One in West Delhi and two in Madhya Pradesh, one big and one small.</p> <p>For the bigger pilot in the 8 villages in Madhya Pradesh, the amount allocated was 200 <i>rupees</i> (US\$3.7) per man and woman and 100 <i>rupees</i> (US\$1.9) for every child under 14. After one year, the amounts were raised to 300 <i>rupees</i> (US\$4.6) and 150 <i>rupees</i> (US\$2.3) respectively.</p> <p>In the case of West Delhi, families received 1,000 <i>rupees</i> per month (US\$15.5).</p>	<p>N\$100, approximately US\$12.</p>	<p>Varied between US\$404 and US\$1,525.</p> <p>Delivery also varied from one-lump sum of money to monthly instalments.</p>
<b>Eligibility</b>	<p>Families with able-bodied heads under 58-years-old, incomes lower than US\$13,000 (family of four).</p>	<p>2 pilots were conducted in Madhya Pradesh.</p> <p>The bigger pilot randomly assigned the benefit to everyone in 8 villages and then compared the results to 12 similar “control” villages.</p> <p>The smaller pilot involved a basic income for everybody in a tribal village.</p> <p>The only requirement was that every resident</p>	<p>Residents of the Otjivero-Omitara village (except if an individual earned a taxable income above N\$5,000).</p>	<p>Rarieda, Kenya. Households were randomly selected within villages.</p>

<sup>3</sup> Data for the Mincome experiment can be found online at: <http://gregorymason.ca/mincome/>.

<sup>4</sup> Data for this experiment can be found online at: <http://www.princeton.edu/haushofer/> (Haushofer & Shapiro, 2016).

		<p>opened a bank account.</p> <p>A third pilot was conducted in West Delhi, where 100 families out of 450 eligible (those who stated an interest in participating) were selected to receive the cash transfer. In exchange for the benefit, these families were not allowed to take anything from the ration shop during the entirety of the pilot period.</p>		
<b>Sample Size</b>	1,300 families and individuals.	<p>For the bigger pilot, 20 villages of the state of Madhya Pradesh. For the smaller project, only one tribal village was selected and then compared to another similar tribal village.</p> <p>For the West Delhi experiment, 100 families out of 450 who stated an interest in the project were selected. Families had to be below the poverty line.</p>	All residents of the Otjivero village.	<p>503 households in the 63 treatment villages.</p> <p>432 control households.</p>
<b>Duration</b>	3 years from 1975 to 1978.	<p>2010-2011.</p> <p>In the case of the West Delhi project it lasted from January to December 2011.</p>	<p>January 2008 to December 2009.</p> <p>Monthly bridge allowance until March 2012</p>	2011 to 2013.
<b>Model of Income</b>	NIT.	Universal income provision.	Universal income provision.	Universal income provision.
<b>Lessons Learnt</b>	<p>It is important to ensure consistent political will to implement and sustain an UBI scheme.</p> <p>Enrolment process should be short and simple to prevent attrition of beneficiaries.</p>	<p>Results of the pilot suggest that unconditional cash grant transfers enable beneficiaries to identify their particular needs and priorities. For example, an important proportion of the beneficiaries increased their</p>	<p>It is important to ensure consistent political will to implement and sustain an UBI scheme.</p> <p>A broad support from civil society was crucial for success because it allowed for stronger lobbying</p>	<p>It is important to vary experiment parameters in order to maximise the breadth of results that can help identify the most adequate UBI amount and timing delivery in a specific context.</p>

		<p>labour and work while alcohol consumption remained mostly unchanged.</p> <p>A voice organization helps increase the impact of the UBI scheme.</p>	<p>mechanisms to the government.</p>	<p>There were positive effects on work effort despite the UBI scheme</p>
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*Note:  $t$  refers to the experimental marginal tax rate;  $G$  refers to the experimental income guarantee.*  
*Source: Adapted from Forget, Marando, Surman & Crawford Urban (2016)*

A few general suggestions have been proposed to improve overall UBI implementation. For instance, an efficient, participatory and transparent reporting structure could be established to ensure accountability of UBI projects (Forget, Marando, Surman & Crawford Urban, 2016). To enhance information symmetry, diversified means of communication tools could be adopted, including newsletters and surveys. It is of particular importance to maintain information flow with the targeted beneficiaries of the UBI experiment to make sure that their concerns and needs are properly addressed, and reflected in project formulation and implementation. Doing so will also help to strengthen the legitimacy of the programme and promote local ownership and inclusivity.

### **3.2. Recent Applications of UBI**

The recent upsurge in interest in the UBI has placed a few countries at the forefront of the basic income movement. While the Swiss have voted against a proposed UBI programme, other countries have taken the idea forward. This includes conducting actual pilots (e.g. Finland and Canada), while in other places the initiative is being pondered (e.g. India). Some experiments are in line with the definition of a full-fledged UBI. Others (e.g. the Netherlands), however, do not fall exactly into this basket, although they are often included in discussions of UBI for comparative purposes. The cases are briefly introduced in this section with the view to provide state-of-the-art case studies on UBI, and to keep the discussions on UBI on-going and relevant.

#### **3.2.1. UBI Pilot in Finland**

##### Background

The UBI experiment is one of the main projects led by the current Finnish Prime Minister Juha Sipilä. According to Neuvonen (2016), the trial reflects a significant shift in the way policies are made. The process, termed ‘co-design’, is more participatory, engaging citizens very early on in the decision-making process to build trust. This is also to ensure that policies are formulated in ways that fulfil the needs of the targeted groups. Moreover, the experiment is viewed as one of the main measures to reform the social security system in the country. Expectations are high for UBI to reduce administrative bureaucracy and to simplify the overly complex tax system.

The talk of a potential UBI experiment started in 2015. It gained popularity among the public, as shown in results derived from two rounds of surveys also conducted in 2015. According to

this survey, UBI gained support from around 70% of the Finns. It was also found that 1,000 *euros* (median) was deemed as an acceptable minimum amount of basic income to be distributed per month. This, however, raised concerns about the financial cost of implementing the policy, leading to some decrease in public support. On the politicians' side, there were worries that UBI would become an exportable benefit due to the social security coordination mechanisms within the EU (European Union). This, in turn, could have implications for policy making in other fields, such as migration.

To determine what type of basic income Finland should adopt, the government conducted consultations, a process coordinated by the Finnish Social Insurance Institution (Kela). Four options were discussed in these consultations:

1. A full basic income, which would abolish most current social benefits;
2. A partial basic income, which would leave certain basic social security benefits and earnings-related benefits intact;
3. Negative Income Tax (NIT);
4. Other models.

The idea of a NIT was immediately abandoned because that would require Finland to have an updated tax registry, which at the moment is not available. It is expected that such a registry will be in place by 2020.

Kela looked at the other three options and designed experiments intended to test the effects of UBI schemes on certain variables, particularly employment. In these experiments, Kela proposed a randomised allocation of the benefit through a two-stage sampling design. Once the targeted individuals were identified, participation in the programme became mandatory and differing levels of benefit were then allocated to different groups. The suggested that the target population be constituted of low-income individuals aged 25 to 63, but ultimately only those aged 25 to 58 were selected for reasons outlined below.

#### Launch of the basic income experiment

After two years of consultation and preparation, Finland launched its nationwide UBI pilot on 1<sup>st</sup> January 2017. It became the first European country to pay its unemployed a minimum income as part of a two-year programme. This unconditional tax-free sum equivalent to 560 *euros* is paid in the form of a universal demogrant to eligible people aged 25 to 58 years old and continued even if they find work. However, the allocated amount is deducted from current social benefits, which means that there will be no change in the income level of the unemployed. Kela – this pilot's main implementing body – will make the payments. The first sample included a total of 2,000 persons selected at random from the target group. Participation is obligatory in order not to produce skewed results.

The primary objective of this pilot is to explore the effects of a basic income on employment incentives. Currently, if a recipient takes up part-time employment, unemployment benefits are reduced by 50% of their newly earned income. This requires cumbersome oversight of individuals by the state. In 2019, there will be an impact assessment, comparing results on employment rates between those who receive the benefit and those who do not. No questionnaire survey or interviews are planned during the pilot implementation period to minimise the impact of observation on people's behaviour (McFarland, 2017a), a phenomenon known as the 'Hawthorne effect'.

### Limitations of the proposed experiment and adjustments

The working group coordinated by Kela proposed several recommendations to begin piloting a basic income scheme. These were as follows:

1. Adopt a partial basic income scheme because it would harmonise most of the existing basic social security benefits, while most of the earnings-related benefits would remain unchanged. It was also considered the most practical option for examining the different effects of basic income.
2. Conduct a two-stage sampling approach: a randomised nationwide sampling and a more intensive regional sampling to examine externalities. However, funding constraints prevented the regional sampling from taking place.
3. Test different levels of basic income in addition to the net partial income of 550 *euros*. Ideally levels of 600 and 700 *euros* should also be tested.
4. Select the target group only using age and income group as the criteria. Additionally, only low-income earners aged 25 to 63 years old should be considered because incentive effects in the labour market are expected to be stronger within this group of people.
5. Evaluate the possibility of using Kela's payment platform, even in the absence of an updated income register. Moreover, the working group advised to check if Kela's existing benefits could be used in the experiment because it would increase the sample size, making the results more reliable and allowing the inclusion of other groups of interest.

In the end, many of the recommendations proposed by the working group organised by Kela were not adopted as such. Kela identifies several reasons why this happened, including:

- A limited budget (20 million *euros*) entails that most of the money will be used to cover administrative costs, leaving a smaller amount for benefit purposes.
- The Finnish Tax Administration did not participate in the final drafting of the law ("The Law on Partial Basic Income", *Kokeilulaki osittaisesta perustulosta lausunnoille*) that would enable to proceed with the UBI scheme, meaning that any changes to tax provisions were not possible.

The decision to pay the benefit to the unemployed bears two main considerations:

1. *Operation efficiency*: homogeneity in labour market status for all beneficiaries (unemployed) meant that the project did not need to incorporate additional family, work or social policy considerations, which could have implied a larger sample size and a more complicated research design. Also, since most of the UBI beneficiaries need to be registered with Kela, it was easy to identify them and frame the research to only test the impacts of UBI on unemployment. Finally, since most of the unemployed would be receiving some sort of financial support through Kela, it was considered easy to incorporate the UBI pilot into the existing welfare scheme<sup>5</sup>.

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<sup>5</sup> Kela provides two types of benefits for the unemployed:

1. An earnings-related or basic allowance. Earnings-related allowance applies only to members of an unemployment fund such as trade unions. A basic allowance is paid for up to 400 days at 32.4 *euros* per day excluding weekends. If the recipient cares for children under 18, this amount increases.
2. As a labour market subsidy, which is provided to unemployed persons who enter the labour market for the first time or have not worked long enough. Unemployed persons who have exceeded the maximum period of the allowance

2. The experiment does not cover low-income earners as this would require the latest data on income, and thus to update tax registry to identify the population segment. Other groups such as freelancers and students are also excluded due to budget constraints. The above could be addressed if further pilots are planned.

### 3.2.2. UBI Discussions in India

India is set to utilise UBI as a potential tool to fight poverty. The rationale is twofold. First, UBI could spare the government the messy task of identifying the ‘right’ people for qualification under a welfare programme. Second, UBI could replace some of the existing welfare schemes, especially those that offer in-kind benefits such as subsidies on food, water and fertilizer. This would obviate the bulky administrative work needed to supply the poor with these provisions.

The idea to experiment with UBI also originated from the positive outcomes exhibited by previous pilots – two in Madhya Pradesh and a smaller one in West Delhi. Powerful results have been displayed in non-monetary terms including better nutrition among children, healthcare, sanitation and school attendance/performance. More importantly, yet unexpectedly, prominent social and psychological effects were observed. For instance, people, particularly women, were found to take more initiative in decision making, while others drew on UBI to better balance finance and escape high debt levels (Sputnik International, 2017).

The amount proposed for UBI is now anchored at 7,620 rupees (US\$113) per person per year. It falls below the minimum wage monthly payment in a city, yet is presumed to bring extreme poverty down from 22% to less than 0.5% (The Economist, 2017a). The proposal seems simple, but is not without its challenges. First, there are doubts as to whether such a scheme could be adequately financed. Calculations have been done, and their results suggest that the money would largely come from funds freed up from approximately 950 existing welfare schemes. This includes ending in-kind benefits for the poor, as mentioned above, that equate to about 2% of GDP. Cutting additional subsidies to the middle class (e.g. on transport, cooking gas, loans) would save another 1% of GDP. However, adding up the two would not be enough, as 4.9% of GDP would be needed to cover a UBI that serves 75% of the population (Zhong, 2017).

Second, India’s socio-economic conditions, particularly under-developed financial infrastructure, create a significant impediment to UBI implementation. Accessing personal entitlements through bank transfers is a daunting task in India, where one-third of Indians still do not have a bank account. According to the WB (World Bank), there are only around 20 ATMs for every 100,000 adults in India, compared to 70 in South Africa and 114 in Brazil (Zhong, 2017). On the other hand, the pursuit of digital payments for UBI may well stimulate investment in financial infrastructure.

Therefore, UBI is considered by some as no more than a fancy concept (Sampath, 2017), and one that India is not yet ready to put into practice. The time is ripe for further deliberation on how to turn the idea into a feasible project.

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are also entitled to receive this benefit.



### 3.2.3. Other UBI-related Pilots

Localities in the Netherlands (McFarland, 2017b) are preparing a series of social assistance experiments, although none of them have been formally launched or are waiting for approval. The primary objective is to test the effects of the removal of conditionality on welfare benefits. The idea comes from the observation that individuals' rational thinking and intrinsic passion for work can be negatively impacted by the fear of losing monetary rewards. Thus, it is probable that conditions on active participation (e.g. in training, job application) which are attached to claiming certain forms of social assistance could in fact de-incentivise the productive labour contribution to the society. Such fears have raised concerns about the Participation Act enacted in 2015, which has imposed certain requirements (e.g. five job applications per week, attendance at group meetings) on welfare recipients as prerequisites for them to receive financial assistance.

The experiments do not fully resemble the UBI pilot launched in Finland, however, a key common ground between them is that they all select welfare recipients as the main target group for enrolment in the pilot. In this sense, neither piloting methods can truly be considered 'universal'. However, the amount of benefits provided in the Dutch design will remain means-tested and household-based, meaning that programmes will be designed in ways that the amount of benefits are linked to income and household status. These two aspects make the Dutch model differ fundamentally from a fully fledged UBI programme.

## 4. UBI's Prospects in China

China has been rapidly catching up with other advanced economies on a variety of indicators. According to estimates from the International Monetary Fund (IMF), China contributed to nearly 39% of the global economic growth in 2016 (IMF, 2017). Accompanying its rapid economic ascendance, China has achieved remarkable development progress, attaining major Millennium Development Goals (MDGs) targets. Most notably, 439 million poor (UNDP China, 2016b) were lifted out of poverty between 1990 and 2011 in China, when calculated against the World Bank's poverty line of 1.25\$/day.

However, after a decade of vigorous economic development, growth rates have fluctuated at around 7% since 2012 (World Bank, 2017), with a recorded rate of 6.7% in 2016. This slowdown could potentially have negative consequences on job creation and wage growth in China. Meanwhile, increasing levels of inequality have proved that 'trickle-down economics' do not always work (Standing, 2008). The Gini coefficient in China stood at 0.462 in 2015 (UNDP China, 2016b), with 37.2% of the overall income held by the top 10% of the population (WID World, 2017) and 25.2 million people still living on less than 1.90\$/day (World Bank, 2017). Moreover, disparities in health and education still persist. Infant and under-five mortality rates in 2014 were more than twice as large in rural areas as compared to urban areas. Similarly, in 2013, the national average of senior high school gross enrolment rate was of 86%, but stood at only only 68.0% in Guizhou, 72.1% in Yunnan and 72.2% in Tibet (UNDP China, 2016b).

Simultaneously, the rapid increase of robotics and automation in production could also produce negative consequences on the Chinese labour market. Since 2013, China has represented the largest robotics market in the world. In 2015, it purchased approximately 68,600 industrial robots (International Federation of Robotics, 2016), and computerisation is predicted to put a

very large number of jobs at risk around the world (Walker, 2016; Frey & Osborne, 2017). Specifically, in China the World Bank (2016) estimates that approximately two-thirds of all jobs are susceptible to be affected by automation.

These trends indicate that the time is ripe for China to start thinking about alternative welfare policies that can help address the challenges to which the future will lead in many yet unknown ways. UBI is a potential option to provide a basic and widespread safety net, creating a buffer against future risks for everyone. In this section, the paper will tentatively analyse the possibility of adopting a UBI in China, focusing mostly on the enabling and disabling contextual socio-economic factors. The section will start with China's *Dibao* programme, which is widely considered as a 'predecessor' of a UBI in the Chinese context. The lessons learnt from *Dibao* could serve as useful reference points for a prospective UBI design.

## **4.1. *Dibao*: Current Minimum Income Guarantee in China**

### **4.1.1. About the Programme**

China's success on poverty reduction owes to a combination of favourable factors, including the above mentioned fast economic growth that has lifted the floor up for everybody, and the advent of 'precise targeting' through a national database of the poor (Tewari, 2017). The 'poverty household registry' has helped to implement a targeted poverty alleviation plan for poverty relief channelled through a 'subsistence guarantee' or *Dibao* – a minimum income guarantee aimed at bringing incomes up to a minimum level. The programme was launched nationwide in urban and rural China in 1999 and 2007 respectively. The *Dibao* line (a locally determined minimum living standard) should in theory be based on the local average of per capita income and basic consumption needs. In reality, however, it is often dependent on the local government's financing capacity (Gao, Yang & Li, 2015), as the central government provides limited financial support.

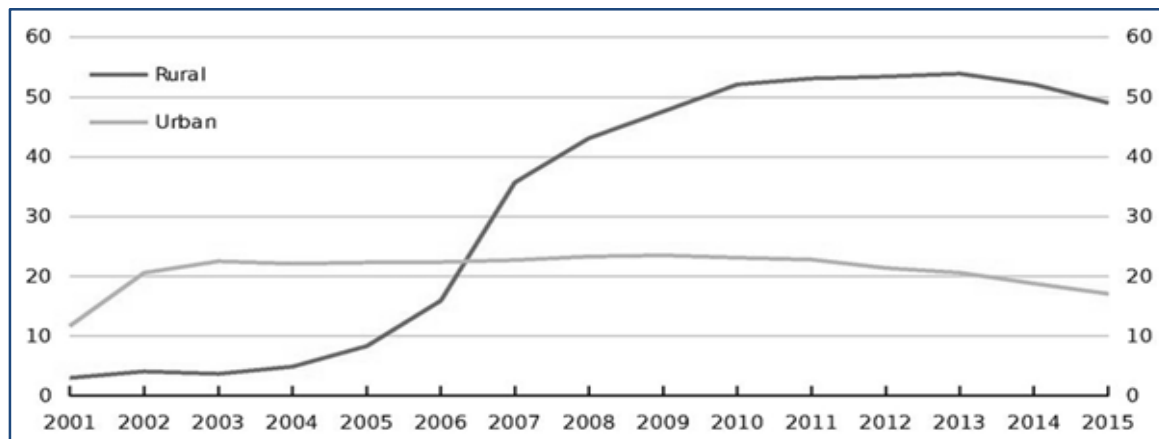
Available data (Figure 3) indicates that the coverage of both rural and urban *Dibao* schemes has increased since 2001. There were 11.7 million urban beneficiaries of *Dibao* in 2001. This number increased rapidly until 2003, after which it remained approximately constant at around 22 million, reaching a peak of 23.5 million beneficiaries in 2009. The coverage of rural *Dibao* has expanded in more recent years, particularly after 2007, when rural recipients surpassed urban recipients in number (35.7 million). This remarkable increase was seen as a result of consolidating several pre-existing welfare programmes under *Dibao*. By 2013, rural *Dibao* had reached 53.9 million beneficiaries (Golan, Sicular & Umapathi, 2015).

In more recent years, however, absolute coverage of both rural and urban *Dibao* has decreased despite the average minimum income standards outpacing average incomes at the lower end of the income distribution (OECD, 2017). In 2015, urban *Dibao* recipients amounted to 17.1 million and rural *Dibao* recipients to 49.0 million. Two reasons may explain why this has happened:

- In urban areas, the amount of pension recipients has increased. Since pension income is included in the calculation of household income to determine *Dibao* in urban areas, it is possible that this additional income has reduced the household income gap against the poverty line, or even set household income above the poverty line itself.
- Targeting has become more efficient. The government has mainly improved efficiency by tackling corruption – imposing a fine to local government officials who hinder

service delivery and affect household eligibility – and by collecting more accurate information about household incomes and assets. However, in the latter case, only developed regions, such as Shanghai, have a fully operational database.

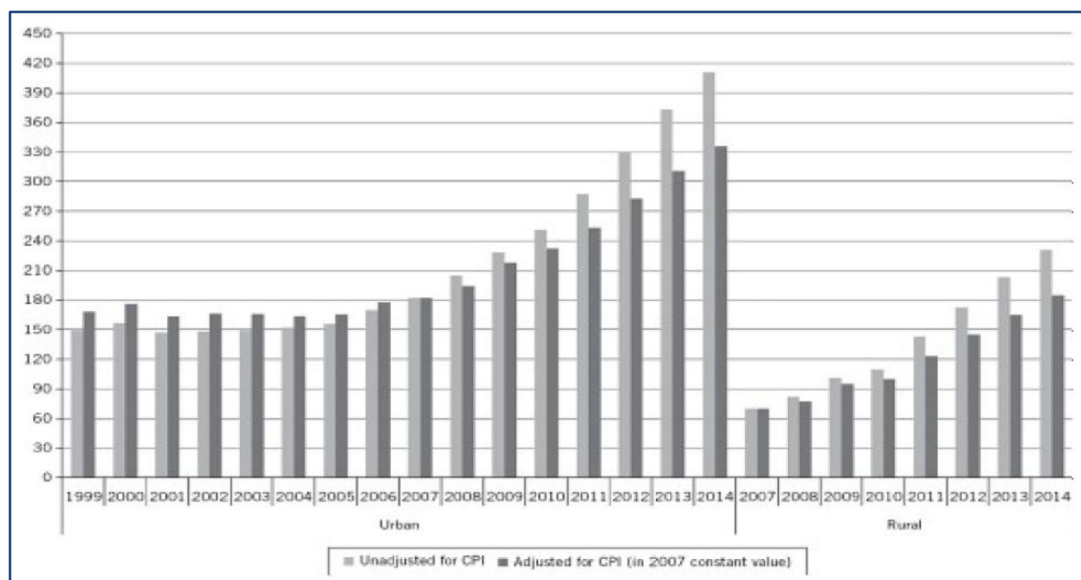
**Figure 3.** *Dibao* beneficiaries (millions) urban and rural areas, 2001-2015.



Source: OECD (2017).

Government spending on urban *Dibao* has increased exponentially since 1999, reaching 69.5 billion *yuan* (US\$9.78 billion <sup>6</sup>) in 2014. Rural *Dibao* has shown similar trends, with government spending of 84.4 billion *yuan* (US\$12.62 billion <sup>7</sup>) in 2014 (Gao, 2017). The expenditure per beneficiary has also been rising steadily in both urban and rural areas, especially since 2007 (Figure 4). By the end of 2014, the average national urban *Dibao* line reached 336 *yuan* per person per month, while in rural areas this value reached 183 *yuan*.

**Figure 4.** Average urban and rural *Dibao* lines (per month, *yuan*).



Source: Gao (2017).

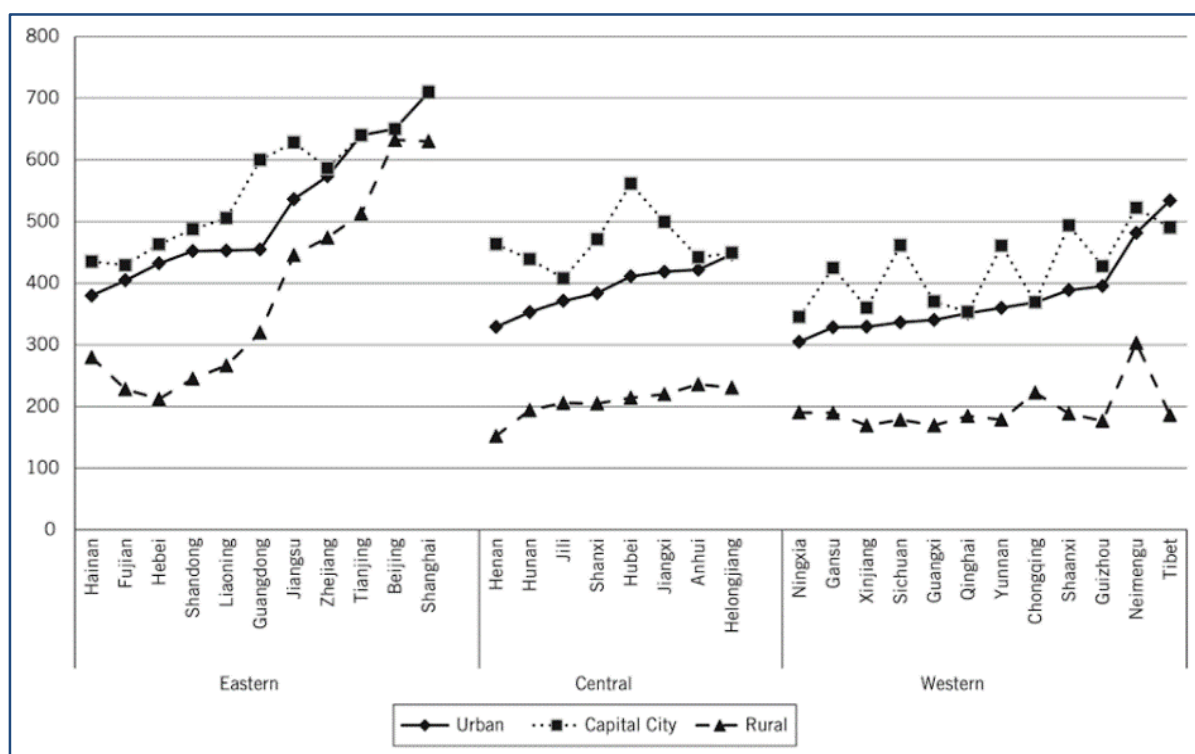
Since local governments set and adjust their own *Dibao* lines, these vary substantially across

<sup>6</sup> Exchange rate as of April 2017.

<sup>7</sup> Exchange rate as of April 2017.

provinces and rural-urban areas (Figure 5). Urban lines tend to be higher than rural lines, and Eastern regions tend to have higher lines than Central and Western regions (Gao 2017).

**Figure 5.** Variations in provincial average *Dibao* lines by region (yuan), December 2014.



Source: Gao (2017).

#### 4.1.2. Effects of *Dibao*

World Bank data suggests a solid return on investment for *Dibao* that has helped to reduce poverty by at least 6.5% (Ravallion & Chen, 2015). Issues have however been raised concerning these poverty reduction effects. Recent research found, for instance, that *Dibao* did not entirely eliminate poverty among its targeted population (Gustaffson & Quheng, 2011; Gao, Yang & Li, 2015). In particular, the programme was found to have a low targeting efficiency, suffering from leakage<sup>8</sup> and undercoverage<sup>9</sup> problems (The Economist, 2017b). Golan et al (2015) cite an inclusionary error – where the government supports households whose income is above the locally defined poverty line – of 85.7% and an exclusionary error – the percentage of eligible individuals who do not receive the *Dibao* transfers – of 89.1% in 2009<sup>10</sup>. Therefore, the vast majority of rural *Dibao* beneficiaries had ex-ante incomes above the *Dibao* line, while only a small proportion of the rural poor were enrolled in the programme.

The targeting performance of urban *Dibao* seems to show some improvements, but is still not satisfactory (Yang, 2013; Gao, Yang & Li, 2015). Urban areas, by comparison, report an inclusionary error of 43% and an exclusionary error of 71% (Chen, Ravallion & Wang, 2006).

<sup>8</sup> The proportion of people who should not receive assistance but are still covered by the programme.

<sup>9</sup> The proportion of people who need assistance but are not covered by the programme.

<sup>10</sup> Both of these figures refer to the ex-ante, net of country average *Dibao* expenditure.

Moreover, since targeting is based on residency status, the *Hukou* (Household Registration System) has posed significant challenges to the eligibility of rural migrants for the urban *Dibao* programme (Cai, Du & Wang, 2009; Gao, 2010). Finally, the scheme has also been criticised for not having a well-functioning system of checks and balances, given the significant discretionary power it gives to local authorities who possess only limited resources to successfully administer the programme (Golan, Sicular & Umapathi, 2015).

## 4.2. Positive Outlook for UBI in China

The complications faced by *Dibao* have raised the need to look at alternative welfare policies. UBI could be a worthwhile candidate, as it may help to tackle many difficulties associated with the *Dibao* programme, with targeting inefficiency being one of the biggest barriers to prevent satisfactory outcomes. UBI's universal coverage may provide an improvement. Simulation results, in fact, suggest that coverage extension is more effective for poverty reduction than an increase in the amount of cash transfer (Golan, Sicular & Umapathi, 2015).

The opportunities for China to implement a UBI lie in at least three aspects. First, China's capacity to raise domestic resources has been increasing. This has substantially contributed to poverty reduction efforts, thus holding considerable prospects for financing the UBI in the future. Second, technological innovation has developed by leaps and bounds in China, making a wide range of digital payment tools available on a large scale. This could greatly facilitate the administration of a UBI – such as distribution of transfers – in an efficient manner. Third, China is very much committed to achieving the SDGs, with poverty reduction and inclusive growth ranking at the top of the development agenda. The political will devoted to the overall sustainable development framework may catalyse innovative policy thinking and open 'windows of opportunity' for approaches like UBI. The three points are elaborated on below.

### 4.2.1. Domestic Resource Mobilisation Capacity

Strong financial support has played a crucial role in China's poverty reduction efforts. Fiscal funds earmarked for poverty alleviation from the central government have more than quadrupled, increasing from 10 billion *yuan* (US\$1.4 billion) in 2001 to 43 billion *yuan* (US\$6.4 billion) in 2014 (UNDP China, 2016a). After 2008, in particular, fiscal funds maintained an annual growth rate of more than 15%. More importantly, they are also an effective lever for other types of funds used for poverty reduction activities, including industry funds, social funds and credit funds. This enables multi-stakeholder participation and contribution to poverty reduction, especially now that China is at the 'last mile' of its poverty reduction journey.

This is promising for UBI implementation. First, a solid fiscal base is in place as a fundamental element for the policy to be implemented. This could continue to grow if the tax mix were further optimised in China. The current tax system was devised during the 1994 reform, when the wholesale turnover tax was replaced with a Value-Added Tax (VAT) on goods and a few services. Contrary to the majority of OECD countries, China's tax system relies heavily on indirect taxes, while direct taxes contribute only to approximately one-fourth of the total tax revenue. Therefore, there is scope to improve the tax structure, for example by strengthening the progressivity of the tax system, streamlining administration and expanding the personal income tax base (UNDP China, 2015a).

Second, fiscal funds could enlarge the finance pool by many folds if their bargaining chip were properly used with other stakeholders, especially the private sector. The potential of Public-Private-Partnership (PPP) should indeed be fully explored to optimise the development of social affairs. As a matter of fact, PPPs are increasingly perceived as an effective way to scale-up local development innovations, involve the private sector in sustainable development interventions, and identify and exchange best practices.

#### 4.2.2. Technological innovation

China's technological innovation has rapidly developed in recent years. By the end of 2014, mobile phone coverage rate had reached 94.5% and Internet coverage rate stood at 47.9%. As of 2015 there were 649 million Internet users in China and, among these, 557 million were connected through their mobile phones (UNDP China, 2015b).

Digital payment tools and third-party electronic payment platforms, such as Alipay<sup>11</sup>, are becoming increasingly available and popular among the Chinese population, and provide a progressively wider range of services. Already in 2009, there were 75.7 million Internet payment users in China (Lu, Yang, Chau & Cao, 2011). These tools could help to facilitate the administration of the UBI and in particular the distribution of cash transfers. Digital money transfer tools, in fact, may help to avoid unmanageable logistical scale-ups and deliver financial support quickly, efficiently and with accountability, particularly in harder-to-reach areas.

#### 4.2.3. Political Commitment to the SDGs

Last but not least, China has demonstrated its dedication to implementing the SDGs at the top leadership level. To give an example, the 2030 Agenda for Sustainable Development has been integrated into China's key planning instrument, the 13th Five-Year Plan (FYP), and is complemented by China's national implementation plan for the SDGs. Internationally, China was one of the first 22 countries that voluntarily reviewed their progress on the implementation of the 2030 Agenda, at the UN High-level Political Forum in New York in July 2017. Furthermore, during China's G20 Presidency in 2016, sustainable development was placed at the core of the G20 agenda, including through the adoption of the Action Plan which ensures that the G20's activity is aligned with the 2030 Agenda. China's firm commitment to sustainable development, including eradicating poverty and promoting inclusive growth, has set an overall favourable political environment for policy innovation. Approaches such as UBI could well generate political attention and interest. In fact, examples of UBI already exist in China (Box 1).

#### **Box 1. Current Cases: Macau and Huaidi**

##### **Huaidi's Social Dividend Policy**

Since 1995, all residents of Huaidi, an urban village in Shijiazhuang, Hebei, have received an annual income of 1,500 *yuan* (US\$217.6)<sup>12</sup>. According to Cheng Furui (2016) the disbursement occurs in 12 instalments of 125 *yuan* each, which is sent directly to the residents' bank account. Due to inflation and rapid GDP increase

<sup>11</sup> Alipay has the biggest market share in China (this was 56% in 2009).

<sup>12</sup> Exchange rate as of April 2017.

in these years, the allocated amount has become less significant: while in 1995, it represented approximately 30% of the urban GDP per capita income, in 2014, it was just 5.0 % of the annual per capita disposable income in urban areas (Statista, 2014).

In addition to this basic income, Huaidi residents benefit from a comprehensive welfare system that provides them with free education, housing, a pension when they reach 60, payment of medical insurance premiums as well as community healthcare, and consumption goods such as food and toiletries. These benefits are funded from assets obtained from the land development rights that the local residents have collectively acquired. In China, when the government takes land from villagers, it compensates them individually. In the case of Huaidi, Chen Yuxin, a leader, persuaded the villagers to give up the first cash compensation to collectively buy back the land development rights in the future, a situation that occurred in 1996 and in 1998. In 1999, in exchange for keeping a land patch to be used for urban development, the residents gave up respective land compensation. Some researchers, such as Cheng Furui, argue that being a cooperative lies at the heart of Huaidi's success because it increased the residents' bargaining power and provided a scheme to financially acquire the land rights. This also points to a potential source of finance for UBI based on natural resources such as land.

### Macau's Annual Basic Income

The Wealth Partaking Scheme (WPS) has now become one of the hallmarks of social policy in the Macau Special Administrative Region (MSAR). It still needs to be approved every year as the legislation stipulates the scheme to be a one-year hand-off without a renewal guarantee. Despite this uncertainty, the programme has been active since 2008, benefitting all Macau Resident Card holders by providing them with different amounts of cash transfers, based on their residency status. For instance, 9,000 patacas (7,743 *yuan*)<sup>13</sup> are granted to permanent residents while non-permanent residents receive a cash premium worth 60% of the total disbursement, equivalent to 5,400 patacas (4,646 *yuan*) (Government of the SAR of Macau, 2016). Until 2015, the cash subsidy had increased continuously with a starting amount of 5,000 patacas for permanent residents and 3,000 for non-permanent residents.

WPS is the government's response to the growing social unrest. The public has demanded a rise in welfare and housing provisions as well as a clearer policy to protect residents against illegal migrant labour (Lampo & Lee, 2011). Rhetorically, the government argued that the cash scheme would be a fundamental tool to ease inflation and support individuals in times of financial hardship. The official discourse later framed the WPS as a device to share the SAR's economic growth and enhance the community's well-being (Kwong, 2013).

While researchers agree that WPS provided financial relief to cash-strained individuals, particularly during the economic crisis of 2007-2011, the programme is nowadays considered unnecessary because of Macau's economic recovery. Economic indicators show that by 2010, GDP per capita was increasing at a larger rate than the Consumer Price Index (CPI) in Macau and that the unemployment rate had reached new low levels, at 2.8% (Kwong, 2013).

Instead, it is possible that the programme has remained in existence given the political support it has gained from the public (Kwong, 2013; Choi and Hung, 2011). Other concerns have also weighed in, such as migration. For instance, Choi and Hung (2011) mention that the generosity of Macau's welfare system helps sustain the migrant labour workforce – a key instrument for labour regulation and an important input for the casino economy.

The universality of the programme is warranted as long as there is a continuous inflow of assets, which are currently obtained through the dominant gambling industry in the city. High dependency on one sector, nevertheless, makes WPS particularly vulnerable to cyclical shocks to the industry.

### 4.3. Potential Challenges to the UBI in China

Despite the positive outlook, UBI is confronted with several potential challenges. These pertain to characteristics of imbalanced development in China and concerns about governance capacity at relevant levels, all of which have bearings on how a UBI could be enacted. While current

<sup>13</sup> Exchange rate as of April 2017.

UBI examples exist, they are implemented on a relatively small geographical scale. To what extent the UBI will be scaled-up is worth a second thought, as this would have significant implications for administrative capacity and financial issues.

#### 4.3.1. How Universal is ‘Universal’?

One first challenge coming to UBI is how ‘*universal*’ it should be. Two dimensions need to be considered here. First and foremost, should everyone receive a basic income? In theory, the answer is a definite ‘yes’. Yet, most recent UBI pilots have only started with certain groups, given their intended poverty alleviation purposes and specific objective of testing the effects on labour participation. Second, should the UBI be based on a uniform income threshold everywhere?

In the Chinese context, both questions are difficult to address given China’s unique socio-economic development. On the former question, the Household Registration System has restrained many people living in cities, and in particular rural migrants, from accessing welfare packages including the *Dibao* (OECD, 2017). Without proper reform of the *Hukou*, UBI might face the same selection bias as measures designed to provide benefits to those with ‘appropriate residence status’. This problem could, however, be prevented if UBI were truly universally available to everyone, irrespective of where one lives and works.

A related point to address is who to involve in UBI pilots in China, as the country prefers a ‘bootstrapping policy making process’, involving a gradual and staged approach that requires the constant assessment of pilot impacts and making appropriate adjustments as the policy’s scope extends nationwide. One option is to continue UBI pilots in different localities, as is currently done. The potential obstacle of this approach is the extent to which experience in one geographical region can be replicated or transferred in another.

Another option is to experiment with a type of UBI that exclusively targets particular groups, such as women. Experiences from other cash transfer programmes have shown that when women are the direct beneficiaries of welfare payments, resources are more likely to be used in the best interest of children and the entire household. This contributes to rebalancing the power relations within the family (De Schutter, 2012). However, other vulnerable groups such as the elderly, the young, and the disabled could also benefit from being direct UBI beneficiaries. Ultimately, the choice of beneficiaries will rely much on the main objectives of the experiments. In most cases, the target group’s behaviour shall be closely examined, including expenditure decisions, consumption habits and livelihood choices, to observe if the UBI produces any changes that could progressively generate profound socio-economic impacts.

On the second question, heterogeneity in levels of regional development and the divide between rural and urban areas make it a formidable task to establish a uniform income threshold for UBI (Furui, 2017b). The same challenge lies with *Dibao*, given the considerable variation in *Dibao* lines across localities (Gao, 2017). While it makes sense to differentiate the amount of UBI transfers provided to recipients across different localities due to substantial differences in living standards in China, this should be carefully balanced with considerations of variant local fiscal capacity. With reference to the *Dibao*, the amount distributed in each locality is largely correlated to how much the local government can afford (Wang & Bai, 2016). This has resulted in situations where people living in richer areas are allocated more generous transfers



simply because the area that they live in has sufficient financial capital (Ravallion, 2009). A standardised UBI could eliminate such instances, but the debate remains open as to which criteria should be adopted when selecting the income threshold. This issue also leads us to the next point on governance capacity at the central and local level, a critical ingredient for the financing of UBI.

#### 4.3.2. Governance Capacity

By governance capacity this paper refers to two aspects related to the financing of the UBI. The first aspect is whether the government is willing to spend on UBI. Second, can the government provide or leverage sufficient financial resources to fund the UBI?

A glance at some relevant data may provide useful insights regarding the first question. Social expenditure on urban *Dibao* as a share of local GDP is below 0.2% in the majority of Chinese provinces, with higher shares in the West. For example, this value is over 0.4% in the Western province of Gansu, but lower in the majority of Eastern provinces where the value falls below 0.1%. Moreover, social expenditure on urban *Dibao* as a share of local public expenditure has been decreasing across the country since 2008, with local governments prioritising public investment to promote economic growth, such as transportation and infrastructure, over welfare (Wang & Bai, 2016).

These modest figures indicate that there is a lot of room for improvement. As China places increasing emphasis on promoting efforts to realise the SDGs, a lot more needs to be done to secure nationwide sustainable development. The role of the central government in coordinating balanced development across localities may be strengthened, but the role of the local governments themselves is also crucial. Greater emphasis has to be placed on self-growth, self-development and entrepreneurship at the local level. Moreover, as is previously found with the *Dibao* program implementation, local governments will tend to remain critical to the implementation and sustained effectiveness of welfare programmes. This holds especially true in a very large country such as China which has a decentralised fiscal system (Gao, Yang & Li, 2015).

#### 4.3.3. How Can UBI be Financed?

Without a doubt, setting up a UBI is not an easy undertaking, especially for a country as large as China. In 2014, paying every adult a monthly income of 336 *yuan* (if living in urban areas) or 231 *yuan* (if living in rural areas)<sup>14</sup> would have required a yearly government expenditure of 3.472 trillion *yuan*, equivalent to approximately 5.46% of overall Chinese GDP and almost half of the overall Chinese government expenditure<sup>15</sup>. Furthermore, these figures could see a potential increase over the years given the pressure of inflation and of a constant rise in living standards.

Multiple suggestions have been proposed in the literature on ways of funding a basic income programme, ranging from the Negative Income Tax model (Friedman, 1962), a tax on pollution or a Tobin Tax on speculative financial transactions, sovereign supranational dividends (Van

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<sup>14</sup> These figures are based on average national urban and rural *Dibao* lines respectively (Gao, 2017).

<sup>15</sup> This rough estimate considered the proportion of adult population in China, as well as the proportion of rural and urban population, overall Chinese GDP and government expenditure (World Bank, 2017).

Parijs & Vanderborgh, 2001) and a growth dividend such as the one distributed in Singapore in May 2011.

Supporters of the UBI in China (Furui, 2017a) seem to favour the introduction of a social dividend derived from the public ownership of assets, similar to the traditional “Alaska model”<sup>16</sup> (Murray & Pateman, 2012). This could be feasible given that contrary to many Western countries, in China there is a significant proportion of assets which are publicly owned. For example, rural land in China is owned collectively at the village or sub-village level. The Huaidi cooperative, where people own the development rights of the land, may represent an example of successful implementation of a social dividend (Furui, 2016).

Cui Zhiyuan (2016) recently advocated the implementation of a Chinese social dividend, where the profits of State-Owned Enterprises (SOEs) could be used to finance the UBI. After producing a rough estimate of the financial needs of a basic income policy, it is suggested that half of the profits of all SOEs under central government control in non-financial sectors could be used to directly fund a UBI, while the other half could be re-invested in the bond and stock markets to form the Chinese People’s Permanent Trust Fund. The basic income transfer would be very small at approximately 10 *yuan* in the first year of implementation of the policy, but would grow over time, as in principle the Fund would continue to accumulate. As a result, it would become sufficient enough to provide support for the poor in a decade or so. This proposal – or some variations of it – could potentially be feasible, particularly given the fact that SOEs are currently undergoing a process of reform in China, and have been devolving an increasing share of their net profits to the national budget since 2007 (Furui, 2017a). This share is expected to increase to 30% by 2020.

#### **4.3.4. Does UBI agree with China’s ideology?**

The 13<sup>th</sup> FYP has devised the ‘targeted poverty alleviation strategy’, outlining approaches (e.g., industrial development, education/training, social protection, relocation, ecological conservation), which are widely applied to help eliminate poverty. During implementation, the poor are broadly divided into two groups: one group consisting individuals who are identified to have lost work capacity (e.g., due to serious diseases or disabilities) while the other group contains the rest of the poor who can still work. The former is mostly covered by Dibao to provide basic living sources.

The separation has indicated China’s core ideology of poverty alleviation and social protection; that is to encourage self-growth, activate and maximize the poor’s potential of self-development. In essence, China’s approaches attempt to prevent cultivation of loafers, and strive to catalyse changes that help reduce the poor’s passive actions and over-reliance on external support. Yet, to initiate such changes is not easy, as it is premised on the assumption that people will take responsibility to make wise decisions and implement their choices. To do so would, at times, require strenuous efforts of the poor to fundamentally switch their mindsets (Li, 2017). And not everyone is equipped with such capacity.

In this case, the UBI may carry the risk of doing more harm than good. The idea of free and easy money may very well collide with the values the government promotes and tries to appeal

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<sup>16</sup> The “Alaska model” refers to UBI schemes that are funded through community-owned wealth invested in the private economy, with the returns redistributed democratically among the population. In Alaska, the UBI programme was funded by the Alaska Permanent Fund (APF). The APF is a portfolio of diversified assets, into which the government would invest a small part of the state’s oil revenue each year as a way to turn the temporary stream of oil earnings into permanent wealth.

to the poor. One possible remedy could be for the government to structure UBI with a clear, value-based message of expected behavior, and indicate consequences of ignoring the message; a movement featured as ‘new paternalism’ (Haskins, 2009). This will require a significant step further to emphasize value-based approaches and consider them in policy formulations.

## 5. Conclusions

Global advances in digitalisation, coupled with shifts in demography, globalisation and work organisation, have altered the structure and nature of work. A new wave of technological change is opening grounds for the development of new labour markets, but has also resulted in increased concerns about future job losses. The question of how to maintain effective security for everyone is inextricably linked to these global trends, especially for those whose jobs would be most negatively impacted by advances in automation. The UBI stands out as a possible solution to this growing problem. It may be attractive as it strikes on support for key areas of personal development that could generate positive synergies, such as free choice, job flexibility and promotion of entrepreneurial spirit, and for providing an overall support framework for the basic rights that a citizen should be entitled to. However, the UBI is not without its problems, and many concerns are centred on potential negative incentives for work, its large financial requirements and distributive hurdles. In addition, a poorly implemented UBI would result in winners and losers in varied segments of society. Finally, the resulting income dynamics from a UBI can be complex, creating more complicated challenges that need to be overcome to achieve overall gains that ensure greater inclusivity.

If the UBI is to be rolled-out on a large scale in China, this set of challenges needs to be explored sufficiently and feasible solutions need to be provided. Indeed, for the specific case of China, additional barriers exist, such as those created by policies including the Household Registration System that substantially constrain mobility and exacerbate the imbalance in labour rights and access to social benefits. This complicated socio-economic context will constrain and define the extent to which the UBI is ‘universal’ if it is not to be detached from such policies that implicitly preclude equality.

It is still early to assess the performance of UBI, as most projects – both in China and abroad – are only in the initial stages of implementation. With the pace at which technology is developing in China, there is capacity for new types of UBI projects to be trialled using a variety of payment and reporting schemes that could have differing implications for operation efficiency and data collection. On the latter, alternative approaches such as utilising Big Data could help to collect the information that is required for conducting reliable and comparable impact assessment – both panel and cross-sectional data – which can then be stored in a much larger database.

With this paper, UNDP hopes to create a platform for a dialogue on UBI implementation in China and a building bloc for more in-depth research leading to pilots in the future. As a starting point, pilots could target certain vulnerable groups, such as the disabled, elderly, or women, or alternatively, be tested out in specific geographic area as is the case right now. The ultimate goal is to explore alternative options for providing financial support to vulnerable groups, and provide first-hand scientific evidence to facilitate effective policy making that can enable a smooth transition for everybody as technological innovations change the nature of the global labour market.



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