

A Feasible Basic Income in Korea: To Promote Freedom, Equality and Sustainable Efficiency

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Objectives

- Real freedom for all
- Equality: Equal right to common wealth
 - Alleviation of inequality and poverty
- Sustainable efficiency
 - Economically sustainable efficiency
 - Means-tested targeted public assistance: efficient in poverty reduction in the short run, but not in the long run
 - Deadweight loss, increasing budget, reduced labor supply, decline of GDP growth
 - Ecologically sustainable
 - Demographically sustainable
 - Fertility rate: 0.78 in 2022 in Korea
 - Declining population and the risk of extinction of rural municipalities

A feasible plan

- Financially feasible
 - **Fiscally neutral** plan
 - Principle of **reciprocity**: The **right** to basic income requires a **duty** to pay taxes
- Politically feasible
 - NIT-Type Basic Income
 - Easier to sell “differential benefits according to income” than “UBI with flat(or progressive) tax”
 - G. Mankiw: 90% of Harvard undergraduates chose an NIT scheme over a BI scheme with the same redistributive effect
 - Soomi Lee: Public support for UBI is based on their concern for **equality** rather than **unconditionality**
 - Universal EITC: “Make EITC more like a UBI”
 - Regressive employee income deductions in Korea (and Japan): We proposed replacing them with UBI, but faced resistance from working people.
 - Replacing the deductions and the current EITC with a universal EITC on an individual basis
 - Common Wealth Dividends Basic Income

Effective tax rate, participation tax rate, and effective marginal tax rate

- Effective tax rate incorporates both taxes and transfers(benefits):
 - should be progressive, promoting equality.
 - Negative for low income, and positive and increasing for high income
- Participation tax rate & effective marginal tax rate:
 - Affect work incentives at the extensive and intensive margin
 - High PTRs and EMTRs create work disincentives and restrict freedom to improve one's situation through working
- Participation tax rate = $1 - \frac{\text{increase in disposable income when working}}{\text{market income when working}}$
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- Effective marginal tax rate = $1 - \frac{\text{increase in disposable income}}{\text{increase in market income}}$

Individual-level vs. household-level benefits

- Social welfare provision based on needs:
 - Basic needs for a 4-member family are less than 4 times the basic needs for a 1-member family.
 - Higher benefits per person for smaller household size.
 - Marriage penalty and incentives for family break-up.
 - Higher housing benefits for residents of Seoul and metropolitan cities than for rural residents
- Basic income is based on everyone's equal right to common wealth
 - Basic income can promote marriage and household formation