

Charles University in Prague

Faculty of Social Sciences
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BACHELOR THESIS

**Basic Income, its features and
implementation**

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Declaration of Authorship

The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

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Signature

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Abstract

This thesis introduces and analyzes the controversial topic of basic income, which have recently received increasing attention of academic, political as well as general community. Definition, origins and history of the theme, current BI discussion, possible alternative and practical implementations of BI are all summarized. The thesis also simulates potential effects of BI scheme adoption in the Czech Republic. Using detailed data on income distribution and estimates of labor elasticities, we estimated a tax rate on earned income that would be necessary to implement to make the BI scheme budget neutral. Our results suggest that such a rate would be much higher than the current compounded tax and social security contribution rates, rendering the BI concept impractical in the Czech Republic.

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Abstrakt

Tato bakalářská práce popisuje a analyzuje kontroverzní téma nepodmíněného základního příjmu, které na sebe od nedávna váže rostoucí pozornost jak akademické a politické společnosti, tak široké veřejnosti. Kapitoly práce zahrnují definici, původ a historii pojmu, argumenty současné diskuze o základním příjmu, možné alternativy schématu a rozbor některých implementací. Empirická část práce modeluje případné efekty a dopady zavedení základního příjmu v České republice. S použitím konkrétních dat pro rozdělení příjmů a odhadů elasticit nabídky práce byla vypočítána sazba daně z příjmu, kterou by vláda musela implementovat pro zachování neutrálního “basic income” rozpočtu. Výsledky modelu napovídají, že takto odhadnutá sazba daně z příjmu by byla o mnoho vyšší než současná daň a výše sociálních příspěvků. Tyto výsledky pak nepřímou hodnotí koncept základního příjmu jako nepraktickou reformu pro Českou republiku.

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Acronyms

| | |
|---------------|--|
| ATAP | Alaska Temporary Assistance Program |
| BI | Basic Income |
| BIEN | Basic Income Earth Network |
| BIG | Basic Income Guarantee |
| BIS | Basic Income Studies |
| BNI | New Net Money Income (after BI introduction) |
| COSATU | Confederation of South African Trade Unions |
| CSO | Czech Statistical Office |
| ELS | Elasticity of Labor Supply |
| GBI | Global Basic Income |
| GI | Gross Income |
| GMI | Guaranteed Minimum Income |
| LS | Labor Supply |
| NAMTAX | Namibian Tax Consortium |
| NI | Net Income |
| NIT | Negative Income Tax |
| NSGI | New Super Gross Income (after BI introduction) |
| PFD | Permanent Fund Dividend |
| RCTs | Randomized Controlled Trials |
| RMI | Revenu Minimum d'Insertion |
| SEM | Standard Economic Model |
| SEWA | Self Employed Women's Association |
| SGI | Super Gross Income |
| UBI | Universal Basic Income |

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| Předběžná náplň práce | |
| <p>Koncept základního příjmu, je nastaven tak, aby v případě jeho zavedení v dané zemi byly nahrazeny veškeré sociální příjmy zabezpečující obyvatelstvo. Distribuován by byl každému obyvatele, bez ohledu na jakákoliv kritéria či bez nutnosti přezkoumání individuální finanční situace. Původ základního příjmu se datuje mnoho staletí zpátky až k období Renaissance, avšak první podstatná zmínka, jež brala v úvahu příjem skutečně nepodmíněný a všeobecně distribuovaný, pochází z 18. století, kdy Thomas Paine přišel se svým návrhem vytvořit národní fond a tím zajistit každého občana země určitým stejným obnosem peněz. Od té doby se objevilo mnoho návrhů, jež byly inspirovány jeho myšlenkou, avšak většina z nich nebyla nikdy politicky realizována. Doposud byl základní příjem reálně zaveden pouze na Aljašce a dále pak v rámci několika dočasných zkušebních projektů zejména v rozvojových zemích. Současná diskuze o potenciální možnosti zavedení základního příjmu do politického systému dané země přitahuje pozornost široké veřejnosti, přičemž neustále dochází ke střetům mnoha kontroverzních argumentů. Mnoho kritiků základního příjmu pochybuje zejména o jeho finanční udržitelnosti vzhledem k jeho vysokým nákladům. Cílem mé práce je představit téma nepodmíněného základního příjmu spolu s analýzou jak finančních a distribučních důsledků jeho zavedení, tak pokusů o jeho implementaci v zemích jako je Aljaška, Namibie a Brazílie. Jedna z capitol práce se zabývá i možnou alternativou základního příjmu, tj. negativní daní z příjmu. Empirická část práce zahrnuje možnosti financování schemata (orientuje se na problematiku vhodného zdanění), přičemž za tímto účelem byl sestaven i model v praktické části založený na datech pro Českou republiku.</p> | |
| <p>Osnova:</p> <ol style="list-style-type: none"> 1. Úvod 2. Úvodní charakteristika tématu 3. Organizace zabývající se nepodmíněným příjmem 4. Současná diskuze o základním příjmu 5. Analýza pokusů o zavedení nepodmíněného příjmu 6. Negativní daň z příjmu – alternativa nepodmíněného příjmu 7. Excel model základního příjmu založený na datech pro ČR 8. Závěr | |
| Předběžná náplň práce v anglickém jazyce | |
| <p>Basic Income concept aims at replacing various social security payments with one, unconditional income that would not be means-tested and which all citizens would be entitled to. The origins of basic income idea date back to the epoch of Renaissance however the first essential notion about the real unconditional guaranteed minimum arose in the 18th century when Thomas Paine came with his idea to create a national fund and ensure each citizen with an equal share of money. Since then, there have been a lot of proposals based on his idea but almost all of them have failed before being implemented into an actual policy. Until now, basic income recognizes only several pilot projects conducted mostly in developing countries and one factual implementation in Alaska. Today's discussion about potential installation of basic income into country's politic system attracts attention of wide public whereas many inconsistent arguments have been presented so far. Many detractors question the fact whether basic income is financially feasible. The thesis is focused on the introduction of basic income topic and analyzes both, its financial and distributional effects, and the experiments in basic income implementation in countries such as Alaska, Namibia or Brazil. The negative income tax, an eventual alternative of BI, is included as one of the topics as well. The possible funding of BI (i.e. the optimal taxation issues) is discussed and modeled with the use of Czech data within the scope of the empirical part of the thesis.</p> | |
| <p>Outline:</p> <ol style="list-style-type: none"> 1. Introduction 2. Topic of Basic Income 3. Organizations Interested in the Idea of BI 4. BI Guarantee Discussion 5. Analysis of the Experiments in BI Implementation 6. Negative Income Tax – An Alternative to BI 7. Excel Model of BI based on Czech data 8. Conclusion | |

1 Introduction

„If you really care about freedom, give people an unconditional income.“(Van Parijs, P. 2000)

The quotation of well-known Belgian political economist and philosopher Philippe Van Parijs, who is considered to be one of the main contemporary proponents of basic income (BI) idea, introduces well this thesis about basic income. The “freedom”, in Van Parijs words, means the chance for people to make their own choices in their lives. However, in reality, although some people would be given the material freedom with introduction of BI, others would have to pay for it (at least partially). This ambiguity led me to read his and other articles presenting the concepts of basic income guarantee (BIG) and the BI idea started to appear to me as a very interesting, controversial and widely discussed topic that, in my opinion, definitely deserves to gain the attention of general public.

Not only Van Parijs, but many other influential men, such as philosopher and lawyer of the 16th century, Sir Thomas More¹, or Nobel Peace Prize winner Dr. Martin Luther King², were convinced that BI could resolve not only the philosophical questions about individual welfare choices but also (and mainly) the global issue of poverty.

According to many research papers, BI could provide not only the possible solution to eliminate poverty and unemployment on national or wider level, but it is also an attractive concept that evokes very interesting debates and ideas (both positive and negative) among world’s researchers, economists, academics and many others. In

¹ *„And no penalty on earth, will stop people from stealing, if it’s their only way of getting food. It would be far more to provide everyone with some means of livelihood, so that nobody’s under the frightful necessity of becoming, first a thief, and then a corpse“.* (1963. More, T)

² *„I am now convinced that the simplest approach will prove to be the most effective- the solution to poverty is to abolished it directly by a now widely discussed measure: the guaranteed income“.*(1967. King, M)

other words, it is a topic that, in most cases, does not leave a person without a strong opinion about it. At the moment, the most important and most controversial question is whether such a scheme is politically and financially viable.

The thesis is mostly based on the research articles and papers published in Basic Income Studies (BIS) economic journal or issued within the scope of conferences held by Basic Income Earth Network (BIEN). The official web pages of many basic income organizations were also used. The practical part of the thesis is mainly founded on the data provided by Czech Statistical Office (CSO).

The aim of the thesis is to introduce the BI concept to wide society with all its characteristics and features. The theoretical part of the thesis includes the analyses of factual implementations of basic income and its possible alternative Negative Income Tax (NIT). The empirical part presents an excel model of BI based on Czech data. The purpose of the model was to compute the new level of income tax which would be required in order to cover all basic income costs after its introduction in the Czech Republic.

The thesis is structured by the following way. Chapter 2 introduces the topic of basic income and covers its definition and history. Chapter 3 includes a brief remark about organizations interested in the idea of basic income. Chapter 4 summarizes the most common arguments, both in favour and against, that are present in the current basic income discussion. Chapter 5 covers the description and analysis of Alaskan BI implementation and basic income pilot projects in Africa and South America. Chapter 6 presents Negative Income Tax as possible BI alternative. Chapter 7 characterizes the empirical part of the thesis and shows an excel model of BI applied on the data from Czech Statistical Office. The final part of the thesis, chapter 8, gives an overview and summary of all findings and offers possible extensions of the thesis.

2 The Topic of Basic Income

2.1 The Definition of Basic Income

There is a variety of distinct definitions of basic income, each of them with slightly different meaning. While searching for the definition online, one can come across the terms such as „Guaranteed Minimum Income“, „Social Dividend“, „Negative Income Tax“, „Universal Grant“ and so on. Most of these expressions (sometimes with little differences) appeal to what is universally called „Basic Income“ – a revenue paid out by national institution (e.g. government) unconditionally to all members of society in the same amount regardless whether the given person is wealthy or poor, living alone or having family, willing to work or not working at all. The word *basic* means that every person can be certain to obtain this income. (Van Parijs, P. 2007 pp.34)

To be precise, I quote the official definition by Basic Income European Network:

„A basic income is an income unconditionally paid to all on an individual basis, without means test or work requirement. It is a form of minimum income guarantee that differs from those that now exist in various European countries in three important ways:

- 1) It is being paid to individual rather than households;*
- 2) It is paid irrespective of any income from other sources;*
- 3) It is paid without requiring the performance of any work or the willingness to accept a job if offered“.* (BIEN. [1990])

To avoid any confusion, I will try to explain how at least some of the terms mentioned in the first paragraph differ from the genuine. Referring to the definition given by BIEN, we can say that for instance guaranteed minimum income system in France called Revenu Minimum d'Insertion (RMI)³ or German Sozialhilfe⁴ differ

³ More on RMI at: Revenu minimum d'insertion: RMI. IN: *Insee: Définitions et méthodes* [online]. Available from: <http://www.insee.fr/fr/methodes/default.asp?page=definitions/revenu-minimum-insertion.htm> [Accessed 2013-07-24]

from the BI in not fulfilling the unconditionality feature. In fact, in these cases the applicant has to accomplish a few requirements in order to receive the „financial support“- e.g. inform truly about all his properties or fulfill various other criteria (usually the criteria are connected to the living arrangement of the applicant -whether he/she lives alone or with a person who regularly goes to work? etc.)

Further, the term Social Dividend⁵ differs from BI as well, this time the condition *ad 3*) is not fulfilled. The social dividend will not be paid out if there is no work (e.g. during the work stoppage).

Negative Income Tax resembles to BI the most but there are several small differences as well: NIT does not fulfill the condition *ad 1*) neither the condition *ad 2*) as the NIT is usually proposed on household level and it requires information about other incomes (if any) so that the benefit can be transferred to the given household or person.

For the purpose of my thesis, I mostly use abbreviation BIG or BI which meaning corresponds to the definition of BIEN.

2.2 The History of Basic Income

In the past centuries, the ideas similar to nowadays BI concept appeared over and over again. During that time, the attitudes to the various theories of BI remained the same. While some people saw BI as a remedy to global problems, others denounced it as shaky and unfeasible.

Although the origins of BI date back to the 18th century when Thomas Paine introduced his proposal of national fund, there were several schemes far more old

⁴ More on Sozialhilfe at: ©2004. McGinnity, F. *Welfare for the unemployed in Britain and Germany* [online]. Cheltenham: Edward Elgar, pp. 67. [Accessed 2013-07-24]

⁵More on Social Dividend at: Basso, L. 2000. The minimum income models of James Meade applied to Brazil. IN: *Basic Income Earth Network: Papers and Resources* [online]. Berlin. Available from: <http://www.basicincome.org/bien/pdf/2000BassoCostantin.pdf> [Accessed 2013-07-24]

than Paine's thesis which were not unconditional and universal as today's BI, but still shared some of the principals.

In the beginning of 14th century, the humanists who started to think about the minimum income as a possible form of public subsidy, appeared. Sir Thomas More, the author of *Utopia*, is one of the first persons who argued for an income grant in his work. (1963. More, T)

The development of guaranteed minimum income (GMI) began in the late 18th century. The fundamentals of GMI are closely linked to the Anglo-American political leader and inventor Thomas Paine and his booklet *Agrarian Justice*, where Paine discussed the origins of property and argued for the income grant as a concept available to every US citizen.⁶

Later in the 19th century, the unconditional guaranteed minimum played a significant role. Belgian Joseph Charlier was influenced by French visionarist Charles Fourier and his radical movement. They both defended the idea of money grant, but Charlier partially refused the concept of BI as it was suggested in the previous centuries. What he proposed in the *Solution du Problème Social* was „the equal and unconditional guaranteed minimum” (Erreygers, G. & Cunliffe, J. 2006 pp.1) paid to everyone in the country with no needs to work or means-tests. (Erreygers, G. & Cunliffe, J. 2006) The most important period in the evolution of BI is definitely the 20th century. This epoch is the witness of the first developed BI scheme in the world. It was introduced in Alaska (see chapter 5.1) and became a huge inspiration for all supporters of BI all over the world.

⁶ „To create a national fund, out of which there shall be paid to every person, when arrived at the age of twenty-one years, the sum of fifteen pounds sterling, as a compensation in part, for the loss of his or her natural inheritance, by the introduction of the system of landed property. And also, the sum of ten pounds per annum, during life, to every person now living, of the age of fifty years, and to all others as they shall arrive at that age.” (Paine, T. [1795])

In the middle of 20th century, British Clifford Douglas tried to initiate a social credit- a monthly dividend paid out to all households in the country.⁷ Although Douglas's proposal did not succeed in Britain, it gained popularity in Canadian province Alberta (establishment of *Alberta Social Credit Party* in 1935⁸).

The last quarter of the 20th century is mostly linked to the appearance of the BI idea on the American scene. Inspired by British movements, Milton Friedman suggested negative income tax as an alternative to the existing US social systems. Nobel Prize winner James Tobin promoted the so-called Demogrant, which was a concept similar to NIT.

Nowadays, BI is being discussed in many countries such as Finland, Norway, Germany, Netherlands, Belgium, Iran, Italy, Namibia etc. Philippe Van Parijs and A.B. Atkinson can be named among the major contemporary supporters of the idea.

Over time, there were two the most important milestones- the establishment of Basic Income Earth Network in 1986⁹ and BI introduction in Alaska in 1976 (see chapter 5.1).

⁷ More on Social Credit at: Douglas, C. 1933. *Social Credit* [online]. Third edition. London: Eyre&Spottiswoode Ltd. Available from: http://douglassocialcredit.com/resources/resources/social_credit_by_ch_douglas.pdf [Accessed 2013-07-24]

⁸The Alberta Social Credit Party. [online]. Available from: <http://www.socialcredit.com/index.php> [Accessed 2013-07-24]

⁹Basic Income Earth Network: About BIEN. *BIEN Home* [online].© 2013. Available from: <http://www.basicincome.org/bien/aboutbien.html> [Accessed 2013-07-24]

3 Organizations Interested in the Idea of BI

Various organizations are attracted by the BI and they usually share the same purpose-they were founded to serve as a connecting line among people who are convinced that BI could be the powerful solution to many social and welfare problems. Recently, thanks to those junction points, the concept became familiar to more and more people and the BI discussion is flourishing all over the world. The most known are the Basic Income Earth Network (BIEN), the Global Basic Income Foundation (GBI Foundation) and the academic journal Basic Income Studies (BIS).

4 BI Guarantee Discussion

BI discussion is very wide and controversial. The biggest issue of BI is its high costs. To allow BI introduction, two objectives need to be achieved and hold simultaneously. Firstly, the size of basic income payment has to ensure decent living conditions for each beneficiary, and secondly, such cash transfer has to be politically sustainable (ment in terms of government budgeting). From this perspective, BI seems to be very unfeasible. If we consider BI that would be „decent enough“ to ensure standard living conditions, the most probable consequence would be that many people would stop working and start enjoying their „free (paid) time“. Further, to fund so high wealth redistribution, working people would have to pay incredibly high taxes which would result in further work discouragement. These two impacts of BI cash transfer can be taken as an explanation why there is no full¹⁰ implementation of unconditional cash transfer scheme (as of May 2013).

4.1 Contra BI Arguments

As previously mentioned, the majority of researchers, economists, politicians, academics and others see BI as quite foolish and unfeasible idea, whose realization and consequences are surrounded by lots of uncertainty.

4.1.1. BI and Migration

Michael W. Howard argues that with the implementation of BI on national or wider level (except for global basic income), the state will have to prevent excessive migration. Many opponents say that BI could be a trigger of departure of qualified and eligible workers on one hand (because of the taxes), on the other hand it could cause an inflow of not experienced and poor people who would try to reach the border of the country just to receive the BI payment. Together with migration, BI

¹⁰ BI in Alaska is not a full implementation of BI as some of the cash transfers are not adequate to provide citizens with all „basic needs“

could also deepen the exclusion of socially poor immigrants- unemployed, non-educated, disabled people- who would be able to form bigger communities inside the host state and current citizens might reject them or see them as a threat to their welfare system. William Galston¹¹ and others argue that with BI and its unconditionality we might be forced to change markedly both migration and border policies, and current tax systems. (Van Parijs, P. 2007 pp.23) As a consequence, the social inequality might even augment. (Howard, M. 2006)

4.1.2. Trade Unions

Yannick Vanderborght states that trade unions are generally in doubt with BI. The reason is simple- one of the main characteristics and fortes of trade unions is their significance for workers due to their collective bargaining power on the labor market and their influence on policy-making process. As previously mentioned, BI would provide people with a financial base that would increase their freedom, independence as well as individual labor (bargaining) power and therefore it would affect the core functions and actions of trade unions. Hence, trade unions sometimes see BI as a threat to their existence. Another explanation of trade unions distrust towards BI implementation is that such a scheme would not cause an improvement of wage conditions but it might cause a wage-deflation because many employers could see BI as a wage subsidy (a thought maintained by Canadian trade unions). Many unionists also insist that wage labor should remain the main manner for the gain of social status and social welfare. Vanderborght mentions that Belgian trade unions strongly oppose BI and see the concept as a huge dissipation of money. (Vanderborght, Y. 2006 pp.9)

On the other hand, Dutch trade unions form an exception among unionist as they have been in favor of BI implementation for most of their existence. (Vanderborght, Y.2002)

¹¹ Professor at University of Maryland-Institute for Philosophy and Public Policy

4.1.3. Violation of Labor Incentives

Many opponents of BI share the opinion that people who refuse to work and hence reject the participation on labor market, should not be given such a free cash transfer- they do not contribute to nation's welfare, hence they should not be rewarded. Moreover, BI could be seen as discreditable proposal as many citizens could consider it as a support of so-called free-riders. Many opponents argue that there is no reason to give an unconditional income to people who earn enough money to cover their basic needs- the common idea is that only indigents, and disabled people, and under some conditions, also parents, should be the beneficiaries of welfare programs. According to Herbert Gintis, the working majority who would pay for the BI through e.g. taxation could start to feel disadvantaged and discontinue making any efforts to work. He, and many others, argue that there are much more effective ways how to spend the levied taxes than wasting it on people who refuse to work. (Van Parijs, P. 2007. pp. 24)

4.1.4. BI as Work Barrier

According to Chandra Pasma, the biggest commonly shared objection to BI proposal is that BI could cause a massive decline in labor supply as it provides the citizens with a fundamental income that could reduce their motivation to work and tempt them to quit the labor market completely. Related idea (supported by Monte Solberg and many others) considers that quitting jobs in order to participate in „useless“ non-paid activities such as voluntary works (as a consequence of BI proposal) is unproductive as well as paying the BI to people who do not work and therefore do not contribute to public well-being. (Pasma, C. 2010 pp.6) Pasma states that many opponents see BI as socially and politically harmful as the possible beneficiaries of the scheme could be highly depended on the grant. (Pasma, C. 2010)

4.1.5. Breach of Neutrality

Joseph Heath and Vida Panitch argue (in contrast to egalitarians) that cash transfers such as BI usually favor certain citizens against others and therefore break the neutral

state engagement. Their explanation of problem is simple: each citizen has divergent preference patterns at different points of time and everyone manages the liquidity of cash differently - this is where they see “non-neutrality” of cash. As they state, the more liquid the asset is, the higher change in consumer’s behavior is caused and therefore cash, as the most liquid asset, cannot be taken as neutral instrument for gaining equality through redistribution. Heath and Panitch offer in-kind benefits schemes as more suitable option in comparison with cash transfers. (Heath, J. &Panitch, V. 2010)

4.1.6. Psychological and Behavioral Impact of BI

Wesley J. Pech focuses on microeconomic and psychological impact of BI and argues that BI introduction might lead to large dissipation of state money if we consider behavioral topics that affect the economy such as Prospect theory¹² and Conspicuous consumption and positional externalities¹³. Pech states that even though all beneficiaries receive the same amount of BI, their individual perception of the amount is different. Some can take it as a loss, some as a gain depending on the taxes they have to pay. He takes the Prospect theory as a partial denial of statement of SEM¹⁴ which says that every beneficiary (even the net payers from whose taxes the BI scheme would be funded) would be better off under BI scheme than under existing alternatives. The theory of Conspicuous consumption and positional externalities contributes to the Pech’s argument as well - instead of convincing people to save money and buy necessary (non positional¹⁵) goods, people could start buying positional things in order to increase their social status. Pech bases his arguments on above mentioned theories and adds that BI implementation is also financially unfeasible. (Pech, W. 2010)

¹² Studies the attitude and behavior of people when they get a sequence of regular payoffs

¹³ Explains why people spend a lot of money for luxury goods in order to show that they are better off

¹⁴ Standard Economic Model

¹⁵ i.e. education, healthcare

4.2 Arguments Supporting BI

On the other hand, apart from all the arguments against BI, there are also many supporters of the scheme, who face all the BI disagreements. From their point of view, BI has many merits and it might serve as a solution to various problems. However, many of below mentioned arguments are mostly economically unsubstantiated and therefore cannot be taken as a real evidence of BI's feasibility.

4.2.1. Failure of Welfare Policies

According to Joel F. Handler and Amanda Sheely Babcock, the 20th century is connected to great changes in welfare policies of Western Europe and the US, which aimed at privatization, decentralization and activation (called „workfare“). However, these reforms were not very effective due to the administrative difficulties in individual programs.

Handler and Babcock argue that the most vulnerable people are usually more victims than beneficiaries of the new welfare systems and therefore BI could be the way how to improve their well-being in case of the failure of workfare. For instance, the goal of ALMP¹⁶ is to help to socially excluded (immigrants, young people, long term unemployed etc.) to join back the society through labor market and individualized employment contracts. However, caseworkers usually fail to create the individualized contracts and they tend to employ the easily employable people leaving the socially deprived without a perspective to obtain a job. Moreover, according to many surveys, most citizens (including social workers) have hard time orienting themselves in current complex system of social and welfare policies.

BI might therefore present a wise replacement due to its simplicity and straightforwardness. Handler and Babcock suggest that BI could improve the level of poverty as well as the dependency relationship – the services offered by employers would have to be more valuable and decent in order to attract workers, because now every citizen would have the BI as an „exit option“.(Handler, J. & Babcock, A. 2006)

¹⁶ Active Labor Market Policies

Also Michael C. Munger suggests BI to be a wiser solution compared to the contemporary welfare policies. Using the arguments of Milton Friedman and Charles Murray, he states that a switch from current welfare regimes to BI would save money the state is spending, increase the liberty of citizens, the actual amount of subsidy people are receiving would be raised and some form of Pareto-superiority¹⁷ could be achieved. He claims that those who would be funding the BI transfers by paying the income tax would be better off under BI scheme as they would not be paying more than under current policy regime. (Munger, M. 2011)

4.2.2. Labor Contracts and Citizen's Freedom

In his research article „Basic Income and the Labor Contract“ (Offe, C. 2008) Marxist political sociologist Claus Offe says that there are two kinds of social policy costs- administration (direct) and implementation (indirect) costs - and both of them would be significantly reduced if basic income was introduced. Offe offers many reasons for implementation of BI.

First, BI could provide people with a financial aid that could obviate many bureaucratic offices as well as state home inspections and tests because BI does not require any means-testing due to its unconditionality.

Second, BI represents a freedom of decision for every citizen, a choice whether to get employed and therefore add some more money to their financial base or whether to stay at home (through their whole life or just a part of it) and use their leisure to participate in e.g. non-paid activities which are further beyond the scope of usual employment and still have an access to regular unconditional financial income.

Offe, as well as Handler, Babcock, Raventós, Hemerijck and others, says that BI could end the era of citizen being a „slave of the state“, where nobody is in charge of his own life. Moreover, as a consequence, the labor market, labor contracts and working conditions would be probably affected- employers would have to create job offers with „non-degrading“ conditions, requirements and wages in order to fill the

¹⁷ At least someone is better off and no one is worse off in case of movement from one welfare distribution point to another

free posts as people would have a greater opportunity to reject the job proposal. Simultaneously, people would still have some side (non labor) income which would ensure them to stay above the poverty line. Unlike the critics, Offe believes that labor supply would expand and not diminish with the introduction of BI as it would cause the improvement in conditions of work which would attract workers. He also claims that BI is not only socially fair and just policy concept but also a concept with an intelligent and viable functional perspective. (Offe, C. 2008; Domènech, A. & Raventós, D. 2007)

However, we have to take into account that Claus Offe is not an economist, but as already mentioned above, a Marxist sociologist- he does not support his thoughts with any empirical research or evidence and he marginalizes the political and economic costs of BI implementation.

BI implementation would most probably lead to higher individuals' reservation wages. As possible consequence, people would not be willing to either work for low wages or they would not be willing to work at all if the conditions of labor were not sufficient, as happened in Jamaica.¹⁸ Therefore higher increase of income tax rate would be necessary to fund the BI costs¹⁹ and thus labor supply would decrease even more because people would be displeased to pay even higher income taxes.

4.2.3. From Conditional Cash Transfers to Unconditional BI

Based on experience in Zambia, Mexico, Brazil, Namibia and other African, American and Asian states, proponent of BI idea Guy Standing argues that conditional cash transfers schemes are both less administratively costly than food aid or vouchers projects and more appropriate solution for socio-economic crises. Cash transfers helped people in many countries to make their own choices – buy a land,

¹⁸See: Kim, N. 2007. The Impact of Remittances on Labor Supply: The Case of Jamaica. IN: *World Bank Publications* [online]. Available from:
<https://openknowledge.worldbank.org/bitstream/handle/10986/7152/wps4120.pdf?sequence=1>
[Accessed 2013-07-29]

¹⁹ See calculations of income tax rate in Chapter 7.3.5. of this thesis

attend school, repay debts, buy primary stocks which then enabled them to start their own business. Regarding the implemented cash transfer schemes mentioned by Standing- child benefits, social pension, Mozambique's GAPVU etc. - transfers definitely improved poverty, health and education levels in many countries. He states that according to the study and surveys of Statistics South Africa²⁰, various cash transfers schemes enhanced employment and labor supply (Standing, G. 2008 pp.25), but adds that disadvantage of most of these schemes is their conditionality, non-universality and sometimes the necessity of means-tests. He supports the unconditional cash transfers as they are universal while providing freedom and social justice for each citizen. Moreover, as Standing states, they are market neutral, low-cost and administratively simple, supporting the social cohesion among citizens. (Standing, G. 2008)

4.2.4. Left-Libertarian Arguments for BI

One of the philosophic arguments in favor of BI is being advocated by Brian K. Powell. He states that there are two main libertarian movements- right and left, and specifies that whereas most kinds of libertarianism would disagree with BI, the values and principles advocated by some forms of the left-wing libertarians back the BI idea. Powell suggest that common attitude among left-libertarians is that without being compensated, people cannot be dispossessed of their right to profit from Earth resources. Moreover, there should be a certain amount paid to the public if someone enjoys more than his fair share. Powell argues that it is absolutely consistent with left-libertarian „Earth belongs to all“theory, that out of the money accumulated from the rent, the BI could be paid out to every citizen According to Powell, Philippe Van Parijs does not violate the libertarian theory calling himself a „real-libertarian“ while defending BI as Parijs's reasons to establish BI are completely in compliance with libertarian pivotal principals. They both see BI as one of the probable future phases of libertarianism as it assures essential libertarian values such as self-ownership, liberty and reduction of society constraints. (Powell, B. 2011)

²⁰ The official statistical service of South Africa available from <http://www.statssa.gov.za/>

5 Analysis of the Experiments in BI Implementation

Up to date, basic income recognizes one factual implementation in Alaska (USA) and several pivotal schemes initiated in developing countries such as Brazil, Namibia or India.

5.1 Alaska and Permanent Fund Dividend

Alaska is the largest state of the USA if we consider the land area and one of the smallest states of the USA regarding the number of inhabitants. Natural resources, especially petroleum from Prudhoe Bay oil field, create one of the main parts of state economy and revenues, and therefore play an important role for Alaskan labor supply. (Goldsmith, S. 2010 pp.1, 2)

In 1976, the Alaska Permanent Fund was established in order to first, cumulate a certain annual share of money levied by taxes and royalties so that future generation of citizens would have some reimbursement in case of the depletion of resources, and second, to take part of the revenues out of the reach of legislature so that money would not be misused by the government. (Goldsmith, S. 2002 pp.1, 2)

Based on the rule²¹ established by Constitutional Amendment, the annual contribution to the fund is about 10 percent of oil-production earnings. In 1979, world recorded a huge growth of oil prices which caused that the size of Alaska revenues has grown by more than four times. Therefore, based on the idea similar to that of Alaskan governor Jay Hammond (Goldsmith, S. 2002 pp.4), in 1982, Alaska started to pay annually a permanent fund dividend (PFD) to every resident (living in Alaska at least for one year) in order to ensure that everyone will profit from the revenues of Alaskan oil-production. The first payout amounted to \$1000, since then, the dividend differs each year.²² „*The amount available for payout is half of the five-year average*

²¹Available from: <http://www.apfc.org/home/Content/dividend/dividend.cfm> [Accessed 2013-07-29]

²²PFD amounts by year available from: <http://www.apfc.org/home/Content/dividend/dividend.cfm> [Accessed 2013-07-29]

realized earnings of the Alaska Permanent Fund.”(Goldsmith, S. 2002 pp.6) The amount received by citizen is also based on the number of people who apply for grant. During the time, the payout has varied from \$331.29 (1984) to \$2069 (2008), the PFD in 2012 equaled to \$848 per citizen.²³Nowadays, the dividend became an inherent and commonly accepted part of Alaskan state policy.

Alaskan professor of Economy Scott Goldsmith stated that the consequences of dividend are uncertain as there has not been a proper survey on how the PFD is actually spent. However, he adds that commonly shared thought among economists (confirmed by the random questioning of citizens, retailers and various agents) is that people spent a big share of dividend on durable goods (cars, house equipment, clothes, vacation etc.) at the time the PFD is paid out and therefore there is not much money left to save for retirement, sickness, education etc. over the rest of the year. He considers this as an irresponsible attitude towards the grant. (Goldsmith, S. 2002 pp.9) Further, there has not been any survey on the effect the dividend has on labor supply and migration. However, no significant changes to the labor supply have been monitored since the PFD was introduced.

On the other hand, it seems to appear that PFD causes a moderate migration to Alaska. Moreover, according to Goldsmith, the proportion of elderly (over 65 years) and low-income people in Alaska population has increased. Some people even argue that labor migration is causing a decline in average real wage- it is possible that some employers lowered the wages due to the regular dividend payout. (Goldsmith, S. 2002 pp.10) As Goldsmith stated „*the average real wage in Alaska has fallen by about 10 per cent in the last decade.*” (Goldsmith, S. 2002 pp.11)

As for the positive side of PFD, in 2002, Goldsmith stated that based on the research made by American non-profit Economic Policy Institute „*in last 10 years the income of the poorest fifth of Alaska families increased by 28 per cent compared to a 7 per cent increase for the richest fifth.*”(Goldsmith, S. 2002 pp.11) This can be taken as a proof that PFD can lead to more just income distribution- Alaska belongs to the US states which recently are doing the best in this domain. Also, since the Alaska became sovereign state, the poverty rate of Native Americans declined by 6 percent (based on records from census 1980-1990). (Goldsmith, S. 2010 pp.12) Moreover,

²³Available from: <http://www.alaskadispatch.com/article/numbers-alaska-permanent-fund-dividend> [Accessed 2013-07-29]

dividend seems to be very important in rural areas of the state, where people receive low or no labor income, primarily thanks to its certainty and guarantee.

As for the aggregate impact of Alaskan dividend, on the one hand, most of the money spent by people boosts the Alaskan economy and it ensures its stability due to the grant independence from other income sources. The dividend also improves the welfare situation in harsh and rural Alaskan areas, where it is hard to find a labor. Thanks to the PFD, majority of Alaskans receive each year certain cash that form the limit below which the citizen's income cannot fall. However, due to the amount variability in some years, the dividend payout may not be big enough to ensure all „basic needs“and to prevent some citizens from falling below the poverty line. Because of that, Alaska still needs to provide some residents with a possibility to participate in a public assistance programs such as Senior Benefits Program, Food Stamps Program, the ATAP²⁴ etc. Another issue is that, after 31 years of dividend payouts, there is the evidence that the oil resources depletion approaches and as it is Alaska's only source to pay for public spending, one day it will be hard to somehow replace it. (Goldsmith, S. 2010 pp.18, 19) Also, dividend is distributed to everyone since birth and therefore many Alaskans (in particular the younger ones) do not understand its actual purpose, neither anyone in the state is used to pay for the services provided by state, nor pay the personal taxes. Therefore this may cause a lack of cooperation and misapprehension among the state, government and inhabitants. (Goldsmith, S. 2002 pp.12)

It is important to add that the most probable reason why it is still possible to fund Alaska's PFD is the state's unique location and its vast natural oil resources. The impacts of BI mentioned by Goldsmith should be taken with reserve as no surveys or researches have been conducted since the implementation of PFD and thus not any proper data are available.

²⁴ Alaska Temporary Assistance Program

5.2 Brazil-Bolsa Família and Private Pilot in Quantigo Velho

At the beginning of 2004, Brazil was the first country in the world where a law on BI was passed and therefore a citizen's right to unconditional basic income was instituted. Brazilian senator Eduardo Matarazzo Suplicy, a keen proponent of BI, was the one who had been trying to implement such welfare system schemes for over two decades. According to Suplicy, Brazil is a developing industrialized country with very serious problems in the field of poverty, health and inequality- the situation of the Brazilian nation is quite similar to that one of Africa.

In 1991, he began to promote BI through a NIT system- even though his attempt failed, it started a very rich debate among Brazilian economists, politics and many others. Bolsa-Escola (education grant) or Bolsa-Alimentação (cash grant) are the examples of fully operational schemes closely linked to BI grant. In 2001, after his re-election, Suplicy proposed a new law on BI, which was approved by the Senate as well as signed by the Brazilian President Luiz Inácio Lula da Silva. Under Brazilian BI proposal, all residents of Brazil, who have been living in the country for more than five years, receive the unconditional cash grant each month. (Suplicy, E. 2007)

From 2005 and onward, national government is working on the implementation of the transfer by means of welfare program called Bolsa Família (distribution of cash to a niche of population). (Suplicy, E. © 2005 pp.251)

By 2013, one quarter of the Brazilian population remains part of Bolsa Família program and receives cash aid regularly. (Orton, I. 2013) The transfers to families are modest on average (total amount of benefits yields to 0.4% of national GDP, 1.8% of federal government expenditure) (ILO. 2009 pp.5), but they slightly helped to improve the poverty, income distribution and inequality levels since 2004. (Soares, S. 2012)

Regarding the summary of Bolsa Família effects, prepared by The International Policy Centre for Inclusive Growth, the program has no negative impacts such as labor supply decline or increased fertility rate. Further, the program has only very modest effect on nutrition improvement and unknown effect on education probably due to the above mentioned modest size of each cash grant. (Soares, S. 2012) So far,

it is considered to be the largest cash transfer program in the world. (Soares, F., Ribas, R. & Osório, R. © 2007 pp.1)

The other case of BI influencing the social and welfare movements in Brazil was within the scope of privately held pilot project in the community of Quantiga Velho, Sao Paulo. The pilot began on the 28th of October 2008 and it was the idea of Bruna Pereira and Marcus Brancaglione, members of the ReCivitas institution.²⁵ Originally, the experiment was expected to last for one year and its initial purpose was to convince the Brazilian public about its prosperous impacts. However, the project is still operational and it is funded from the private resources accumulated in the “Fundo de Investimento Financeiro”. Members of the community are given 30 Brazilian Raeis (US\$15) monthly, without any means-tests. Unofficial results published in the article by BIEN in June 2012 state that pilot BI had improved nutrition and health levels, living conditions as well as socialization of people in the community. No negative impact has been observed. (USBIG. 2012/a)

5.3 Otjivero, Namibia-BIG Pilot Project

The following chapter is mostly based on the assessment reports and working papers of economists and aid-workers Dirk and Claudia Haarmann.

In the Haarmanns’ studies from 2005, Namibia was characterized as one of the poorest countries in the world, with two thirds of population living below the poverty line, with a high unemployment rates and not sufficient levels of labor income to ensure basic living needs. (Haarmann, C. & Haarmann, D. 2007 pp.1) In January 2008, after the decision of NAMTAX²⁶, that Namibia cannot achieve an economic growth with such a high levels of poverty, all residents of Otjivero, Namibia, who were recorded as village inhabitants in July 2007 and were younger than 60 years old, were given the first basic income grant of N\$100 (about \$13). Since then, within the

²⁵The Revitalization of the Citizenship – more information available at: <http://www.recivitas.org/> [Accessed 2013-07-29]

²⁶The Namibian Tax Consortium

scope of first BI pilot project ever, the Basic Income Grant (BIG) Coalition distributed monthly the grant to all residents of Otjivero fulfilling the conditions stated previously. The project was realized not only thanks to the financial support of association of aid organizations called BIG Coalition²⁷, but also thanks to the endorsement and subsidies of many German Evangelical churches, Lutheran communions and other foundations. (Haarmann, C. 2008 pp.7) The project supposed to last for two years (until December 2009), but due to the positive welfare results and social changes achieved in village during the first two testing years, Coalition succeeded to find more donors even after the year of 2009 and continued to distribute the grant even if in a smaller amount of N\$80 (about \$9) up until the depletion of all Coalition funds in March 2012.

The Harmaanns state that before the implementation of the pilot scheme, the village of Otjivero suffered from impoverishment and high delinquency levels, which both contributed to deep social fragmentation and sometimes even isolation of the local community. The information obtained from statistics of the local clinic, police station and primary school include the facts that before the January of 2008, the level of children malnutrition was about 42%, minority of children attended school (parents were not able to pay the tuition fees) and less than half of pupils were able to pass the school tests. (Haarmann, C., Haarmann, D., Mote, H. & Jauch, H. 2011) Many people faced serious health problems including HIV and were not financially able to get the necessary medical help.

These were the main reasons why Otjivero was chosen to be the pilot place for the BI project – despite of being a very small village with about 1200 inhabitants (2008), this site has completely reflected all the Namibian social and welfare issues.

As mentioned earlier, the results of Otjivero BIG were quite positive. The question is, whether the development and improvement made in the Otjivero community was a pure impact of basic income or whether such results would be achieved if any type of cash grant was to be introduced in an area with similar socio-economic conditions.

²⁷ Council of Churches, the Namibian Union of Namibian Workers, the Namibian NGO Forum, the Namibian Network of AIDS Service Organizations

According to the BIG Assessment Report, the living conditions of Otjivero population were improved significantly already during the first few months of the pilot scheme implementation. This information is based on the results of two surveys conducted in 2007 and 2008. As the Report states, before the pilot project started, only minor half (around 48 percent) of households had had the possibility to use electricity in their homes. With the introduction of BIG, this proportion had risen to 72 percent. (Haarmann, C. 2008 pp.42)

Furthermore, the majority of the inhabitants had had no access to a flush toilet or a latrine causing a huge problem with the spread of contaminations due to the lack of sanitation. In 2007, about 57 percent of Otjivero villagers used public toilets, in 2008 this figure dropped by 10 percentage points (Haarmann, C. 2008 pp.43) – these facts are commonly taken as a proof that ability of people to improve their home standards rose after the introduction of grant.

As referred, before the application of cash grant, the community of the village had suffered from deep social isolation. The Haarmanns stated that pilot scheme enhanced the mutual communal cooperation and inter-rural relationships as well. At the end of 2007, the villagers appointed BIG Committee, whose responsibility was to “make the pilot project work as good as possible”. (Haarmann, C. & Haarmann, D. 2012 pp.3) Community empowerment was also witnessed when the residents of Otjivero started to communicate with other Namibian villages and began to share their grant experience with the rest of the country. These were the first moments when Otjivero inhabitants started to work and communicate as single entity. (Haarmann, C. & Haarmann, D. 2012 pp.2, 3)

With the introduction of cash aid, the rate of poverty-related crimes has also notably decreased. (Haarmann, C. 2008 pp.83, 84) As to the nutrition situation of households, in 2007, only 20 percent of homes claimed that they never had problems with the access to food (Haarmann, C. 2008 pp.46) - the rest of the community experienced the lack of food at least once per week, sometimes even on a day-to-day basis. With BIG introduction the situation had notably improved – in 2008, the proportion of families who had no food shortage tripled. As a consequence, the percentage of malnourished people (children in particular) fell to 17 percent in 2008. In 2007, it was full 42 percent. (Haarmann, C. 2008 pp. 47, 50)

Another improvement was reported by the Otjivero clinic- with the cash grant, many villagers started to use the health facilities regularly as they were able to pay for the

transport to the local clinic as well as the clinic fees. Last but not the least, the school attendance of children increased as the parents were now able to pay the annual tuition fees of about N\$50) and the school drop-out rate decreased by almost 35 percentage points to 5 percent in 2008 meaning that the knowledge of children was enhanced as well. (Haarmann, C. 2008 pp.67) Since January 2008, residents of Otjivero have also started to think more on business- there was recorded an appearance and growth of new profitable activities such as retailing or dressmaking.

The pilot project in Namibia also faced much criticism, but most of it was unjustified and statistically unproved. For instance, the critics were stating that BIG could increase the alcoholism and prostitution rates in Otjivero, as well as insolvency. However, the opposite was proven. On the other hand, the criticism of people's dependency on the grant was quite rightful because people in Otjivero actually were reliant on the grant. Furthermore, there were remarks that cash aid could cause a migration into village as during the grant distribution, slight migration to Otjivero was recorded.

The Coalition's resources were exhausted in March 2012 and the project was cut despite the success the pilot has accomplished. So far, Namibian government have been refusing to fund the project from the public resources backing up this decision with arguments such as the grant could make Namibian people lazy and unbearably state dependent. (Sasman, C. 2012 pp.1) Uhuru Dempers, the coordinator of BIG Coalition, stated for the All Africa Global Media that the Coalition had no more resources left to fund or restart the pilot project at the moment, but that he hopes this situation would change with the election of new president as the leading candidate for the post had shown a deep interest in BIG. (Nunuhe, M. 2013)

5.4 India-Pilot Projects in Delhi and Madhya Pradesh Villages

In some parts of India, the economic and welfare situation is similar to that of Namibia- people are fighting the poverty and have serious health and nutrition issues.

In 2008, Self Employed Women's Association (SEWA)²⁸ in cooperation with Guy Standing decided to test whether cash transfers could be taken as a more efficient alternative to current Indian social policy. The planning process took almost three years. The unconditional cash grant pilot projects, one rural and one urban, were finally implemented in two India areas in January 2011. The rural pilot was testing the effects of implemented BI in eight villages of Madhya Pradesh in cooperation with UNICEF and the urban pilot took place in West Raghbir Nagar Slum in Delhi in cooperation with Delhi government. (USBIG. 2011)

The urban scheme gave Delhi families the opportunity to start receiving a cash transfer instead of current regular food allowances. The majority accepted the offer and therefore became a part of pilot project although the scheme was surrounded by mass of criticism and rumors as cash transfer opponents tried to discourage many participants. Every household involved in pilot received 1000 Rupees (US\$22) each month per period of one year. (USBIG. 2011)

The other pilot scheme, which was considered to be the major one, involved (directly or indirectly) villages of Madhya Pradesh. The methodology chosen for controlling the results of the experiment were randomized controlled trials, so-called RCTs. Twenty villages were allocated into control and treatment group. The treatment group consisted of eight randomly chosen villages (about 4,000 people), where each adult and every children younger than 14 years were given monthly and unconditionally- 200 Rupees (US\$4.4) and 100 Rupees (US\$2.2) respectively. (USBIG. 2011)

Furthermore, every beneficiary needed to open his own bank account to which the BIG was distributed. This was a big challenge and life experience for all transfer receivers. The rest of the villages served as a control group- no cash grants were distributed to those inhabitants during the whole testing period. In the beginning, the conductors of the pilot stated hypotheses that the miserable situation of levels of

²⁸ Indian organisation of self-employed women who do not have regular work and earn money through irregular short term employments- available from: http://www.sewa.org/About_Us.asp [Accessed 2013-07-29]

nutrition, health, school attendance and performance, indebtedness and economic activity would be amended. Nine-month interim and twelve-month final evaluation surveys were conducted in all observed villages. To evaluate the personal experience and perceptions of the grant, the pre and post evaluation surveys were carried out. (BIEN. 2013) Until now, the results of the research have not been officially published yet²⁹ but according to the video released by SEWA (Bhatt, J. 2012) the hypotheses stated above were confirmed. During the twelve months of BIG pilot project, people started to spend more on food, which caused the improvement of nutrition levels, they started to buy more clothes, took medicines regularly and visited hospital more often which ameliorated the health levels. Many beneficiaries also involved themselves in new economic activities similar to those in Otjivero, Namibia. The highest percentage of the grants was used to pay for children's education and tuition fees and the school attendance significantly rose. (USBIG. 2012/b) As in Otjivero, the resources for the grant payments were fast depleted and the decision about the continuance of project now remains in the hands of Indian government. No information about negative impact of the Indian cash transfer pilot project has been published until now, the situation can change after the Delhi Conference where the official experiment results will be published.

5.5 South Africa-Trying to Persuade for BI

In 1998, the COSATU³⁰ called for the improvement of the present South African social security system at the Presidential Jobs Summit. This call was concluded with the following declaration: *„Parties to the Jobs Summit commit themselves to implementing a comprehensive social security system, aimed especially at those living in poverty and unemployed. A Basic Income Grant may be considered as part of such a system.“* (2003. Standing, G. & Samson, M. pp.viii)

²⁹ The project will be officially evaluated at the Conference in Delhi on 30-31 May, 2013

³⁰ The Confederation of South African Trade Unions

In May 2002, after an analysis of the efficiency of current South African welfare programs, so called Taylor Report, the Committee of Inquiry came with an idea to implement a universal basic income grant for all South African inhabitants. According to this report, South Africa needed an extensive social and welfare reform to improve the current situation of poverty, health and inequality because present welfare programs did not involve the majority of needy and poor people mainly due to former Apartheid. As mentioned in the Report, monthly, each legal resident of the country would receive 100R (US\$10). This cash transfer would complement current aid grants in order to ensure that no one would receive less cash aid than under current welfare programs. Furthermore, the Committee suggested that grant could be funded through taxation and that the government of South Africa would be able to find the resources necessary to fund such a scheme. (BIG Financing Reference Group. 2004 pp.26)

Since the Taylor report has been published, the South African debate about BI implementation is flourishing. Nowadays, many BI advocates try to persuade South African government to implement BIG e.g. by pointing out how such a cash transfer improved the welfare situation in Namibia. However, the enduring question is whether the proposal is financially and macro-economically viable.

6 Negative Income Tax-Alternative to BI

Many BI advocates link the unconditional cash grant with Negative Income Tax (NIT) as its closest alternative. Due to its features, the NIT is sometimes being regarded as a potential tool of „BI implementation” in cases where BI cannot be implemented e.g. due to political reasons.

The term NIT was introduced by Nobel Prize winner Milton Friedman, but it was developed already in the middle of 20th century by British Juliet Rhys-Williams. (Tondani, D. 2008 pp.3) It refers to a type of progressive tax levied on income, where a certain income baseline is specified. Citizens who earn more income than the baseline pay the regular taxes to the government and the collected cash then serves as a complement to the guaranteed minimum transfers to the people, who earn less than the baseline. Therefore, these low-income residents receive a benefit from government in form of NIT and they do not pay any taxes. Moreover, an inhabitant who has no income would receive an amount equal to „basic income”. (Van Parijs, P. 2007 pp. 38)

The comparison of these two schemes can be taken from two points of view. Either we can compare the systems assuming the identical distributive effects or we can assume the same total costs of their implementation.

Regarding the former, Davide Tondani proved in his research paper, that both, the NIT and BI scheme, can lead to the same disposable income (given specific assumptions) and therefore both schemes can provide the same income redistributive effects. (Tondani, D. 2008 pp.7) It is interesting that, although the impacts of the schemes on beneficiaries remain identical in this case, the BI scheme results in higher total costs of implementation and hence the system also produces higher pressure on fiscal expenditures. This can be taken as a reason why NIT scheme is sometimes preferred (at least from the political point of view). (Tondani, D. 2008 pp.10) The same conclusion is also stated by Philip Harvey, who modeled BI and NIT schemes for the USA and then compared their relative costs. (Harvey, P. 2006 pp.3, 4)

In the latter case, we want to keep identical total fiscal expenditures on the introduction of both of the schemes. During his research on the differences between NIT and BI, Tondani arrived at very interesting results – the distributive effects of schemes can vary significantly. NIT system has higher impact on lowering the level of poverty whereas BI scheme is more efficient regarding the increase of labor supply, decreasing the inequality or ensuring citizenship. (Tondani, D. 2008 pp.18) Therefore Tondani violates the arguments that NIT and BI are interchangeable.

Tondani further states: *„Assuming the same net cost for both schemes, in an NIT scheme a minority of poor individuals is financed by the middle and high income taxpayer. In UBI the most affluent individuals redistribute income to middle and low income individuals.”*(Tondani, D. 2008 pp.42)

It is important to mention that the real difference among the costs and the impacts of individual schemes also strongly depends on the assessment of administrative procedures. The main criticism of NIT is that the scheme requires a lot of controlling and reporting and therefore increases the administrative costs (in comparison with BI). The commonly shared opinion of critics also involves the fact that NIT system would require a complete and thus very extensive change of each country's tax system which would be very difficult. Some critics also point out that NIT (much like BI) can result in a working disincentive and can lead people to keep their income only at the lowest poverty level in order to receive the highest benefits. So far, few NIT experiments took place in the USA at the end of 20th century and most of the experiments results reflected the critics' arguments.

7 Excel Model of Basic Income Based on Czech Data

The empirical part of the thesis includes an Excel model simulating the effects of BI scheme adoption in the Czech Republic. In the analysis, I constructed the family incomes by deciles, using their existing work/leisure choice. I did not attempt to analyze any behavioral changes that might follow from the BI introduction.

7.1 Data Sources

The Czech Statistical Office (CSO) conducts an annual household budget survey and publishes the data about the distribution of the income in the Czech families. The data are available on the www.czso.cz and served as the main source for the construction of the model. More precisely, the 2011 data of the household incomes and expenditures by income deciles were used.

The current tax and social contribution rates (as of May 2013): (flat) income tax is 15% (2013. Marková, H pp.21) and the total compulsory social and health insurance amounts 45% (from which 11% pays employee, 34% pays employer)³¹, these data were used in model computations as well.

7.2 Model Assumptions

To simplify the model, the following was assumed:

1) the data published on www.czso.cz serve as a complete source of Czech households' incomes and expenditures, therefore I use only this source for all my computations

³¹ 1997. Zákon o veřejném zdravotním pojištění; 1992. Zákon o pojistném na sociální zabezpečení a příspěvku na státní politiku zaměstnanosti

2) regarding the point one, the public budget calculated and presented in the model is based solely on the above mentioned data, no other public expenditures and incomes were taken into account

3) with the introduction of BI, the only income people receive is the income from their employment and basic income, thus all other social incomes (such as pensions, sickness benefits, unemployment benefits, state social support benefits etc) as well as compulsory health and social insurance are cancelled after the implementation of BI (BI serves as compensation of all social transfers)

4) the total population substitution elasticity of labor supply is 0.3 – this percentage equals to the maximum of the substitution elasticity range $< 0.1; 0.3 >$ taken from the recent review on labor supply elasticities conducted in the USA in October 2012 by the members of US budget office Robert McClelland and Shannon Mok. (McClelland, R. & Mok, S. 2012 pp.30)

It is important to remark that the estimates of labor supply elasticities vary significantly across all available economic literature due to the fact that each survey is conducted using the estimation for different time periods or various types of data (Bargain, O., Orsini, K. & Peichl, A. 2012 pp.5; appendix pp.6-9)

5) government expenditures on BI cash grant are fully compensated by the increase in the tax levied on labor income, no other source of BI funding (e.g. increase in other kinds of taxes such as sales tax) is taken into account

6) BI implementation have neutral impact on government budget, therefore the size of government budget both before and after the introduction of BI is identical

7.3 Model Description

Whole model is divided into seven parts- six of them are computing sections, the last one is the final comparison part whereas all of them are subsequently connected.

7.3.1. Section no.1- Income Distribution 2011

The first section of the model (see Table 1) summarizes the total distribution of net money income per person in each household - divided into deciles. The data such as average gross income per person in household, income tax and prepaid insurance were taken from the 2011 household budget survey published on www.czso.cz. The amounts of average net incomes (NI) per deciles were calculated using the following formula:

$$NI = GI - \text{income tax} - \text{insurance}$$

As mentioned above, currently (May 2013) each Czech citizen obligatorily pays 11% on insurance from his own resources and the rest, 34%, is paid by employer. For the subsequent calculations, the amounts of actual average percentages of insurance paid by employees were needed as the survey made by CSO includes only averaged data on income. Thus the following formula was used per each decile of data:

$$\text{Averaged \% of insur. paid by employees} = \frac{\text{insurance}}{GI}$$

The first section also includes the information about the 15% tax levied on income, and the amounts of „super” gross income and budget income that were calculated using the data from the Section no.2.

| Table 1 Distribution of net money income | | | | | | | |
|---|--|---------------------------------------|--|------------------|----------------------------------|--|-----------------|
| Deciles | Hrubý peněžní příjem na osobu domácnosti | Superhrubý příjem na osobu domácnosti | Čistý peněžní příjem na osobu domácnosti | Daň z příjmů 15% | Pojištění soc. 6.5%, zdrav. 4.5% | Aktuální průměrné % SP ZP z hrubé mzdy použité ve statistice | Sazba daně v ČR |
| | Gross Income | Super Gross Income | Net Income | Income tax | Insurance | Aver. % of Insur | Tax rate |
| Nepříjímá, Lowest 10% | 72,125 | 84,195 | 68,776 | -556 | 3,905 | 5.41% | 15.00% |
| | 109,913 | 133,101 | 100,170 | 2,241 | 7,502 | 6.83% | 15.00% |
| | 129,912 | 155,251 | 117,333 | 4,381 | 8,198 | 6.31% | 15.00% |
| | 138,489 | 157,572 | 128,459 | 3,886 | 6,174 | 4.46% | 15.00% |
| | 148,059 | 168,655 | 136,824 | 4,507 | 6,728 | 4.54% | 15.00% |
| | 159,721 | 183,694 | 146,193 | 5,772 | 7,756 | 4.86% | 15.00% |
| | 179,375 | 210,889 | 160,909 | 8,287 | 10,199 | 5.69% | 15.00% |
| | 209,771 | 254,643 | 181,997 | 13,192 | 14,582 | 6.95% | 15.00% |
| | 253,546 | 314,389 | 214,240 | 19,628 | 19,678 | 7.76% | 15.00% |
| Nejvyšších, Highest 10% | 375,985 | 463,031 | 315,154 | 32,669 | 28,162 | 7.49% | 15.00% |
| Celkem/ In Total: | | | | 93,957 | 112,884 | | |
| Příjem rozpočtu/ Government Income 2011: | | | | 555,755 | | | |

Table 1: Income Distribution 2011

Source: (ČSÚ. 2012) – completed by own calculations

7.3.2. Section no.2 – Government Budget 2011

Second part of the model (see Table 2) includes the data concerning the government budget. The data on pensions, sickness and unemployment benefits (paid by Czech Social Security Administration), wage compensations during sickness (paid by employees), state social support benefits and other social income were taken from the statistic survey mentioned in chapter 7.1. The amounts of total social expenses per decile were calculated as follows:

$$\textit{Total soc. expen} = \textit{Pensions} + \textit{\forall benefits} + \textit{state soc. support} + \textit{other}$$

The averaged amounts of insurance paid by employers per decile were calculated using the formula below:

$$\textit{Avg amn. of insur. employers} = \frac{34}{11} * \textit{Averaged \% of insur. employees}$$

Thus the “super” gross income (SGI) figures per decile, which are stated in the Table 1, were calculated as:

$$\textit{SGI} = \textit{GI} + \textit{Avg amn. of insur. employers}$$

The total government expenses on social incomes are equal to 461,833 CZK (calculated as the sum of total social expenses from deciles 1-10).

The total government income in Section no.1 is equal to 555,755 CZK. The figure corresponds to the sum of all 15% income taxes and 45% of obligatory insurance paid by each decile.

Therefore the overall government budget of 2011 amounts to 93,922 CZK. The following formula was used for the budget computation:

$$\textit{Overall budget} = \textit{total govern. income} - \textit{total govern. expenses}$$

| Table 2 ROZPOČET / GOVERNMENT BUDGET 2011 | | | | | | |
|--|---|----------|---|--|-------------------------------|----------------------|
| Průměrné přepočítané příjmy státu ze SP ZP od zaměstnavatelů | Výdaje na soc.příjmy celkem | Důchody | Dávky nemocenského pojištění a náhrady mzdy při pracovní neschopnosti | Hmotné zabezpečení uchazečů o zaměstnání | Dávky státní sociální podpory | Jiné sociální příjmy |
| Averaged amount of paid insurance - employers | Government expenditures on social incomes | Pensions | Sickness benefits and wage compensations during sickness | Unemployment benefits | State social support benefits | Other social income |
| 12 070 | 18 197 | 4 777 | 1 043 | 883 | 10 024 | 1 461 |
| 23 188 | 18 242 | 8 532 | 1 712 | 589 | 6 374 | 935 |
| 25 339 | 37 071 | 31 971 | 1 407 | 564 | 2 888 | 441 |
| 19 083 | 64 889 | 60 472 | 1 239 | 161 | 1 968 | 1 089 |
| 20 796 | 73 226 | 68 136 | 849 | 40 | 2 998 | 1 213 |
| 23 973 | 72 419 | 67 381 | 1 974 | 455 | 2 397 | 212 |
| 31 524 | 61 565 | 56 714 | 1 606 | 402 | 2 405 | 378 |
| 45 072 | 46 223 | 40 665 | 2 804 | 133 | 1 302 | 1 129 |
| 60 823 | 34 670 | 28 393 | 3 650 | 730 | 1 108 | 789 |
| 87 046 | 35 371 | 28 950 | 2 805 | 527 | 1 064 | 1 924 |
| 348,914 | | | | | | |
| Výdaje na soc.příjmy: Government expenses | 461,833 | | | | | 93,922 |
| | | | | Rozpočet Government Budget 2011: | | |

Table 2: Government Budget 2011

Source: (ČSÚ. 2012) – completed by own calculations

7.3.3. Section no.3 – Basic Income Introduction

Third part of the model (see Table 3) shows the situation, where every Czech citizen receives a basic income of 8,333 CZK per month (that is 100,000 CZK per year). The final amount of cash grant was established at this level by estimation so that citizens were able to satisfy all their basic needs when not having the access to labor income. As compared to the current situation in the Czech Republic, the minimum living standard benefit which everybody is entitled to, under certain circumstances, amounts to 3,410 CZK ³²and should ensure all essential needs as well, thus the level of BI mentioned above is twice as large as this amount. The first reason for such level of BI is that under the above proposed system, as stated in the assumptions of model, both, the compulsory insurance payments and all social incomes (except for BI) are cancelled, therefore BI transfer needs to somehow compensate all current social incomes so that people could provide themselves with the same life standard as under current situation. Another reason for the above stated level of BI is the simplicity of the model.

Now, the total net money income per person in each decile differs in comparison with the situation stated in Section no.1 and no.2.

New annual net money income (BNI) per person and decile was calculated as:

$$BNI = BI + \text{New SGI} - \text{New income tax}$$

Where:

-New SGI refers to the SGI (before the implementation of BI) decreased by the amount of total government expenditures on social incomes from Table 2, per each decile

-New income tax refers to the amount levied on income by the increased income tax (the tax rate was increased as a consequence of BI introduction). As stated in the model assumptions, the increased income tax is regarded as the only source for BI funding – the calculation is shown in Section no.4

³² 2006. Zákon o životním a existenčním minimu

7.3.4. Section no.4 – Government Budget after BI Introduction

According to the previously stated assumptions, in the fourth part of the model (see Table 4), the new level of income tax that is required in order to fund the BI expenditures was calculated. Calculation of the increased tax rate was the main purpose of the model in the thesis. The tax is calculated so that the BI transfers have neutral effect on the government budget.

Thus, after the introduction of 8,333 CZK BI per month, the overall government budget equals to 93,899 CZK which is nearly the same budget surplus as in Section no.2. To achieve the budget neutrality, the income tax rate of 65.74% was estimated as to balance total budget revenues and expenditures.

Further, when BI is paid out, the only expense of government is the expense on BI itself (I suppose that all model assumptions hold), hereby:

$$\text{Government expenditures} = \sum_{decile\ 1}^{decile\ 10} BI\ paid\ out$$

In the same way, the amount of government income was computed as:

$$\text{Government income} = \sum_{decile\ 1}^{decile\ 10} NSGI * 65.74\ \%$$

In this case, the level of income tax equals to 65.74% however no labor supply reaction effect was assumed. The labor supply reaction caused by the implementation of BI is included in the computations of Section no.5. As the above mentioned level of income tax is four times bigger than current income tax rate, the government would definitely face a huge public disagreement if tried to implement the scheme.

| Model BASIC INCOME | | | | |
|---|--------------------|---------------------------------------|--------------------------------------|---------------------------------|
| No Labor supply reaction, daň 65.74% | Nepodmíněný příjem | Superhrubý příjem na osobu domácnosti | BI daň ze superhrubého příjmu 65.74% | Celkově osobě zbude |
| No Labor supply reaction, income tax 65.74% | Basic income | Super Gross Income NSGI | Super Gross Basic Income tax | New net money income (Basic NI) |
| Nejnižších ,Lowest 10% | 100,000 | 65,998 | 43,387 | 122,611 |
| | 100,000 | 114,859 | 75,508 | 139,351 |
| | 100,000 | 118,180 | 77,692 | 140,489 |
| | 100,000 | 92,673 | 60,923 | 131,750 |
| | 100,000 | 95,619 | 62,860 | 132,759 |
| | 100,000 | 111,275 | 73,152 | 138,123 |
| | 100,000 | 149,394 | 98,212 | 151,182 |
| | 100,000 | 208,620 | 137,147 | 171,473 |
| | 100,000 | 279,699 | 183,874 | 195,825 |
| Nejvyšších, Highest 10 % | 100,000 | 427,660 | 281,144 | 246,516 |

Table 3: Basic Income Introduction

Source: Own calculations

| ROZPOČET/ GOVERNMENT BUDGET | | | |
|-----------------------------|------------------------|---|---|
| Deciles | Výdaje na Basic income | Příjmy rozpočtu s BI, daň z příjmu 65.74% | No labor supply reaction |
| | Government expenditure | BI: Government income, income tax 65.74% | 65.74% |
| Nejnižších ,Lowest 10% | 100,000 | 43,387 | |
| | 100,000 | 75,508 | |
| | 100,000 | 77,692 | |
| | 100,000 | 60,923 | |
| | 100,000 | 62,860 | |
| | 100,000 | 73,152 | |
| | 100,000 | 98,212 | |
| | 100,000 | 137,147 | |
| | 100,000 | 183,874 | |
| Nejvyšších, Highest 10 % | 100,000 | 281,144 | Rozpočet s BI/ Government budget with BI: |
| Celkem/ In total: | 1,000,000 | 1,093,899 | 93,899 |
| Měsíčně/ Monthly: | 8,333 | | |

Table 4: Government Budget after BI Introduction

Source: Own calculations

7.3.5. Section no.5 – BI and Labor Supply Reaction Effect

Fifth section of the model (see Table 5), adds a very common and important consequence of BI implementation- the labor supply reaction. We relax out unrealistic assumption from the previous section and allow labor supply to adjust to the new BI system and also to new (and higher) taxes.

When any kind of unconditional cash grant is introduced, some people will definitely decide to keep this grant as their only source of income, hence they will quit the labor force. This means that they will have no labor income, therefore both the total level of taxable income and the total government income from taxes will be reduced. As a result, even higher income tax rate (compared to the income tax derived in Section no.4) will be necessary to cover the BI costs. The elasticity of labor supply of 30% was used in the model computations based on the recent research made by Robert McClelland and Shannon Mok (as previously mentioned in the model assumptions).

With 0.3 elasticity of labor supply (ELS), the new net money income (BNI) per person and decile is significantly decreased by following:

$$\begin{aligned} \Delta Labor\ income_{0.3\ ELS} &= NSGI * (Averaged\ \%\ of\ insur.\ paid\ by\ employees \\ &+ 15\%_{income\ tax}^{current} - 65.74\%) * 30\%_{ELS} \end{aligned}$$

As a consequence, the NSGI is lowered as well:

$$NSGI_{after\ LS\ reaction} = NSGI - \Delta Labor\ income_{0.3\ ELS}$$

If not accounted for the drop in the labor force caused by further income tax increase, the government budget would result in deficit -51,022 CZK after the BI implementation.

In order to reach the neutral effect on government budget, the income tax has to be increased up to 79.6 %, as shown in the second part of the Table 5. The overall budget then amounts up to 93,978 CZK, nearly the same amount as the surplus in

Section no.2. It is important to remark that almost certainly no politician would be able to pass a law implementing the 80% income tax rate considering that even current rate of 15% tax has many opponents and critics.

| Table 5 | | ROZPOČET/ GOVERNMENT BUDGET | | BI and Labor Supply Reaction Effect | | | |
|---|---|--|--|--|---|---|--|
| BI nahrazuje veškeré soc. Příjmy/ BI and no other social Incomes | | LABOR SUPPLY REACTION | | NAVŠENÍ DANĚ kvůli labor supply reaction/ Increase of tax rate due to labor supply | | | |
| Snížení státní příjmy na daní z příjmu o labor supply reac 30% při 65,74% daní /Decrease in government income due to 30% labor supply reac, tax rate 65,74% | Změna nabídky práce/ Change in labor supply | "Čistý příjem z práce" po LS reaction/ NSGI after LS reac. | BI daní z "čistého příjmu"/ Income tax from NSGI after LS reac. 65,74% | Změna nabídky práce / Change in labor supply | Čistý příjem z práce/ NSGI after LS reac. | BI daní z čistého příjmu po LS/ Income tax from NSGI after LS reac. 79,6% | |
| -144,920 | -8,974 | 57,024 | 37,487 | -11,718 | 54,280 | 43,207 | |
| nutřebavýšení daně | -15,132 | 99,727 | 65,561 | -19,908 | 94,951 | 75,581 | |
| required increase in tax rate | -15,752 | 102,428 | 67,336 | -20,666 | 97,514 | 77,621 | |
| | -12,867 | 79,806 | 52,464 | -16,721 | 75,953 | 60,458 | |
| | -13,252 | 82,367 | 54,148 | -17,227 | 78,391 | 62,399 | |
| | -15,317 | 95,958 | 63,083 | -19,944 | 91,331 | 72,699 | |
| | -20,192 | 129,202 | 84,937 | -26,404 | 122,990 | 97,900 | |
| | -27,405 | 181,214 | 119,130 | -36,080 | 172,540 | 137,342 | |
| | -36,063 | 243,635 | 160,166 | -47,693 | 232,006 | 184,676 | |
| | -55,489 | 372,172 | 244,666 | -73,271 | 354,389 | 282,094 | |
| Celkem/ In total: | | | 948,978 | | | 1,093,978 | |
| BUDGET/Rozpočet - 65,74% tax +labor supply 30%: | | required increase in tax rate | | BUDGET/Rozpočet se 79,6% tax+labor supply 30%: | | 93,978 | |
| | | | | | | -51,022 | |

Table 5: BI and Labor Supply Reaction Effect

Source: Own calculations

7.3.6. Overall Summary of Avg. Net Money Income–BI&LS Reaction

The last computing part of the model includes the overall summary of citizen's yearly average net money income per decile ($BNI_{BI,0.3\ ELS,tax}$) after the BI introduction, maintaining the elasticity of labor supply at 0.3 and increasing the income tax rate to 79.6 %.

Then

$$BNI_{BI,0.3\ ELS,tax} = BI + NSGI_{after\ LS\ reaction} - (NSGI_{after\ LS\ reaction} * 79.6\%)$$

| Table 6 model BASIC INCOME | | | | |
|---|---------------------------------|---|---|---|
| Labor supply reaction 30%, daň/ income tax 79.6% | Základní příjem Basic income | Čistý příjem z práce NSGI after LS reac. | BI daň z čistého příjmu/ Income tax from NSGI after LS reac: 79.6% | Celkově osobě zbude/ BNI Lab.supp.reac. |
| Nejnižších ,Lowest 10% | 100,000 | 54,280 | 43,207 | 111,073 |
| | 100,000 | 99,727 | 65,561 | 134,166 |
| | 100,000 | 102,428 | 67,336 | 135,092 |
| | 100,000 | 79,806 | 52,464 | 127,342 |
| | 100,000 | 82,367 | 54,148 | 128,219 |
| | 100,000 | 95,958 | 63,083 | 132,875 |
| | 100,000 | 129,202 | 84,937 | 144,265 |
| | 100,000 | 181,214 | 119,130 | 162,084 |
| | 100,000 | 243,635 | 160,166 | 183,470 |
| Nejvyšších, Highest 10 % | 100,000 | 372,172 | 244,666 | 227,506 |

Table 6: Summary of Avg. Net Money Income- BI&LS Reaction

Source: Own calculations

7.3.7. Section no. 7 - Comparison Table and Results

Final section of the model (see Comparison Table) presents a table which compares the current income situation per person and decile in the Czech Republic and the situation presented by the model.

The current situation is described by 15% income tax rate assuming that all social incomes presented in the Table 1 are distributed by government. The current average net income per person was derived using the following formula per each decile:

$$Avg\ NI\ per\ person_{current} = \frac{NI_{section\ no.1}}{12_{mont\ hs}}$$

The modeled situation represents the introduction of BI replacing the current social incomes, 79.6% income tax rate and 0.3 labor supply reaction. The modeled average net income per person was calculated by the following formula per each decile:

$$Avg\ NI\ per\ person_{modeled} = \frac{BNI_{BI,0.3\ ELS,tax-Section\ no.6}}{12_{mont\ hs}}$$

According to the overall results shown in the Table 7, the average change in citizen's monthly net money income differs across the individual deciles. The lowest three income deciles of the society are better off in the modeled situation while the rest of the society has higher average monthly incomes under the current situation. The average fall in net money income for each decile equals -700 CZK. The net loss of income is caused by a lower national labor supply which leads to a lower output and lower incomes.

| | Actual situation - 15% income tax+ all social incomes included | BI introduction - 79.6% income tax+ BI | |
|------------------------|--|---|--|
| Comparison Table | Současný stav - 15%daň+veškeré soc.příjmy | BI stav-79.6% daň+ BI | Change in income in comparison with the actual situations |
| | Měsíční čistý příjem na osobu domácnosti, Averaged net money income per person and month | Měsíční čistý příjem na osobu domácnosti,Averaged net money income per person and month | Změna oproti současnému stavu |
| Nejnižších ,Lowest 10% | 5,731 | 9,256 | 3,525 |
| | 8,348 | 11,181 | 2,833 |
| | 9,778 | 11,258 | 1,480 |
| | 10,705 | 10,612 | -93 |
| | 11,402 | 10,685 | -717 |
| | 12,183 | 11,073 | -1,110 |
| | 13,409 | 12,022 | -1,387 |
| | 15,166 | 13,507 | -1,659 |
| | 17,853 | 15,289 | -2,564 |
| Nejvyšších | 26,263 | 18,959 | -7,304 |
| | | | -700 |
| | | | Averaged change in income per decile Průměrná změna pro decil |

Table 7: Comparison Table

Source: Own calculations

7.4 Model Results-Summary

According to the results published above, an implementation of BI in the Czech Republic would have various impacts on the welfare/income situation of the citizens. As previously stated, the lowest three deciles of the society (division by net income per person) would be most likely better off if provided with the BI grant. In the modeled situation, they would receive monthly income by 1,480 - 3,525 CZK (on average). On the other hand, the majority of the society would be affected by either moderate or strong income declines. The middle deciles of the society would experience an income decline smaller than 1000 CZK per month, citizens who currently receive more than 12,183 CZK per month (on average) would face much stronger income reductions (from 1,110 CZK, for the sixth decile, up to 7,304 CZK, for the highest decile).

I think that those results totally correspond with the arguments that BI might work as a government tool for the improvement of very poor poverty levels and unequal income distribution. Under BI, the poorest people of the society would be given on average more, thus such a cash grant could help people to improve their lives, maybe to move them above the poverty line. Contrariwise, the rest of the society would be worse off under BI scheme, which would definitely affect their lives and behavior as well, as their monthly incomes would on average significantly depress.

The model outcome is very interesting as even if I counted with a BI that is two times bigger than a current minimum living wage benefit, the overall net income effect is still negative. I am not very convinced that such a scheme is both feasible and politically acceptable not only in the Czech Republic, but also in any similar country. However, I definitely support the arguments that the unconditional basic income scheme would both simplify the administrative procedures and reduce the costs related to the current welfare policy and bureaucracy. Within the BI scheme, there would be no need to clarify that someone is poor, middle-class, disabled, ill, unemployed, retired etc. Due to the model assumptions, it is impossible to assess the impact the introduction of BI has on labor supply or on any other type of people's behavior (e.g. on consumption or spending), nevertheless this was not considered to be the aim of this thesis.

8 Conclusion

Basic income is revenue paid out by national institution unconditionally to all members of the society in the same amount regardless whether the given person is wealthy or poor, living alone or having family, willing to work or not working at all. Further, it is an idea that recently unleashed a worldwide controversial discussion among economists, politics, sociologists and general public. The issues of basic income are its economic costs, feasibility and advisability. These are probably the reasons why, up till now, there is only one basic income implementation- in Alaska- and a few pilot projects in developing world.

The goal of this thesis was to introduce and describe the theme of basic income with all its characteristics and implementations and also to model out the simple situation of BI introduction in the Czech Republic.

The first part of the thesis, the theory, includes topics on basic income definition, history, organizations, current worldwide discussion, basic income implementations and its alternative. The simple model of basic income based on Czech Republic data, whose purpose was to specify a level of income tax rate required to compensate the BI costs, was covered in the empirical part of the thesis.

The results of the model quite correspond with the arguments of basic income opponents. Regarding the model assumptions stated above, it would be very expensive and demanding to implement basic income in the Czech Republic with a view to provide people with at least the same living standard as under current situation. Comparing to the actual tax rate of 15% that is levied on income, we would have to raise the tax level up to 79.6% in order to be able to fund annual government expenses on BI. Such high level of taxes would probably discourage people from working and as a consequence another increase in income tax would be necessary. Rationally, citizens would probably not be satisfied with such kind of politic system. Further, the annual allowance of 100,000 CZK of BI per each Czech citizen (that is 8,333 CZK per month) would have an overall negative income effect for the Czech society as only first free deciles of the inhabitants would benefit from the cash grant, the remaining deciles would consist of people who would have to fund the BI system

from their labor income. However, this result conform with the thoughts that BI could help people to raise themselves above the poverty line as the poorest people of the Czech community would be better off with BI than under current system.

Even though the concept seems to be very impractical in the Czech Republic, it is important to remark that this model contains several strict assumptions and therefore it is impossible to draw a final conclusion on whether BI should or should not be implemented in the country. For my master thesis, it would be very interesting to construct a more complex and realistic model by relaxing the previously stated assumptions as it would provide us with a stronger conclusion. Further research into the BI topic and the extension of its funding options such as sales taxes, value added tax, consumption tax etc. could be included as well.

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