

An Overview of Universal Basic Income from an International Perspective

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Abstract

The discussion of Universal Basic Income (UBI) has reignited in some advanced economies in recent years. Nevertheless, whether UBI can be taken on board as an implementable policy or even to fully replace existing social welfare measures of similar function has long been subject to notable controversy. This article reviews and compares the key features of selected UBI-related policies and experiments based on international experience, serving as an entry point to discuss some of the pros and cons and the potential possible impacts on public finance and social welfare.

從國際層面上探討全民基本收入

摘要

近年有關全民基本收入的討論在個別先進經濟體再轉熾熱。然而，當中全民基本收入能否成為政策落實、甚或全面取代現行有類似功能的社會福利措施，向來存在相當爭議性。有見及此，本研究札記從外國經驗作為切入點，回顧及比較和全民基本收入相關的選定政策及實驗的特點，並就其優劣之處及對公共財政和社會福利體系的潛在可能影響，作出初步探討。

<p>The views and analysis expressed in this article are those of the authors and do not necessarily represent the views of the Office of the Government Economist.</p>
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I. INTRODUCTION

1. The provision of Universal Basic Income¹ (UBI)—an unconditional and regular “no-questions asked” welfare cash payment to citizens—is not a new idea, but one which can be traced as far back as the 16th century². In recent years, the discussion of UBI has reignited in some advanced economies, gaining some support from various political parties and even entrepreneurs in the business community³. There have even been small-scale experimental trials to study the viability of UBI. In view of its notable controversy and potential impacts on public finance and the social welfare system, an overview of UBI from an international perspective may be meaningful so as to have a better understanding of its pros and cons.

2. The structure of this article is as follows. **Part II** defines UBI under an ideal setting based on certain key characteristics of social welfare cash payment schemes. The key objectives of UBI as advocated by its supporters are also briefly discussed. **Part III** moves on to provide an overview of the key existing cash-based welfare schemes as well as recent experiments / pilot schemes in the international arena which possess some of the main features of UBI, though none of them are completely universal or unconditional. **Part IV** further discusses some of the possible difficulties and unintended consequences of implementing UBI. **Part V** concludes.

II. DEFINITION AND PURPOSE OF UBI

3. While UBI is often viewed as a relatively simple concept, it involves a considerable degree of complexity when diving deeper into real-world practices and implementation. Given its significant implications for different strata of society, it can be analysed from various perspectives such as labour economics, poverty and income disparity, welfare, philosophy and human rights, etc. This economic letter, as a very first start, aims to provide an introduction to UBI by illustrating its basic concept in a simplified manner and how the ideal concept leads to various quasi-UBI schemes and UBI experiments that have been implemented.

¹ Sometimes also referred to as “Basic Income”, “Citizen’s Income”, “Basic Income Guarantee”, etc. We will stick to the term “Universal Basic Income” (UBI) throughout this article.

² For example, Thomas More, an English philosopher and social lawyer, proposed a basic income for everyone in his book *Utopia* published in 1516 about an ideal political system of an imaginary state.

³ In the US, Charles Murray from the American Enterprise Institute, several famous executives in Silicon Valley such as start-up incubator Y Combinator president Sam Altman, and Andrew Yang (as a candidate in the 2020 Democratic presidential primaries) are UBI advocates. Moreover, the Green Party in the UK and the Labor Party in Australia support implementing UBI.

4. Though seemingly a simple concept, there is no concrete and single definition of UBI as its wording (“universal”, “basic” and “income”) is open to different interpretations. The definition adopted in this article is a common and generally agreeable understanding of UBI under an ideal/hypothetical case from existing literature: *UBI, in order to achieve universality in coverage, should neither have means-tests nor other selection criteria so that it is available to virtually all citizens*⁴. *Moreover, UBI is usually interpreted as a source of income, mainly financed by government spending, that is sufficient for a family to finance its “basic needs” all on its own, without taking into account employment earnings or other income*⁵. This definition makes UBI visibly different from traditional recurrent cash-based allowances. Some of the main objectives of UBI from its supporters’ point of view are (i) to plug gaps in the current welfare system; (ii) to help reduce stigma and increase free choice; (iii) to help alleviate poverty; and (iv) to help the unemployed amid new technological advancement. These will be discussed in turn.

(i) *To plug gaps in the current welfare system*

5. Some believe that existing welfare systems developed over the decades have become overly complex. While various schemes have been designed for different target groups, there remain holes and gaps in the system and reform is needed (Murray, 2016⁶; Hoynes and Rothstein, 2019). Some poor families and vulnerable groups may be left out of the welfare system for various reasons (e.g. reluctance to apply, failure to meet eligibility criteria, etc.). Furthermore, applications usually require a long procedure for processing and vetting which involves notable administrative and time costs⁷. Hence, a scheme with a simplified application and disbursement process without means tests should help plug the gaps of the welfare system⁸.

⁴ It may be argued that a particular welfare scheme can still be considered “universal” in initial coverage (e.g. basic healthcare) if it provides a guaranteed promise of assistance to people only when needed. Please refer to Chapter 1 of Gentilini, Grosh and Yemtsov (2020). In this paper, we follow the interpretation that “universal” suggests eligibility for receiving an actual transfer.

Gentilini, U., Grosh, M., Rigolini, J., & Yemtsov, R. (Eds.). (2020). *Exploring Universal Basic Income: A Guide to Navigating Concepts, Evidence, and Practices*. World Bank.

<https://openknowledge.worldbank.org/handle/10986/32677>

⁵ Nevertheless, sometimes, the minimum level is understood to take other income into account (Hoynes and Rothstein, 2019).

Hoynes, H., & Rothstein, J. (2019). “Universal basic income in the United States and advanced countries.” *Annual Review of Economics*, 11, 929-958.

⁶ Murray, C. (2016, June 3). “A guaranteed income for every American.” *The Wall Street Journal*.

⁷ OECD. (2017). “Basic income as a policy option: Can it add up?” *Policy Brief on the Future of Work*. <https://www.oecd.org/social/Basic-Income-Policy-Option-2017.pdf>

⁸ Another relevant point is that some welfare schemes are designed with a disregarded earnings feature that will reduce the welfare payment by a certain portion (or even 100%) when the recipient’s income increases. Some critics say that this would create a welfare trap, since even though people might be able to earn more in paid work, they might prefer to stay in the welfare system instead. From UBI

(ii) *To help reduce stigma and increase free choice*

6. It is often believed by some backers of UBI that providing unconditional welfare payments could reduce the stigma of participating in a welfare programme⁹, as under a more universal approach without screening the whole population would be entitled to the benefit in question. It is also suggested that basic income without labelling effects that all citizens could enjoy is simpler to manage and would play a pivotal role in providing income security. Such permanent income would also allow individuals with greater flexibility to manage their work, family and other commitments¹⁰.

(iii) *To help alleviate poverty*

7. Lower-skilled workers often find it difficult to move up the income ladder, and their poverty risks during economic downturns are particularly high as they are more likely to face layoffs and wage cuts, not to mention some of them are the sole breadwinners of their households. Also, the drastic increase of economically inactive elderly households amid population ageing would lead to rises in income poverty that bring additional challenges to retirement protection and elderly poverty alleviation. UBI has been thought to be a more proactive approach to help tackle such issues on some occasions¹¹. If it is financially sustainable to pitch the amount of UBI at levels equivalent to (or even higher than) the poverty line thresholds, UBI itself could alleviate poverty so measured much more effectively.

(iv) *To help the unemployed amid new technological advancement*

8. Some¹² believe that under the new wave of technological advancement, including the continuing development of artificial intelligence, a large share of jobs performed by humans could gradually disappear. While this would be favourable from a business point of view given the potential to enhance productivity and reduce costs, the automation of various jobs would reshape the labour market, possibly with a number of jobs phased out over time. Those less competitive and unable to acquire new skills would more likely become long-term unemployed or economically inactive amid the

supporters' point of view, as UBI would be awarded regardless of the individual's employment status, people could choose to work if they would like to increase their incomes further above the UBI. At the same time, those who are genuinely unable to work would be protected.

⁹ Moffitt, R. (1983). "An economic model of welfare stigma." *The American Economic Review*, 73(5), 1023-1035.

¹⁰ Parijs, V. & Vanderborght, Y. (2017). *Basic income: A radical proposal for a free society and a sane economy*. Harvard University Press.

¹¹ OECD. (2017). "Basic income as a policy option: Can it add up?" *Policy Brief on the Future of Work*. <https://www.oecd.org/social/Basic-Income-Policy-Option-2017.pdf>

¹² Hughes, J. (2014). "A strategic opening for a basic income guarantee in the global crisis being created by AI, robots, desktop manufacturing and biomedicine." *Journal of Evolution and Technology*, 24(1), 45-61.

structural change of the labour market. Income redistribution via UBI may be considered as a remedy to help displaced workers maintain their livelihoods and minimum subsistence.

III. INTERNATIONAL EXPERIENCE: IDEAL VERSUS REALITY

9. Notwithstanding the favourable outcomes that UBI could bring about to the community as suggested above, in reality, there are only few cases where UBI-type benefits have been introduced to the whole population around the world at national level, and mostly for short periods (e.g. US\$7-17 per month in Mongolia during 2010-12)¹³. The following discusses the main design of some selected existing quasi-UBI welfare payment schemes which aim to provide **guaranteed income**, as well as recent experiments involving schemes which some would consider closer to an ideal UBI. The results of selected studies on their impact (especially on whether they would affect work incentives) are highlighted as appropriate.

III.A Selected existing UBI-related welfare measures

(i) *Resource dividends - Alaska Permanent Fund*

10. A close example of UBI is the Alaska Permanent Fund, which was established in 1976 with a view to setting aside a portion of the State's oil revenue for investment and generating income into perpetuity¹⁴. Since 1982, the fund has given every eligible Alaska resident a lump sum dividend each year, e.g. US\$1,606 (about HK\$12,600¹⁵) in 2019. The main eligibility criterion is that the person has to be a resident of Alaska during all of the respective calendar year¹⁶. Yet, the amount of the dividend fluctuates and is not sufficient as a basic income. On the other hand, Jones and Marinescu (2018)¹⁷ find that the Alaska Permanent Fund had no significant impact on total employment, though it did induce more part-time work by 1.8 percentage points, suggesting that some full-time workers switched to part-time as a result of the scheme. It should be noted that the Alaska Model is a rather exceptional case among various recurrent-based

¹³ Gentilini, U., Grosh, M., Rigolini, J., & Yemtsov, R. (Eds.). (2020). *Exploring Universal Basic Income: A Guide to Navigating Concepts, Evidence, and Practices*. World Bank.

<https://openknowledge.worldbank.org/handle/10986/32677>

¹⁴ Alaska Permanent Fund Corporation. (n.d.). "History of the Alaska Permanent Fund." <https://apfc.org/who-we-are/history-of-the-alaska-permanent-fund/>

¹⁵ Calculated based on the average exchange rate of US\$1 = HK\$7.836 in 2019.

¹⁶ For other miscellaneous eligibility requirements, please refer to <https://pfd.alaska.gov/Eligibility/Requirements>.

¹⁷ Jones, D., & Marinescu, I. (2018). "The labor market impacts of universal and permanent cash transfers: Evidence from the Alaska Permanent Fund." (NBER Working Paper No. w24312). National Bureau of Economic Research. <https://www.nber.org/papers/w24312>

UBI-type allowances as only a few economies could have affluent natural resources to address the source of funding.

(ii) *Non-means-tested recurrent cash benefits for targeted groups*

11. Some non-means-tested recurrent cash benefits, such as old age pensions and child benefits, are provided by governments to specific targeted groups as additional financial support. For instance, Canada's Old Age Security (OAS) pension is a monthly payment available to persons aged 65 or above who are Canadian citizens or legal residents who have resided in Canada for at least 10 years since the age of 18¹⁸. The full monthly amount of the pension for October – December 2020 is CAD614.14 (about HK\$3,600¹⁹)²⁰, and it is financed by the general tax revenue of the Canadian government. In Hong Kong, Old Age Allowance is another example of a non-means-tested recurrent cash benefit. However, it should be noted that all these benefits are age-specific, and provided only to those who are demographically more likely to be economically inactive. Hence, it is questionable to categorise these schemes as universal.

(iii) *Working tax credit / allowance - Earned Income Tax Credit (EITC)*

12. The EITC is commonly regarded as a form or a modified version of the Negative Income Tax (NIT)²¹, an idea advocated and popularised by the famous US economist Milton Friedman in the 1960s²² though never fully implemented in reality²³. Launched in 1975 in the US²⁴, the EITC is designed to tie benefits to paid work and income so as

¹⁸ Government of Canada. (2020, July 30). "Old age security – Eligibility." <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/eligibility.html>

¹⁹ Calculated based on the average exchange rate of CAD1 = HK\$5.906 in 2019.

²⁰ OAS pension payments are taxable income. If a beneficiary's annual income is higher than a threshold of that year, he/she may have to repay part or all of the OAS pension. Please refer to <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/while-receiving.html>

²¹ NIT is often considered as a type of UBI or at least a close example as both types of welfare safeguard guaranteed minimum income. Simply put, people earning below a certain amount will receive a specified proportion of unused tax deductions or allowances. For example, if a person earns zero income, the personal tax allowance is \$10,000, and the subsidy rate is 50%, he or she would receive \$5,000 (= (\$10,000 – 0)×50%).

²² Friedman, M. (1962). *Capitalism and Freedom*. University of Chicago Press.

²³ Four NIT schemes were tested in the US during 1960s-80s, i.e. (i) New Jersey and Pennsylvania (1968-72); (ii) a rural experiment in Iowa and North Carolina (1969-73); (iii) Gary, Indiana (1971-74); and (iv) Seattle and Denver (1971-82). In Canada, a similar pilot called the Manitoba Basic Annual Income Experiment was carried out in 1975-1978 (Bastagli, 2020, p.116).

Bastagli, F. (2020). "Universal basic income and work." In Gentilini, U., Grosh, M., Rigolini, J., & Yemtsov, R. (Eds.). *Exploring Universal Basic Income: A Guide to Navigating Concepts, Evidence, and Practices* (pp. 99-121). World Bank. <https://openknowledge.worldbank.org/handle/10986/32677>

²⁴ US Internal Revenue Service. (2020, January 14). "Overview of EITC." <https://www.eitc.irs.gov/eitc-central/eitc-information-for-press/overview-of-eitc/overview-of-eitc>

to maintain work incentives of low-income persons and households. Generally speaking, under the EITC, the tax credit (subsidy) equals a fixed percentage (credit rate) of earned income until reaching a maximum credit amount within the phase-in range²⁵. The amount of credit and the rate depends on marital status and the number of children. At present, a number of economies have similar types of subsidy schemes, such as Australia, Canada, Hong Kong, Ireland, New Zealand, and the UK, with some variations in their design²⁶.

13. While some see the EITC as a modified form of UBI, it should be noted that the EITC is rather different from UBI as it is neither “universal” nor “basic”. The EITC provides subsidies in the form of tax refunds to lower-income persons / households, while better-off families would not benefit; it also imposes work requirements. Thus, the scheme is not universal. The other difference is that the amount of subsidy under the EITC is a supplement to grassroots families on top of their earned income.

14. Though the labour market effects of the EITC have been widely studied, the results have not been conclusive. For instance, while Eissa & Hoynes (2004)²⁷ found that labour force participation for secondary earners in couple families fell somewhat owing to the EITC, Hotz & Scholz (2003)²⁸ suggested that the EITC could have a positive effect on the labour force participation of single mothers. As for related past experiments on NIT in the US, Burtless (1986)²⁹ and Hum and Simpson (1993)³⁰ basically found no evidence of effects or only moderate reductions in work participation.

III.B Recent UBI-type experiments

15. Amid the reignited discussion of UBI in recent years, there have been a number

²⁵ Falk, G. & Crandall-Hollick, M. L. (2020). “The Earned Income Tax Credit (EITC): An overview.” (Congress Reserve Service Report No. R43805). <https://fas.org/sgp/crs/misc/R43805.pdf>

²⁶ For instance, Hong Kong’s Working Family Allowance (WFA) and Ireland’s Working Family Payment (WFP) belong to a type of government subsidy rather than a refundable tax credit. Moreover, the allowance can be calculated on a weekly, monthly or an annual basis. WFA in Hong Kong is calculated on a monthly basis (for every six-calendar-month claim period), WFP in Ireland is a weekly payment, and New Zealand’s Working for Families Payments recipients are allowed to choose the frequency of payments (weekly, fortnightly or as a lump sum for the whole year). There also exists a minimum working hour requirement of similar subsidies in several places including Hong Kong, Ireland, and the UK, but there is no such requirement for the EITC.

²⁷ Eissa, N., & Hoynes, H. W. (2004). “Taxes and the labor market participation of married couples: the earned income tax credit.” *Journal of Public Economics*, 88(9), 1931-1958.

²⁸ Hotz, V. J., & Scholz, J. K. (2003). “The Earned Income Tax Credit.” In R. A. Moffitt (Ed.), *Means-tested transfer programs in the United States* (pp.141-197). Chicago: The University of Chicago Press.

²⁹ Burtless, G. (1986). “The work response to a guaranteed income: A survey of experimental evidence.” In *Conference Series;[Proceedings]* (Vol. 30, pp. 22-59). Federal Reserve Bank of Boston. <https://ideas.repec.org/a/fip/fedbcy/y1986p22-59n30.html>

³⁰ Hum, D., & Simpson, W. (1993). “Economic response to a guaranteed annual income: Experience from Canada and the United States.” *Journal of Labor Economics*, 11(1, Part 2), S263-S296.

of experiments / pilot schemes which aim to examine the effectiveness of UBI and its possible impacts³¹ (such as on physical and mental health and work incentives³²). Below are some of the more well-known experiments, selected for illustration:

(i) *The US: An experiment in Stockton, California*

16. In the US, there are numerous reportedly proposed or already implemented UBI experiments, yet many of them have disclosed relatively few concrete details. One study, led by the Economic Security Project, has started to give a monthly payment of US\$500 (about HK\$ 3,900) to 125 randomly selected residents in Stockton, California since February 2019 for 18 months. It is unconditional in the sense that there are no requirements, among others, to have or find a job. Eligible persons have to be aged 18 or above, reside in Stockton, and live in a neighbourhood with a median income not exceeding the city's median household income³³. The subsidy only serves as a supplement instead of a basic income considering that the beneficiaries' median monthly household income is US\$1,800 (US\$3,500 for the city as a whole).

17. Early results from the Stockton experiment focus on its impact on recipients' consumption patterns. Based on the first batch of data collected from the first five months of disbursements, recipients spent the subsidy mostly on food, clothes, and utility bills, rejecting criticism that they would spend it on gambling and addictive substances³⁴. The impact on labour supply or employment is yet to be known.

(ii) *Canada: Ontario Basic Income Pilot*

18. In Canada, the Ontario Government carried out a Basic Income Pilot Project in 2017 to test whether basic income could provide a new approach to reduce poverty and improve outcomes in food security, health conditions, housing stability, etc³⁵. Participants were those aged 18 to 64 who lived in one of the selected test regions at

³¹ While these experiments may shed more light on the pros and cons of a UBI-type benefit based on evidence-based results, there are concerns about the generalisability of the findings from such small-scale experiments / pilot schemes.

Cowan, S. (2017). "UBI: Universal basic income is an unbelievably bad idea." (The Centre for Independent Studies, Research Report No. 32). <https://www.cis.org.au/app/uploads/2017/11/rr32.pdf>

³² However, as most of these recent experiments / pilot schemes are either in the preparation or testing stage, many have not yet revealed their assessment results when preparing this article.

³³ The Stockton Economic Empowerment Demonstration. (2019, December). "Our vision for SEED: A discussion paper." <https://www.stocktondemonstration.org/wp-content/uploads/2019/12/SEED-Discussion-Paper-12.19.pdf>

³⁴ The Stockton Economic Empowerment Demonstration. (2019, October). "Stockton Economic Empowerment Demonstration Releases First-Round Data." <https://www.stocktondemonstration.org/wp-content/uploads/2019/11/Dashboard-Press-Release-SEED-10.3.19.pdf>

³⁵ Government of Ontario, Canada. (2019, April 8). "Archived - Ontario Basic Income Pilot." <https://www.ontario.ca/page/ontario-basic-income-pilot>

least for the past 12 months and met the income test (e.g. less than CAD34,000 (about HK\$200,000) per year for singletons). 4 000 participants would receive up to CAD16,989 (about HK\$100,000) per year for singletons (deducting 50% of any earned income), or CAD24,027 (about HK\$142,000) per year for couples (deducting 50% of any earned income). While the project was intended to last 3 years³⁶, it was wound down by the new Government of Ontario in 2018 as extending it would have been very costly and add a huge burden to taxpayers³⁷.

19. Regarding the possible impact on employment, Ferdosi et al. (2020)³⁸, based on an online survey and qualitative interviews, found that there was some reduction in the number of people employed during the pilot as compared to before the pilot. Of around 200 respondents interviewed, ten moved from unemployment to employment while 32 moved from employment to unemployment. The others did not change their employment status.

(iii) *Finland: Basic income experiment 2017-2018*

20. The Finnish government implemented a basic income experiment in January 2017. 2 000 randomly selected unemployed persons received a basic income of EUR560 (about HK\$4,900³⁹) per month for two years. Eligible participants were persons aged 25-58 who had received unemployment or labour market support from the government before the pilot scheme, yet there was no requirement to work or actively find a job⁴⁰. After a two-year trial, the Finland Government turned down a request for extra funding to expand the pilot scheme and hence the experiment ended in January 2019. The Finland Government said at the time that it would like to explore alternative welfare schemes instead of providing basic income to citizens⁴¹, though it

³⁶ Winick, E. (2018, August 2). "Ontario is axing its test of universal basic income." *MIT Technology Review*. <https://www.technologyreview.com/2018/08/02/104167/ontario-is-axing-its-test-of-universal-basic-income/>

³⁷ The harmonised sales tax would have to be increased from 13% to 20% if implemented across the whole province.

Ministry of Children, Community and Social Services, Government of Ontario, Canada. (2018, August 31). "News Release: Ontario's Government for the People announces compassionate wind down of basic income research project." <https://news.ontario.ca/mcys/en/2018/08/ontarios-government-for-the-people-announces-compassionate-wind-down-of-basic-income-research-projec.html>

³⁸ Ferdosi, M., McDowell, T., Lewchuk, W., & Ross, S. (2020). *Southern Ontario's Basic Income Experience*. <https://labourstudies.mcmaster.ca/documents/southern-ontarios-basic-income-experience.pdf>

³⁹ Calculated based on the average exchange rate of EUR1 = HK\$8.773 in 2019.

⁴⁰ Hiilamo, H. (2019, February 8). "Disappointing results from the Finnish basic income experiment." *Nordic Welfare News*. <https://www.helsinki.fi/en/news/nordic-welfare-news/heikki-hiilamo-disappointing-results-from-the-finnish-basic-income-experiment>

⁴¹ Henley, J. (2018, April 23). "Finland to end basic income trial after two years." *The Guardian*. <https://www.theguardian.com/world/2018/apr/23/finland-to-end-basic-income-trial-after-two-years>

was found that the basic income brought about small positive effect on employment of participants who were unemployed at the start of the experiment, as compared to a control group of persons with unemployment benefits⁴².

21. All in all, while UBI has seemingly attracted some attention in western economies given its simple concept to unconditionally distribute regular cash payments to virtually the entire population, no region so far has fully implemented UBI at the territory- or country-wide level. As summarised above, the main features of the UBI-type measures indicate that the mainstream preference still favours the provision of subsidies to targeted recipients, and less targeted subsidies tend to be in smaller amounts for supplementary income given the more lenient eligibility conditions. Moreover, the recent UBI-type examples were mainly small-scale experiments or pilot schemes. In particular, these schemes did not offer concrete ideas on the source of financing if the UBI-type payment were to become regularised and generalised in a way such that the whole population would be entitled to the cash benefit. The plausible difficulties of bringing UBI into real-life practice are further discussed in the next section.

IV. FURTHER DISCUSSION

22. One of the greatest challenges of UBI is that unconditionally distributing a considerable amount of money to almost the entire population will be extremely expensive⁴³. Without proper funding widely accepted by the community, full implementation would pose tremendous challenges to fiscal sustainability. In fact, concerns on the source of financing and the burden to the government were the main reason why, in a 2016 referendum, a large majority of Swiss voted against a proposal to provide a basic income to ensure all people to have a basic living.

23. The Swiss proposal would have provided a monthly income of 2,500 and 625 Swiss francs (i.e. around HK\$19,700 and HK\$4,900⁴⁴) for adults and children under 18 respectively, regardless of economic status. Despite its generosity and design very close to an ideal UBI, it was rejected by a majority of 77% of the voters. Anecdotal

⁴² Lu, D. (2020, March 6). "Universal basic income seems to improve employment and well-being." *NewScientist*. <https://www.newscientist.com/article/2242937-universal-basic-income-seems-to-improve-employment-and-well-being/>

⁴³ Solely as an illustrative example, a hypothetical scenario of distributing HK\$5,000 (i.e. half of the amount of the cash payout scheme as announced in the 2020-21 Budget) per month to Hong Kong permanent residents aged 18 and above residing in Hong Kong would crudely suggest a recurrent expenditure of 343.8 billion a year, equivalent to nearly 3.7 times recurrent social welfare expenditure in 2020-21 (\$93.9 billion) and also 12.0% of Hong Kong's 2019 GDP. This crude estimate does not take into account the savings from cutting other recurrent schemes, such as the Old Age Living Allowance, the Old Age Allowance, as well as the reduction in CSSA cases.

⁴⁴ Calculated based on the average exchange rate of 1 Swiss Franc = HK\$7.885 in 2019.

evidence indicated that a considerable number of voters had concerns on the source of financing (either cutting expenditures on other areas or tax increases) and questioned the rationale of allocating a huge amount of government spending to beneficiaries who would not be requested for any contribution to the society in return⁴⁵.

24. Some would argue that the funding issue could be solved by a concurrent streamlining of the entire welfare system, such as a consolidation of other non-UBI social security schemes that could yield budget savings. Nevertheless, as shown above, the UBI might cost much more than a number of social security schemes combined together. Furthermore, implementing UBI in a budget-neutral fashion based on existing benefits expenditures would naturally result in lower payments given the much larger pool of UBI recipients. This calls to question whether a UBI scheme would really help alleviate poverty. A recent publication by the World Bank reckons that a UBI is less effective in alleviating poverty than existing welfare systems under a simulated scenario with budget-neutral UBI reform (Gentilini, Grosh and Yemtsov, 2020)⁴⁶.

25. Lowering UBI amounts, whilst keeping the majority of existing social welfare schemes in place, may be seen as a more realistic approach. In that case, however, UBI would not be able to provide sufficient protection on its own, and it would no longer represent an ultimate solution to fix the “loopholes” in the social safety net as its supporters have suggested. Another alternative would be to keep some of the eligibility conditions, such as making the universal cash transfer means-tested and/or time-limited, thereby lessening the financial burden. Yet, reductions in poverty would only be substantial under more stringent eligibility conditions, and in this case it would be difficult to distinguish the “partial” UBI from traditional means-tested income support.

26. Another unintended consequence of UBI, like many other social security schemes, is that generous direct income support may deter work incentives and reduce the supply for labour. As reviewed in the preceding section, while prior studies largely indicated that the relatively modest UBI-type programmes seen in pilot schemes / experiments had limited or insignificant impacts on work incentives, it should be noted that the amounts of guaranteed income were neither sufficient to safeguard basic living nor perpetual. The effect of additional taxation required to fund UBI was also not taken into account in these trials. As a matter of fact, there have been concerns about the generalisability of previous studies based only on small-scale experiments / pilot

⁴⁵ Minder, R. (2016, June 5). “Guaranteed income for all? Switzerland’s voters say no thanks.” *The New York Times*. <https://www.nytimes.com/2016/06/06/world/europe/switzerland-swiss-vote-basic-income.html>

⁴⁶ According to the simulation results, in order to enable a more meaningful impact of UBI on poverty, an increase in taxes is required in most countries given that the amount of UBI would not be sufficient if purely financed through replacing existing measures.

schemes, that might lead to misleading results (Cowan, 2017)⁴⁷. Caution should therefore be exercised when interpreting these findings given that the empirical effects under experiments at a much larger scale would turn out to be different. While limiting UBI to a relatively modest amount might somewhat alleviate such adverse effects, still, this would run counter to the common philosophy of the social security system, i.e. to provide basic protection while at the same time maintaining sufficient incentives for the recipients to re-join the workforce for self-reliance. In a society with a common belief that an individual's income status should be positively linked to his or her effort and contribution to society, the UBI's fundamental goal of ensuring that everyone receives a basic income is likely to invite fierce debates and make it very difficult to reach public consensus.

V. CONCLUDING REMARKS

27. This note conducted a general overview of the main features of UBI as advocated in recent years and summarised the responses and actions by various advanced economies. We find that most cash-based social security schemes still stick to the traditional approach of targeting specific needy groups with a means-tested mechanism that varies according to their unique circumstances. While more UBI-related experiments have been conducted in recent years, most are small-scale and neither universal nor unconditional. Notwithstanding its appeal to fix various social and economic issues, it is very costly. Many studies also remain sceptical on how a UBI could be funded given such huge financial implications and challenges to fiscal prudence and sustainability. While reducing the UBI amount or imposing additional eligibility criteria would help reduce financial costs, this would run counter to the original purpose of UBI as a simple and universal cash payment to replace the current social security system. Another concern about UBI is its possible unintended consequences, such as luring people to work less or even drop out from the labour market, although such effect might be difficult to quantify from data collected based on a small-scale experiment / pilot scheme. The fundamental concept of UBI that anyone will get paid regardless of one's effort is rather controversial, and it is no easy task to reach consensus on how to transform such a concept into real-life practice.

⁴⁷ For instance, these small-scale experiments were fully funded by the related institutes or the government, and the participants and other counterparts as control group in the trial region were not required to make any contributions such as paying higher taxes. Conceivably, work incentives to be estimated would likely be different if the marginal tax rate were to raise much higher to finance the UBI. Hence, there is a possibility that these small-scale trials could underestimate the work disincentive effects of a UBI.