

Experimenting with Basic Income Inspired Experiments

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I. INTRODUCTION

In the present contribution we want to make clear why the Utrecht social assistance experiment What Works, although inspired by the idea of basic income, is not a proper basic income experiment. Subsequently, we offer a broad sketch of what such a basic income experiment might look like and what it might add to the existing body of knowledge.

II. THE BASIC INCOME INSPIRED EXPERIMENT: *WHAT WORKS?*

Over the past five years, we were responsible for the scientific part of the Utrecht experiment What Works, which can be seen as a social assistance experiment inspired by the idea of basic income.¹ The study aimed at answering the following question: what is the best way to guide people on social assistance (back) towards paid work or other forms of social participation? 752 individuals entitled to social assistance in Utrecht volunteered to participate and were randomly divided into four different treatment groups. Each group received a different treatment for sixteen months. The four treatments applied were:

- i. Measuring What Works – In this group, the current laws and regulations and the prevailing method of counselling remained unchanged. We therefore also refer to this group as the control group.
- ii. Autonomously in Action – In this group, participants received an exemption from the obligation to find and accept work, and were

- free to choose whether or not they wanted to be counselled by the municipality's welfare agency.
- iii. With Extra Help in Action – The approach in this group was aimed at extra help and guidance, among other things, through the deployment of permanent caseworkers, additional tools and programmes, more room for manoeuvre for caseworkers and more contact between caseworkers and client.
 - iv. Work Pays Off – Participants in this group were allowed to keep a larger part of their income from work as extra income on top of their benefits and to do so for a longer period of time.²

According to Basic Income Earth Network (B.I.E.N.), a basic income is a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement. If we now confront our experimental treatments with the definition of basic income, we note that they deviate from what we understand to be a UBI in three regards: First, social assistance benefits are not universal (paid to all, rich and poor, without means test), and all participants in the experiment were recruited among the group entitled to these benefits, so excluding for instance full-time workers and almost all part-time workers. The small amount of earnings that could be kept on top of the benefit in the treatment Work Pays Off is a far cry from the unlimited amount that can be earned on top of a basic income. Second, the benefits are not individual (paid on an individual basis, irrespective of household composition), as the benefit payment received by claimants depends on household composition, where a two-person household on welfare receives less per person than a single person household due to economics of scale in consumption. Lastly, the benefits we experiment with are not unconditional (paid without a requirement to work or to demonstrate willingness-to-work). The only experimental group salient from that perspective is the group Autonomously in Action, due to its exemption from the obligation to find and accept work and also being exempted from the duty to participate in reemployment activities. Even for this group, the Dutch Ministry of Social Affairs and Employment insisted that we contacted all participants once per half year to check whether they employed any activities at all.

Despite the very limited overlap between a full-fledged basic income experiment and the experiment What Works, it is still interesting to highlight a few outcomes.

- i. In all three interventions, there are positive results that indicate increased labour participation.
- ii. More autonomy for claimants, as well as more room for manoeuvre and time for caseworkers, lead to positive effects on several dimensions. The effect of a financial incentive is limited to more small jobs.
- iii. More autonomy for claimants increases the chance of a permanent contract.
- iv. The treatments With Extra Help in Action as well as Autonomously in Action work particularly well for those with lower levels of education.

In the end, the experiment conducted in Utrecht was not so much focused on pending questions on basic income, but more focused on the question whether an alternative way of providing social assistance benefits can deliver satisfactory results. Contrary to the carrot-stick-monitoring-sanctioning rationale embodied in the social assistance regulations and therefore also relevant for the control treatment, the experimental treatments were more based on trust and personal autonomy and allowing for choices beyond paid work.

III. SKETCH FOR A BASIC INCOME EXPERIMENT

Widerquist (2018, especially chapter 11) does an excellent job explaining why a basic income experiment cannot answer questions like “Should we implement a basic income?” or “Does it work?”. A whole battery of ethical issues are relevant for the ‘should we do it’ question, which cannot be answered by field experiments. Mainly due to the absence of community and general equilibrium effects in a small scale experiment, the ‘does it work’ question cannot be answered. Widerquist (2018, 137) therefore

invites us to combine findings from field experiments with outcomes using different research methodologies. Back-of-the-envelope calculations (recently OECD 2017; IMF 2017; Martinelli 2017; Widerquist 2017) are conducted under the assumption that behaviour does not change. Studies which do allow for behavioural changes are simulation studies using a general equilibrium model (de Mooij 2006; Jongen *et al.* 2015; Islam and Columbino 2018), in which some of the community effects are taken into account, e.g. the market response to a decline of labour supply among net recipients of a basic income scheme. However sophisticated these models might be, the parameters feeding the simulation models are still obtained from observed behaviour in a non-UBI economy. Additionally, much is not in the model, e.g. health effects. It would be interesting if the parameter values, e.g. the labour supply elasticities or so called deep structural parameters to address the Lucas critique, could be obtained by laboratory experiments. Although there are now a few interesting studies (e.g. Haigner *et al.* 2012; Jokipalo 2019), this endeavour is still in its infancy. Widerquist also mentions “[...] qualitative, ad hoc, logical, heuristic discussion of the probable causes and effects involved” (2018, 137). For instance, the freedom claim and the reciprocity objection claim raised against basic income is true by definition: “UBI set at a sufficient level, undoubtedly gives non-wealthy people greater control over some aspects of their lives, increasing freedom in the sense used in the freedom claim [...] The same UBI makes it possible for nonwealthy people to consume products that involve labor without themselves contributing labor, violating the reciprocity principle in the sense used in that claim. No empirical investigation can settle the disagreement over the moral value of these senses of freedom and reciprocity” (Widerquist 2018, 107).

To take stock, UBI field experiments, contrary to static back-of-the-envelope calculations allow for changes in behaviour (this is the whole point of the treatment effect) and contrary to general equilibrium models you do not need to plug in or assume behaviour, e.g. imputed labour supply elasticities. Instead, you simply observe what they do under a UBI

trial. What you can conclude from a basic income experiment is a difficult issue extensively dealt with in Widerquist (2018), but the point stands that its limitations are different from the other approaches.

The strategy of Widerquist (2018) is to supplement experimental UBI outcomes with outcomes from the other approaches. In the proposal outlined below, we follow a slightly different strategy, namely that the groups to be included in a UBI experiment are those for which there is the most controversy in the debate with respect to how they would react to a basic income. The four partially overlapping categories for which the most interesting outcomes are to be expected are (part-time) working women, workers with an earned income close to the break-even point, families with young children, and finally starting self-employed. For the part-time workers and all workers with earned income close to the break-even level, one can reason that the same reduction in working hours under a basic income scheme will lead to a lower drop in net income compared to the present scheme. The reason is that under the present scheme without basic income, if you reduce your working week from say four to three days, your net income also falls by approximately a quarter. Under a basic income scheme however, only a quarter of net income earned on top of the basic income is lost. Since the basic income is unaffected and part of total net income, the reduction in total income is less than a quarter. This explains why all general equilibrium simulation models by the Netherlands Bureau of Economic Policy Analysis predict a strong negative labour supply response among women. A basic income experiment that focuses on the labour supply response of women, of part-time workers and on workers with earned income below the break-even level can provide more information about whether these predicted effects really materialize.

For the same reason, it would be interesting to include families with young children in the experiment. If there is one category for which a negative labour supply response is to be expected, it is the group which is in the rush hour of life. They do not only have to look after their own

children, but also to their parents while at the same time being at the start of their professional careers. Using the same argument as before, to reduce working time is less costly under a basic income scheme than under the present scheme, while the opportunity cost of time is particularly high in the rush hour phase of life.

Finally, there is considerable debate whether a basic income would be conducive to small scale entrepreneurship. This argument is often made by supporters of basic income, but the outcomes of a natural experiment among Win for Life lottery winners did not show an increased propensity to start your own business (Marx and Peeters 2004; 2008). The theory here is quite straightforward. Under a basic income scheme, small scale entrepreneurship becomes less risky and more viable, especially in the start-up phase, since you can always fall back on the secure stream of basic income receipts. For the experiment, you can invite prospective entrepreneurs to participate and randomly allocate them to the basic income treatment and the control treatment without basic income.

IV. BASIC INCOME ON THE AGENDA

On the eve of the 10th BIEN 2004 conference, a special workshop ‘Towards a European Basic Income Experiment’ (Barcelona – 18 September 2004) was organized, funded by the European Science Foundation, about the question whether or not to launch a basic income experiment in Europe.³ The main motivation behind the workshop was not only to address the at that time radical uncertainty around the economic feasibility of UBI, but also as a possibility to get basic income on the agenda. Despite the outcomes of the NIT experiments in the USA in the early 1970s, according to Atkinson, “The NIT experiments are generally considered to have reduced the range of uncertainty surrounding the response of hours of work to taxation [...] However, [...] there is no necessary reason to expect the results to apply equally in a European context. Those interested in a BI/FT [BI/flat tax] scheme in Europe might like to consider launching

such an experimental research project, which would serve both to throw light on the economic effects of the reform and to demonstrate how it would work in reality” (1995, 150). Taking into account the limitations of a basic income experiment identified by Widerquist and the danger of spin, miscommunication and the streetlight effect, we still believe that a basic income experiment targeted at particular groups for which there is the most controversy with respect to how they would respond, can be useful to reduce the uncertainties surrounding a as yet merely theoretical proposal.

As a final note, we also think a basic income field experiment has value compared to other strategies to get UBI on the agenda. There are roughly three strategies. The first is the Royal Way, spelling out the pros and cons, with the main focus on the ethical debate. The second strategy is Implementation by stealth/through the back door, supporting gradual steps that bring UBI closer, e.g. refundable tax credits, individualized taxation, etc. To launch UBI experiments can be seen as a third strategy to get basic income on the agenda. For the strategy to get it on the agenda, it is strictly not necessary to have a RCT,⁴ which scientists like because it is the gold standard, but it is the warranted method to address a main controversy in the labour supply response to basic income. Although the experiment conducted in Utrecht was inspired by the idea of basic income, its aim in the end was far more modest, namely to research whether the provision of minimum income support can be improved. Thanks to basic income, how to guide people on social assistance (back) towards paid work or other forms of social participation is again on the agenda.

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NOTES

1 Some of the confusion started when the Alderman for Social Affairs, Victor Everhardt, announced at a press conference in 2015 that the City of Utrecht wanted to launch a basic income experiment awaiting approval by the central government. Thanks to the resilience of Everhardt the experiment *What Works* kicked off in early 2018.

2 If claimants earn income on top of their benefits (e.g. through part-time work), most of that income is offset against the benefit payment. Under the status quo regulations, claimants are allowed to keep twenty-five percent of their earnings up to a maximum amount of 202€ per month for a maximum period of in total six months. In group four this was fifty percent to a maximum of 202€ for nineteen months.

3 At that time, B.I.E.N. was still the basic income *European* network and at the conference in Barcelona in 2004 it was decided to change the name into *Earth* network.

4 The Stockton approach in which they select about 100 individuals without controls might also fit (e.g. they might select participants not based on representativeness, but on the potential for storytelling). The purposes of Stockton are generating storytelling and identifying which supporting policy measures are needed to make UBI into a success.