

UNCONDITIONAL BASIC INCOME AS A SOLUTION FOR JOB DISPLACEMENT DUE TO AI AND AUTOMATION

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Abstract: *The concept of Universal Basic Income (UBI) has gained traction as a potential solution to societal and economic challenges, particularly in light of AI and automation-induced unemployment. UBI involves providing all citizens with a regular sum of money without conditions. This report provides a theoretical overview of UBI, discussing its implications in mitigating the effects of job displacement caused by AI and automation. Various forms of social support are compared, highlighting the unique features of UBI. The potential impacts of UBI on income distribution, labor market dynamics, and workforce participation are analyzed, along with challenges such as funding and policy design. The debate on alternative solutions such as AI and automation taxes is also explored, emphasizing the need for careful consideration of economic and social implications.*

INTRODUCTION

Universal Basic Income (UBI) is a concept that has gained popularity in recent years as a potential solution to various social and economic challenges. It involves providing all citizens with a regular, unconditional sum of money, without means testing or work requirements. Proponents of UBI argue that it could help alleviate poverty, reduce income inequality, and provide a safety net in the face of technological automation and changing work patterns.

By ensuring that everyone has a minimum level of income, UBI could also stimulate economic growth by increasing consumer spending, which is a main part of GDP. Critics of UBI raise concerns about its cost, potential disincentives to work, and possible inflationary effects. Implementing UBI on a large scale would require significant changes to existing social welfare systems and tax structures.

Unconditional Basic Income has gained traction as a potential solution to mitigate the adverse effects of job displacement. This report provides a theoretical overview of UBI and discusses its implications as a strategy to address the societal impacts of AI and automation-induced unemployment.

To complete it the following tasks must be fulfilled:

- ◆ Theoretical overview of the universal basic income and its possibilities to tackle AI and automation-induced unemployment;
- ◆ Discussion about AI and automation taxing possibilities as a government budget solution.

1. UNIVERSAL BASIC INCOME OVERVIEW

The rise of AI and automation has led to increased automation of various tasks and jobs, raising fears of mass unemployment and economic disruption. Proponents of UBI argue that it could serve as a crucial tool to mitigate the negative consequences of job loss caused by AI. By providing individuals with a financial safety net, UBI could help address income inequality, reduce poverty, and ensure economic stability in the face of technological advancement.

Unconditional Basic Income refers to a periodic cash payment given to all members of a society, regardless of their employment status or income level. Unlike traditional welfare systems, UBI does not impose means testing or work requirements. Proponents argue that UBI provides individuals with financial security, enhances freedom of choice, and ensures a basic standard of living [1, 2, 3].

The correlation of UBI and the major forms of social support is visible on figure 1.

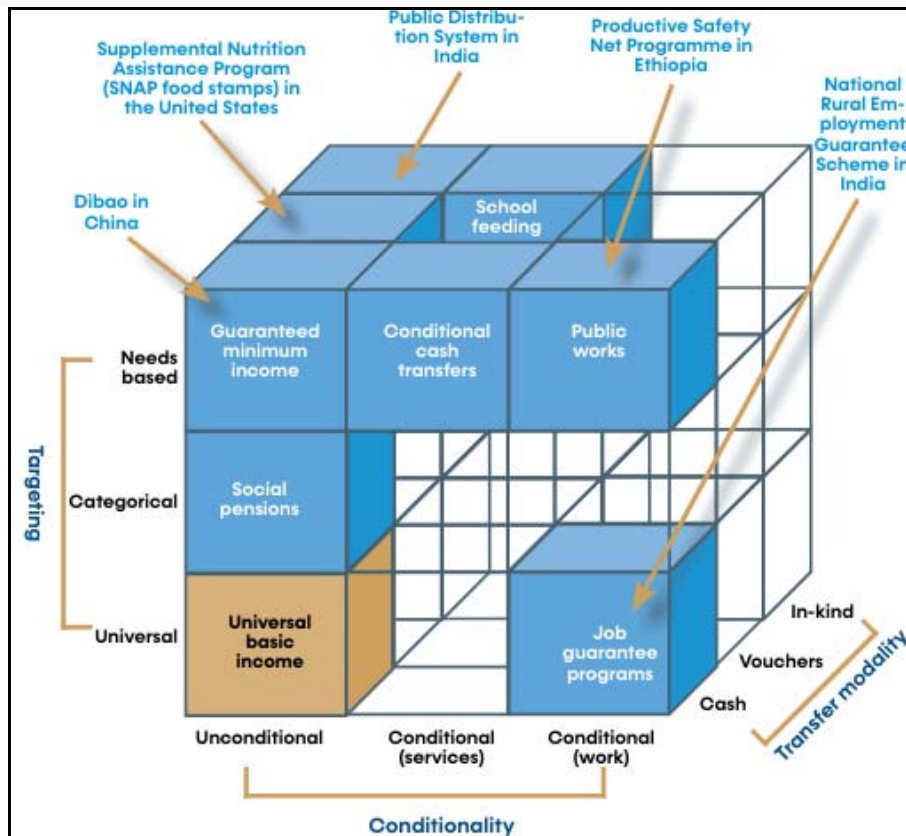


Fig. 1. UBI within a Social Assistance Cube (source: world bank [3])

There are several major forms of social support schemes based on the targeted social group such as universal basic income, social pensions, guaranteed minimum income, supplemental nutrition assistance (with food vouchers) or conditional based - Job guarantee programs and the way of transfer – cash, vouchers or in-kind. All of them have different economic effect.

Contradictory, the UBI is unconditional, universal and done by cash. But it could cause problems with the social system because there are issues with the different stakeholders which receive a social benefit. When the budget is distributed on even basis for everyone and not on specific target groups the economic effect will not be so significant and some people could lose part of their government supported income. As a result, they won't support implementation of UBI.

Economic theorists have proposed various justifications for implementing UBI. One argument is that UBI can address income inequality by redistributing wealth and ensuring that all citizens have access to essential resources. Additionally, UBI can stimulate economic growth by providing individuals with purchasing power, thereby increasing demand for goods and services. Moreover, UBI may streamline bureaucratic welfare programs, reducing administrative costs and inefficiencies [4].

The UBI is not a solution of all problems, the structural unemployment will be bigger and more significant issue. Education system is a conservative one and it is a very hard to change the curriculum every year. The skills that workers in the economy can offer, and the skills demanded of workers by employers will be wider. One of the reasons is the inadequate educational system which isn't flexible and easy to change in correspondence to the market labor needs. Thus, leading to the so called technological and structural unemployment.

“That is a prevalent fear these days, and not one easily dismissed. The specific effects of revolutionary technologies are impossible to predict, and perhaps AI will turn out to be overhyped. But it really is different from past advances: The work it can do really is different; the jobs it threatens really are different; its effects on the labor market really might be different. A pair of economists at Goldman Sachs recently estimated that two-thirds of American occupations are now “exposed” to AI-driven automation. In the coming decade, the technology will wipe out 300 million jobs, they forecast. That’s one in every 11 jobs on the planet.”[5].

Elon Musk, at the recent Bletchley Park summit, said he believed “no job is needed” due to the development of AI, and that a job can be for “personal satisfaction”. Economist and political theorist Karl Widerquist, professor of philosophy at Georgetown University-Qatar, sees it differently: “Even if AI takes your job away, you don’t necessarily just become unemployed for the rest of your life,” he says. “What happens is you go down in the labor market, you start crowding the lower-income professions.”[6].

With the rise of AI and automation, concerns about technological unemployment have intensified. Studies suggest that automation could lead to the displacement of millions of jobs across various sectors, exacerbating socioeconomic disparities [7, 8]. UBI offers a potential solution by providing a safety net for individuals affected by job loss. By guaranteeing a basic income, UBI enables workers to adapt to changing economic conditions, pursue retraining opportunities, or engage in entrepreneurial ventures without the fear of financial instability.

However, the implementation of UBI raises several challenges and considerations. Critics raise concerns about the cost of UBI, its potential impact on workforce participation, and the need for significant policy changes to existing social welfare systems. Furthermore, the effectiveness of UBI in addressing job displacement caused by AI remains a topic of debate, with differing opinions on its long-term implications for the labor market and society as a whole. Moreover, statistics shows that in Bulgaria the unemployed young people (between 15 and 34 years old) are around 44 000 from 128 600 for last quarter of 2023 [9]. It could be argued that upon UBI implementation in the country this number would rise significantly, as more young people would lose motivation to work. Taking into consideration that around 2 million of the current 6.5 million population of Bulgaria are already on government support such as pension and other social transfers it is easy to conclude the

government could not sustain UBI without any other form of income (taxation) to maintain the national budget. Other countries could face similar problems.

UBI will not resolve all problems of the labor market by itself, but it is a useful tool for softening the social consequences, because some populations groups are much more economically vulnerable.

2. AI AND AUTOMATION TAX

Despite its potential benefits, UBI faces several criticisms and challenges. Skeptics argue that UBI may disincentives work and lead to a reduction in labor force participation. Moreover, financing UBI requires significant fiscal resources, raising questions about its feasibility and sustainability. Additionally, implementing UBI on a large scale necessitates careful policy design and coordination to prevent unintended consequences and ensure equitable distribution.

‘The most immediate solution, which has been strongly supported among others by Bill Gates, Elon Musk and Nobel Laureate in Economics Robert Shiller, is taxing robots. A robot tax stems from the idea that robot-adopting firms should pay a tax since they replace human workers with robots. There are several arguments in favor of robot tax. The **first** one is preserving human employment by introducing disincentives for firms from replacing humans with robots. **Second**, even though firms prefer replacing humans with robots, a robot tax would generate revenues for the government to cover the loss of revenues from payroll taxes and income tax. A **third** argument in favor of the robot tax is allocation efficiency: robots do not pay neither payroll taxes, nor income taxes. Taxing robots improves the efficiency in the economy, because governments already tax labor, so they should also tax robots at the same rate to avoid distortion in the resource allocation. In most of advanced economies, and in particular in the United States, taxation favors AI and automation over human employment. This may distort investment toward automation simply because companies benefit from tax windfalls and not because automation may increase profitability. **Finally**, not taxing robots will increase income inequality, because of the decreasing share of national income going to labor.’[10].

Another solution is digital taxation. The debate on digital taxation focuses on two main aspects. First, how to ensure that tax policy remains neutral in targeting traditional and digital businesses? Digital businesses have benefitted from preferential tax regimes, e.g., tax advantage for income earned from intellectual property, shorter amortization for intangibles, research and development tax relief. The risk is that preferences for digitalized businesses may create tax windfalls that can be used in ways that distort investment, rather than focusing on innovation.

Second, digital companies may operate without having physical presence in countries where digital enterprises have customers, since they can reach customers through remote sales and service platforms. The ability of digitalized firms to make profits though cross-border sales without a physical presence poses challenges on the traditional corporate income tax rule. Up to now, digital businesses have paid corporate taxes on profits only in those countries where they had a permanent establishment, so either the headquarter or factory or storefront. This means that the countries where sales are made or where online users are located have no taxing rights over the firm's income.’[10].

‘Middle-class workers may bid for jobs as a result of artificial intelligence, according to former Secretary of Labor, Robert Reich. The rise in productivity and loss of jobs as a result of AI may require a universal basic income strategy, he said in an interview with CNBC. Economic growth is a necessary step to reach environmental goals, Reich says.’[11].

If there is a political will to tax the AI and automation it must be done very careful, if it is tax too high that will damage the economic development, if it is too low it will not cover the need of social justice.

CONCLUSION

In summary, while UBI presents potential benefits in addressing income inequality and adapting to changing economic landscapes, careful consideration of its implementation challenges and alternative financing mechanisms is crucial for its long-term success.

Firstly, UBI is seen as a potential solution to address job displacement caused by AI and automation. It could help alleviate poverty, reduce income inequality, and provide a safety net against technological disruption in the workforce. By providing individuals with regular, unconditional payments, UBI could stimulate economic growth and consumer spending.

Secondly, economic growth may hinge on strategies like implementing UBI to soften the socio-economic impact of technological advancements. Middle-class workers may need to adapt to job market changes brought about by AI, potentially necessitating a UBI strategy to ensure financial stability.

Thirdly, suggestions like the taxation of robots or digital businesses have been proposed as alternative ways to finance UBI. A robot tax is seen as a means to preserve human employment incentives and generate government revenue.

However, there are concerns about the impact of UBI on workforce participation and the economy. Significant changes to existing social welfare systems and tax structures would be needed for effective UBI implementation. UBI may not directly solve structural unemployment issues and could have varying effects on different economic sectors.

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