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 = \( 1 - \frac{\text{increase in disposable income when working}}{\text{market income when working}} \)

- 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