

Universal Basic Income, or Negative Income Tax for Korea?

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Background & Purpose of the Paper

- In the March 2022 presidential election of Korea, Democratic Party's candidate Lee Jae-myung who had pledged to introduce UBI lost by a slim margin of 0.7 percent of votes.
- Although President Yoon Suk-yeol objects to basic income, there is still hope for introducing UBI in Korea in the not-too-distant future.
- Basic income for farmers have been introduced in many rural municipalities, and Gyeonggi Province is conducting a five-year experiment for rural basic income starting in the spring of 2022.
- In Seoul, a three-year randomized controlled trial of Safety Income, a household-based negative income tax scheme, started in July 2022.
- In the next election for Korea's five-year single-term president in 2027, introduction of UBI or NIT could become a major issue.
- I will discuss the prospects and strategies for introducing UBI in Korea.

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Chronological overview of basic income initiatives in South Korea

- 2009: Basic Income Korea Network (BIKN) was founded.
- 2016: Lee Jae-myung, mayor of Seongnam, started the Youth Basic Income program (1 million won, close to 1 thousand USD, in four installments for the 24-year-olds)
- 2016: BIKN hosted the 16th Basic Income Earth Network (BIEN) Congress in Seoul
- 2017: Lee, with the platform of UBI, finished third in the presidential primaries of Democratic Party.
- 2018: Lee was elected as Governor of Gyeonggi Province, the most populous province in the country with 13 million population.
- 2019: Local Governments Council for Basic Income was formed with participation of 36 municipalities (expanded to 75 municipalities in mostly rural areas by 2021).
- 2019- : Farmers' allowance(basic income for farmers) were introduced in many rural municipalities.

Chronological overview (continued)

- Spring 2020: Korean government distributed universal Emergency Relief Funds to all households.
- September 2020: The conservative People Power Party adopted UBI as its official platform.
- July 2021: Lee pledged to introduce UBI during the primaries of Democratic Party and the main election for president.
- September 2021: Korean government distributed Emergency Relief Funds to 88% of individuals, after intensive debate about universal vs. selective provision.
- March 2022: Yoon Seok-yul of PPP was elected President, defeating Lee.
- Spring 2022: A five-year rural basic income pilot proposed by Lee and approved by the Provincial Council of Gyeonggi-do was launched in March-May by then acting Governor, and newly elected Governor Kim Dong-yeon, a Democrat, plans to expand the pilot program.
- July 2022: A three-year randomized controlled trial of Safety Income (a household-based NIT scheme) was launched by Mayor Oh Se-hoon, a PPP affiliate, in Seoul.

Lee Jae-myung's basic income proposal as Democratic Party's presidential candidate

1) Universal basic income for all Koreans(52 million people)

- Starting at 250,000 won (about 200 USD) per year in the first year
- Reaching 1 million won (about 800 USD) in four installments per year within the term,
conditional on public approval

2) Youth basic income for 19-year- to 29-year-olds (6 to 7 million people)

- 1 million won per year, starting in the first year

3) Rural basic income for all residents in rural areas (10 million people)

- Up to 1 million won per year, depending on the local government's choice and local conditions
- Extinction of rural communities is a real threat in Korea because rapid decrease of rural population is caused by overall reduction of Korean population due to low fertility rate as well as by urban migration.

4) Basic income for artists, aged 30 to 59 (over 100 thousand people)

- 1 million won per year

Lee's basic income proposal (continued)

Allowances (Age-categorical basic income)

- 1) Expand children's allowance of 100 thousand won per month, from currently for all children under age 8 to up to 18-year-olds
- 2) Quasi-senior allowance for those aged 60 or more who do not receive public pension (500 thousand people): 100 thousand won per month
- 3) Basic pension for the elderly, aged 65 or more:
 - Currently 300 thousand won per month to 70% of the elderly population:
 - Currently couple rate is 80% of single rate: $300*2*0.8=480$ thousand won per month for an elderly couple
 - Lee pledges to eliminate reduced couple rate.
 - Both Yoon & Lee pledge to increase the amount to 400 thousand won per month.

Lee's Financing Plan

Estimated budget for basic incomes

- UBI: 52 trillion won
- Youth: 6 trillion won
- Artists: 0.1 trillion won
- Sum: 58 trillion won (about 50 billion USD; 3% of GDP), plus budget for allowances

Tentative Financing Plan (Detailed plan will be prepared by the Presidential Commission)

- Budget savings: 25 trillion won or more
- Reducing tax expenditures: 25 trillion won or more
- Land value tax: 50 trillion won
- Carbon tax: 30-64 trillion won (Part of the revenue will be spent to subsidize transition to renewable energy)

Budget for rural basic income (10 million people * up to 1 million won = up to 10 trillion won) will be financed from rural & agricultural budget, balanced regional development budget, and budget to prevent extinction of rural municipalities.

Major parties' and politicians' stance on basic income during the presidential election

- The governing Democratic Party:
 - Majority, including President Moon's faction, opposed UBI, arguing for expansion of traditional social welfare programs
 - Lee's defensive stance during the primaries.
- The opposition People Power Party:
 - Yoon Seok-yul opposed UBI, ignoring the party's official platform in favor of UBI.
 - Yoo Seung-min proposed Fair Income, an individual-based NIT scheme, but finished third in the candidate nomination race.
 - Oh Se-hoon, mayor of Seoul, proposed Safety Income, a household-based NIT scheme.
- The progressive Justice Party's presidential candidate Shim Sang-jeong proposed Citizens' Minimum Income Guarantee, a household-based NIT scheme. She received only 2.4% of votes.
- Lee downplayed his UBI policy during the main election period as polls indicated declining public support for UBI.

Experiments of rural basic income and negative income tax

- Rural basic income experiment in a rural community of 4,000 population, with another rural community as a control group, in Gyeonggi Province:
 - Every resident in the experimental community receives 150 thousand won (120 USD) per month.
 - 9% increase of population for the last 8 months, reversing the declining trend of previous years.
 - Unlike farmers' basic income, rural basic income is unconditional except for the residency requirement.
 - Governor Kim Dong-yeon plans to expand the pilot to four rural communities.
- Safety Income experiment as a RCT with a treatment group of 800 households with 85% or less of median household income and a control group of 1,600 households.
 - Guarantee income of 42.5% of median household income and take-back rate of 50%.
 - High marginal tax rate of 66%-85%, including income tax of 6-15% and social insurance contributions of 10-20%
 - Guarantee income=827 thousand won/month for a single-person household
2,176 thousand won/month for a four-person household (544 thousand won/month per person)
 - If a 4-person household with a monthly income of 4,353,000 won splits to a single-person household with that monthly income and a 3-person household with no income, the latter can receive 1,783,000 won per month.
(Incentives for family break-up, or disincentives for marriage & family formation)

Public support for UBI declined ahead of presidential election in March 2022.

- Public support for UBI, according to various polls(support or oppose).
 - 50.3%, 52.2%, 52.8%(02 & 03/2021)→34.9%, 36.6%(11 & 12/2021)→42.9%, 38.6%, 40.7%(01 & 02/2022)
- Korean General Social Survey, 2018 & 2021(with a neutral response option)
 - Q1(fall 2018 and fall 2021): Opinion on UBI
 - Q2(fall 2021 only): Opinion on UBI, financed by increased taxes

	Opinion on UBI			UBI with increased taxes	
	2018 KGSS	2020 Yonsei	2021 KGSS	2020 Yonsei	2021 KGSS
support	37.4	42.8	31.7	33.7	27.0
neutral	31.5	31.3	34.3	27.3	32.3
oppose	31.1	26.0	34.0	39.0	40.6

※ Responses to similar questions in the Yonsei-R&R survey in October 2020 are also reported.

Why support for UBI declined?

Political orientation	Proportion of population			Support for UBI			UBI with increased taxes		
	2018	2021	Change	2018(A)	2021(B)	Change	2021(C)	C-B	C-A
very progressive	7.5%	5.7%	-1.8%	35.1%	50.8%	15.6%	38.5%	-12.3%	3.3%
somewhat progressive	36.1%	27.6%	-8.5%	42.4%	40.1%	-2.4%	35.3%	-4.7%	-7.1%
centrist	32.6%	38.3%	5.7%	36.4%	27.7%	-8.7%	24.2%	-3.6%	-12.3%
somewhat conservative	19.1%	22.9%	3.8%	30.9%	25.1%	-5.8%	21.4%	-3.7%	-9.5%
very conservative	4.8%	5.6%	0.8%	38.3%	20.3%	-18.0%	18.8%	-1.6%	-19.5%
Total	100%	100%	0%	37.5%	31.4%	-6.1%	27.1%	-4.3%	-10.4%

The proportion of the progressives shrank in 2021, as Moon administration's popularity declined. Association between political orientation and support for UBI was strengthened in 2021. Salience of increased taxes for financing of UBI further eroded support for UBI.

Why support for UBI declined? (continued)

- Support for UBI declined because political satisfaction plummeted, the proportion of the progressives shrank, and these changes in political mood were strongly associated with declining support for UBI (Lee and You, 2022).
 - Support for UBI would have increased had political satisfaction and political orientations not changed between 2018 and 2021.
 - Support for UBI declined further when the need to increase taxes to finance UBI became explicit.
- Lee's UBI package was vulnerable to attacks both from within the DP and from the opposition PPP.
 - Too modest level of UBI (1 million won/year=80 thousand won/month=65 USD/month)?
 - Public opinion on appropriate level of BI: 200 thousand to 500 thousand won/month
 - Too much revenue from land holding tax and carbon tax?
 - "Why the government should provide cash to the rich, such as the CEO of Samsung, when more is needed to help those in need?"
- Lee was defensive.
 - Had he tried harder to persuade the voters about the benefits of his basic income proposal, with aggressive campaigning on land dividend based on land-holding tax?(Kang, 2022)

Could a framing of UBI as an NIT help increase public support?

- Proponents of UBI tend to emphasize that UBI can get popular support because a UBI scheme will make majority of population net beneficiaries.
- However, the Korean experience and the results from the analysis of KGSS data (Lee & You, 2022) indicates the difficulty of gaining support for UBI when the opponents attack it emphasizing the need to increase taxes.
- Median voter or the elite? (Martin Gilens, 2005)
 - Status quo bias: Difficulty of policy change.
 - Median voter's preferences matter for policies that do not have distributive consequences.
 - Elite's preferences determine outcomes of policies that have distributional consequences.
- Framing UBI as a negative income tax(NIT) or emphasizing that UBI and NIT can be integrated into a feasible scheme may help increase public support.
 - Consider the Mankiw's(2021) experiment, in which students overwhelmingly chose an NIT scheme over a UBI scheme when both schemes had exactly same distributional consequences.

Strategies for integrating UBI and NIT

- A UBI/flat tax and an NIT with a break-even point of mean income are equivalent.
- A modest level of guaranteed income and a low take-back rate for the non-elderly:
 - Guaranteed income of 300 thousand won per month, with 15% withdrawal rate
 - marginal tax rate of 31%-50%, including existing tax rate of 6%-15% and social insurance contributions of 10%-20%.
 - Break-even income of 2 million won per month (mean income)
 - Replace only the lower part of higher social assistance benefits.
- A higher level of guaranteed income and a higher take-back rate for the elderly:
 - Guaranteed income (basic pension) of 500 thousand won per month, with 25% withdrawal rate
 - Break-even income of 2 million won per month
 - A higher marginal tax rate is not a problem because work disincentives for the elderly are not a great concern.
 - Replace the existing basic pension of 300 thousand won/month (with 20% reduction for couples) for 70% of the elderly.

Strategies for integrating UBI and NIT

(continued)

- Additional tax rate for incomes in excess of 2 million won/month = 15%, or less (with savings from partial replacement of existing benefits)
 - Median<Mean individual monthly income among the entire population = 2 million won
 - Mean>Median individual monthly income among the working > 2 million won
 - A 10%-15% new tax in addition to existing income tax may be considered unfair (subsidizing the non-working) by majority of working population.
- Financing of UBI/NIT not just from income tax but from budget savings and new tax revenues
 - Additional tax could be imposed only on incomes in excess of 2.5 or 3 million won/month and tax rate could be lowered by introducing new taxes such as land value tax and carbon tax and by increasing the VAT rate.

Conclusion

- Political difficulty of introducing UBI & importance of framing
 - due to status quo bias and elite influence
 - hard for many people to understand why BI should be given to the rich
 - People may prefer an NIT scheme over an equivalent UBI scheme
- Important to set an appropriate level of basic income(guaranteed income) and a not-too-high marginal tax rate for both net beneficiaries and contributors.
 - Start with a modest level of basic income(guaranteed income)
 - Set a higher level of basic income(guaranteed income) for the elderly than for the non-elderly
 - Not-too-high take-back rate for net beneficiaries:
 - Marginal tax rate = existing income tax and social insurance contributions plus take-back rate.
 - Imposing additional tax on those who earn just a little more than mean individual income among the entire population can be perceived to be unfair.
 - Use budget savings and revenue from taxes other than income tax to finance UBI/NIT
- We are not designing a UBI scheme on a blank paper.

Appendix:

Mankiw's(2021) experiment

- "Consider two plans, plan A and plan B, aimed at providing a social safety net. (For our purposes here, let's keep things simple by assuming both are balanced-budget plans.)
 - Plan A. A means-tested transfer of \$1,000 per month aimed at the truly needy. The full amount goes to those with zero income. The transfer is phased out: recipients lose 20 cents of it for every dollar of income they earn. These transfers are financed by a progressive income tax: the government taxes at 20% all income above \$60,000 per year.
 - Plan B. A universal transfer of \$1,000 per month for every person, financed by a 20% flat tax on all income.
- Would you prefer to live in a society with safety net A or safety net B?
 - Over 90% of Harvard undergraduates concluded that plan A is better.

Mankiw(2021) on the question

- The two policies are equivalent.
- Look at the net payment—that is taxes less transfers. Everyone is exactly the same under the two plans. A person with zero income gets \$12,000 per year in both cases. A person with annual income of \$60,000 gets zero in both cases. A person with annual income of \$160,000 pays \$20,000 in both cases.
- And everyone always faces an effective marginal tax rate of 20%.
- In other words, everyone's welfare is identical under the two policies, and everyone faces the same incentive. The difference between plan A and plan B is only a matter of framing.
- ---- Once you see the equivalence (of these two approaches), plan B is easier to embrace. And it looks even better when you realize that universal benefits and flat taxes are easier to administer than means-tested benefits and progressive taxes.