The idea of Universal Basic Income
A plethora of views

**The idealist:** “[UBI] would enhance individual liberty. It would give people a sense of control over their lives and would provide them with freedom” (G. Standing)

**The forecaster:** “… I can bet, within the next two years, at least one or two [Indian] states will implement universal basic income” (A. Subramanian)

**The pragmatic:** “I think we'll end up doing universal basic income. It's going to be necessary” (E. Musk)

**The thought-provoker:** “… policy makers should remain open to the possibility that [targeted safety nets] may well be dominated by more transparent forms of universality, including a basic full income” (M. Ravallion)

**The skeptical:** “The problem with the discussion about basic income is that in most instances it leaves the real issues unexplored and in reality expresses a concept of social justice on the cheap” (T. Piketty)

**The cynical:** “Forget about UBI; to reverse rising inequality and social dislocation we need to radically change the way we think about income and work” (I. Goldin)
Need to move the discussion from ideas to solid facts

In a forthcoming report on developing countries, we unbundle:

- Definition (variants) and experiences (pilots)
- Design choices and similar/alternatives
- Behavioral and labor market effects
- Simulations on poverty and inequality
- Financing
- Political economy
- Delivery
• Universality = everyone benefits... or do so to the same extent?
  • UHC concept of ‘progressive universalism’

• An aspirational goal with different pathways to get there
  • Via combinations of social assistance and insurance
  • Combining social assistance interventions
  • Single social assistance interventions (UBI fits here)
• What is a UBI? The alignment of 3 radical choices

• Is this new? Extension of a familiar instrument, i.e., unconditional cash transfers
The quest for universality

- Negative Income Tax and other ‘tapered’ options
- Right to work
  - Income guarantee programs through public works (US New Deal, NREGA in India)
  - Rights + responsibilities; element of self-selection; what meaningful activities to implement?
Where is UBI discussed?

- At least 3 development narratives
  - Labor market risk
  - State accountability (resource revenues)
  - Social protection systems
• Fears of automation
  • “Out of 702 US detailed occupations (blue and white collars), 47% of them are at risk”

• Rise of the precariat
  • Decoupling of productivity and median income

• Erosion of ‘standard employment relationship’
• Large resource windfalls and inefficiency in public spending
  • Public expenditures, government employees, subsidies (e.g., Kuwait 4-20pp higher than in MENA)

• Weak accountability as spending not financed through taxes but ‘unearned income’
  • Provide transfers and partly tax them back to finance public goods

<table>
<thead>
<tr>
<th>Share of resource revenue needed to eliminate poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
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<tr>
<td>Chad</td>
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<td>Congo</td>
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<tr>
<td>Equatorial Guinea</td>
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<tr>
<td>Gabon</td>
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<tr>
<td>Nigeria</td>
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<tr>
<td>South Sudan</td>
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</table>

Source: Devarajan et al. (2013).
Past example: Mongolia
Current example: Alaska
• Continuity of welfare distribution (poverty definitions and measurement)

Social protection
• Reaching the poorest
  • Issue of ‘exclusion’. But reaching the poor is a process, well-beyond targeting
  • Societal marginal utility from reduction exclusion vs allowing inclusion

• Fragmentation
  • Too many programs? India, Bangladesh, etc.

• Political economy of the ‘middle’
  • Large swaths of the population are vulnerable or nearly-poor, get relatively little SA and SI
• **Scope (substitution/extension or addition)**
  - Addition would likely be a non-starter
  - UBI doesn’t diminish need for enhanced state capacity (transfer efficiency so state could concentrate on other public goods)

• **Specific objective-setting (transfer size)**
  - Fill poverty gap
  - Equivalent of average existing transfer level (< poverty gap)
  - Basic needs
  - Livable income

• **Differentiated design**
  - Diverse allocation by age or income (tapering)
  - Demogrant; use-it-or-lose-it modality

• **Doesn’t waive core preconditions**
  - Identification
  - MIS
  - Payment mechanisms
  - Grievances and monitoring

• **Risk of also substituting basic services**
  - Links to public-private provisions (e.g., health, education)
  - Can countries achieve universality across the board? Trade-offs with education and health?

• **Can cash alone be a realistic proposition?**
  - Existing programs can pursue generic (‘income transfer’) or granular objectives (‘provision of micronutrient-fortified foods for people under HIV treatment’) → UBI only a generic one
  - Possible no transfer for children (unless family-adjusted)
  - Implications for results metrics/theory of change → “how does performance look like”, e.g., output-based?”
• Income poverty elimination
  • A fast way of mechanically lifting people above a certain monetary threshold

• Empowerment
  • Reaching individuals, not HHs (gender and intra-household effects)
  • Non-exploitative bargaining → no acceptance of any work ("power to say no")
  • Bandwidth and cognitive tax

• Labor market participation
  • Quality alignment, partial or calibrated engagement without fear of losing benefits
  • Remunerating unpaid work (2-32% of the poor)
  • Predictability → risk-taking and entrepreneurship
  • Insurance against risks (vulnerable/near-poor)

• An exit strategy might end up worsening rather than strengthening the bargaining position of the most vulnerable (e.g., if it undermines collective action)

• Would it further informal work? (e.g., no contributions, lower-pay, or less favorable working conditions)

• Can UBI reduce minimum wage?

• What effect on inflation → poverty line up → ‘kicking the can down the road’
• Literature largely focused on HICs and personal income taxes (and hence high income countries)

• Growing exploration of alternatives: carbon credits (US), subsidy reforms (Iran), VAT (Ethiopia)

• Costs depend on design, but quite sizable across the board

• Political sustainability: middle-class as recipients of UBI

• De-jure UBI, de-facto quasi-UBI: tapering

• Would UBI take pressure out of contributory insurance (i.e., its redistributive function)?

• “Where to draw the line” between net beneficiaries and net payers

• What links to financing the shock-responsive and humanitarian agenda in fragile states?

• Possible ingrained lobbies and interest groups to keep existing programs (e.g., PDS)

• What are the constituencies for universal provision in transfers?
Political economy: Finland
• Would a UBI reduce errors of exclusion among the poor? It depends
  • If those errors are the result of method-specific issues in targeting, a UBI may offer potential to overcome them
  • When errors are the result of administrative or information constraints, these may not be addressed by a UBI. If the main constraint is fiscal, a UBI may amplify that bottleneck.

• Could a UBI help reduce program fragmentation? Maybe
  • Some degree of consolidation may be appropriate, but the optimal number of programs will most certainly be more than one

• Can the costs of a UBI could be turned into a mechanism to strengthen social contracts? We don’t know
  • There might be important societal spillovers. The political economy of UBI, however, is vastly underexplored.

• Should design choices be straitjacketed? For sure not
  • Whether and how to condition, as well as what transfer modality to provide, should be based on societal preferences, evidence, and local conditions instead of being imposed from the outset

• Would a UBI make the poor better-off? Not necessarily
  • Depends what they were receiving, their needs, how programs are financed
• How much does a UBI cost?

• What are the distributional effects?

• Is there any typology of country where it would make more sense than in others?

• *Three case studies from forthcoming report*
Russia: Middle income - substituting generous but fairly flat ("across the board") social assistance

Brazil: Middle income – substituting modest but well targeted social assistance

Mozambique: Low income country

Disclaimer: the programs we substitute do not represent all the social assistance programs
Using the household survey, we subtract from each household’s income the transfers that the BIG is supposed to replace.

We then add the BIG transfer according to each scenario (benefit levels) and the number of adults in the household.

Target group: Adults (>=18 years old)

Database: Household surveys

Programs substituted: Cash-based safety nets, social pensions
▪ Current transfers

▪ **Equivalent transfers:** Redistributing the budget of existing transfers as a BIG

▪ **Equivalent benefits:** Distributing to all adults the weighted average of current benefits received by beneficiaries

▪ **Poverty gap:** Distributing to all adults a transfer equal to the average distance from the poverty line among the poor

▪ **Poverty line:** Distributing to all adults a transfer equal to the poverty line

▪ **Poverty targeted equivalent transfer:** Redistributing the budget of existing transfers uniformly among all the poor (incl. children) – **NOT A BIG!**

6 scenarios
Generous safety nets and well targeted social assistance

Coverage SSN quintiles and poverty, 2016

Coverage % population

Q1 Q2 Q3 Q4 Q5

Quintiles of per capita consumption

Total Budget, %GDP 2015

% GDP, 2015

Current (HH survey) Equivalent transfer Equivalent benefits Pov Gap Pov line Poverty targeted Equi. Transfer

Generous safety nets and well targeted social assistance
Slightly worse impacts of Budget Neutral (BN) UBI on poverty

Poverty Rate Impacts (11$/Day PPP)

- Equivalent transfer
- Equivalent benefit
- All population
- Pov Gap
- Pov line
- Targeted Equivalent transfer
- Current

Percentage points difference

Overall  0-6 years old  7-17 years old  18-65 years old  65+

Russia
Slightly worse impacts of BN UBI on inequality

Russia

GINI Impacts

<table>
<thead>
<tr>
<th>Percentage points difference</th>
<th>Equivalent transfer</th>
<th>Equivalent benefit</th>
<th>Pov Gap</th>
<th>Pov line</th>
<th>Targeted Equivalent transfer</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>All population</td>
<td>-1.6</td>
<td>-2.3</td>
<td>-2.7</td>
<td>-3.7</td>
<td>-8.7</td>
<td>-11.2</td>
</tr>
<tr>
<td>0-6 years old</td>
<td>-2.5</td>
<td>-3.5</td>
<td>-4.2</td>
<td>-3.7</td>
<td>-8.0</td>
<td>-8.1</td>
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<tr>
<td>7-17 years old</td>
<td>-2.2</td>
<td>-3.2</td>
<td>-2.4</td>
<td>-2.4</td>
<td>-7.0</td>
<td>-7.3</td>
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<tr>
<td>18-65 years old</td>
<td>-1.4</td>
<td>-2.1</td>
<td>-2.2</td>
<td>-0.7</td>
<td>-6.0</td>
<td>-5.9</td>
</tr>
<tr>
<td>65+</td>
<td>-1.3</td>
<td>-1.8</td>
<td>-1.1</td>
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<td>-3.7</td>
<td>-3.0</td>
</tr>
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</table>

Overall 0-6 years old 7-17 years old 18-65 years old 65+
Very similar efficiency of poverty reduction

Russia

Targeted Equivalent transfer

Current

Poverty reduction / Spending %GDP

More cost-effective
Relatively few would lose from a BN UBI
Generous safety nets and well targeted social assistance

### Coverage SSN quintiles and poverty, 2015

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<thead>
<tr>
<th>Quintiles of per capita consumption</th>
<th>Coverage % population</th>
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<tbody>
<tr>
<td>Q1</td>
<td>59</td>
</tr>
<tr>
<td>Q2</td>
<td>34</td>
</tr>
<tr>
<td>Q3</td>
<td>17</td>
</tr>
<tr>
<td>Q4</td>
<td>7</td>
</tr>
<tr>
<td>Q5</td>
<td>2</td>
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</table>

### Total Budget, %GDP 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>%GDP</th>
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<tbody>
<tr>
<td>Current (HH survey)</td>
<td>0.7</td>
</tr>
<tr>
<td>Equivalent transfer</td>
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<td>Equivalent benefits</td>
<td>3.0</td>
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<td>Pov Gap</td>
<td>5.0</td>
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<tr>
<td>Pov line</td>
<td>13.1</td>
</tr>
<tr>
<td>Poverty targeted Equi. Transfer</td>
<td>0.7</td>
</tr>
<tr>
<td>Adm. data (2015)</td>
<td>1.1</td>
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Brazil
Worse impacts of BN UBI on poverty

Poverty Rate Impacts

Equivalent transfer
Equivalent benefit
Pov Gap
Pov line
Targeted Equivalent transfer
Current

Percentage points difference

Overall 0-6 years old 7-17 years old 18-65 years old 65+

Brazil
Worse impacts of BN UBI on inequality

GINI Impacts

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<td>-11.7</td>
<td>-16.6</td>
<td>-16.1</td>
<td>-8.3</td>
<td>-10.7</td>
</tr>
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</table>

Brazil
Worse efficiency in poverty reduction

Poverty reduction / Spending %GDP

Targeted Equivalent transfer
- Current: 3.4
- Eq. benefit: 2.0
- Pov. Gap: 2.0
- Eq. benefit Adult: 1.6
- Pov. Gap Adult: 1.6
- Pov. line: 1.6
- Eq. transfer: 1.6
- Pov. line Adult: 1.4
- Eq. transfer Adult: 1.3

Brazil
Many poor would lose from a BN UBI

Brazil
An unaffordable option?

Coverage SSN quintiles and poverty, 2014

Total Budget, %GDP 2014

Mozambique
A bold idea...

- A UBI presents advantages:
  - It covers everybody – hence it helps people coping against a variety of risks
  - It does not suffer from inclusion/exclusion targeting errors
  - It provides a minimum income to Adults – possibly relieving some of the costs of job search

- But it also presents disadvantages:
  - To be meaningful, it is more expensive than targeted transfers
  - Not an efficient poverty reduction tool
    - For any given budget, targeted transfers are more effective in reducing extreme poverty
Findings from simulations

▪ Substituting generous and poorly targeted transfers in MICs
  ▪ Relatively modest additional costs
  ▪ Similar (albeit still lower) poverty impacts, few losers

▪ Substituting modest but well targeted social assistance in MICs
  ▪ Larger additional costs
  ▪ Lower poverty impacts, many losers among the poor

▪ Implementing a meaningful UBI in MICs
  ▪ Large fiscal implications

...that may be feasible in some cases
Thank you