

UBI as a policy response (to all sorts of challenges)

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Universal Basic Income (UBI)

UBI:

universal -- no categorical eligibility nor means-tested

basic income – an amount sufficient to live on

To address a host of challenges:

1. Income Inequality
2. Loss of jobs (i.e., the feared “robot apocalypse”)
3. Streamline current programs

But -

1. Not well designed to redistribute to the most needy
2. Does not encourage work, enhance skills
3. Loses investment aspect of many programs

But....“UBI” often applied to something other than Universal Basic Income

- **Negative Income Tax:** an income transfer to people with no income, and then the transfer gets taxed away. Universal in the sense of no categorical requirement, but means tested
 - Conceptually different from the EITC
 - Increase material support to out-of-work individuals – *pros/cons, see Jesse’s talk!*
 - **Ad hoc stimulus or social insurance payments**
 - Economic Impact Payments as part of CARES package
 - \$1,200 one-time checks, targeted <\$75K/\$150K: ~\$272B
 - Immediate relief to widespread income loss; stimulus during downturn
 - “Expedient social insurance payment” – [Kearney & Pardue](#), 2020
 - **Unrestricted cash payments to low-income individuals**
 - Stockton Economic Empowerment Demonstration (SEED): \$500/mo to 125 individuals living in neighborhoods w/ median income <\$46K; funded entirely by private donations, supplements existing housing, health care, & other government income support
 - Increasing material support to low-income individuals with cash on top of existing safety net
- ❖ Note: Group of mayors calling for “guaranteed income” (not universal, not basic)

UBI Costs & (Re)Distribution

- A meaningful UBI (\$10K) extremely expensive.
 - 2020 revenue \$3.7T; spending \$4.8T
 - TANF \$7.1B; EITC \$67B; low-inc housing \$28B; SNAP \$60B;
 - SS-old age ~\$800B; SSDI ~\$142B
- Phasing it out makes it more fiscally feasible
- Compared to current transfers, less redistribution

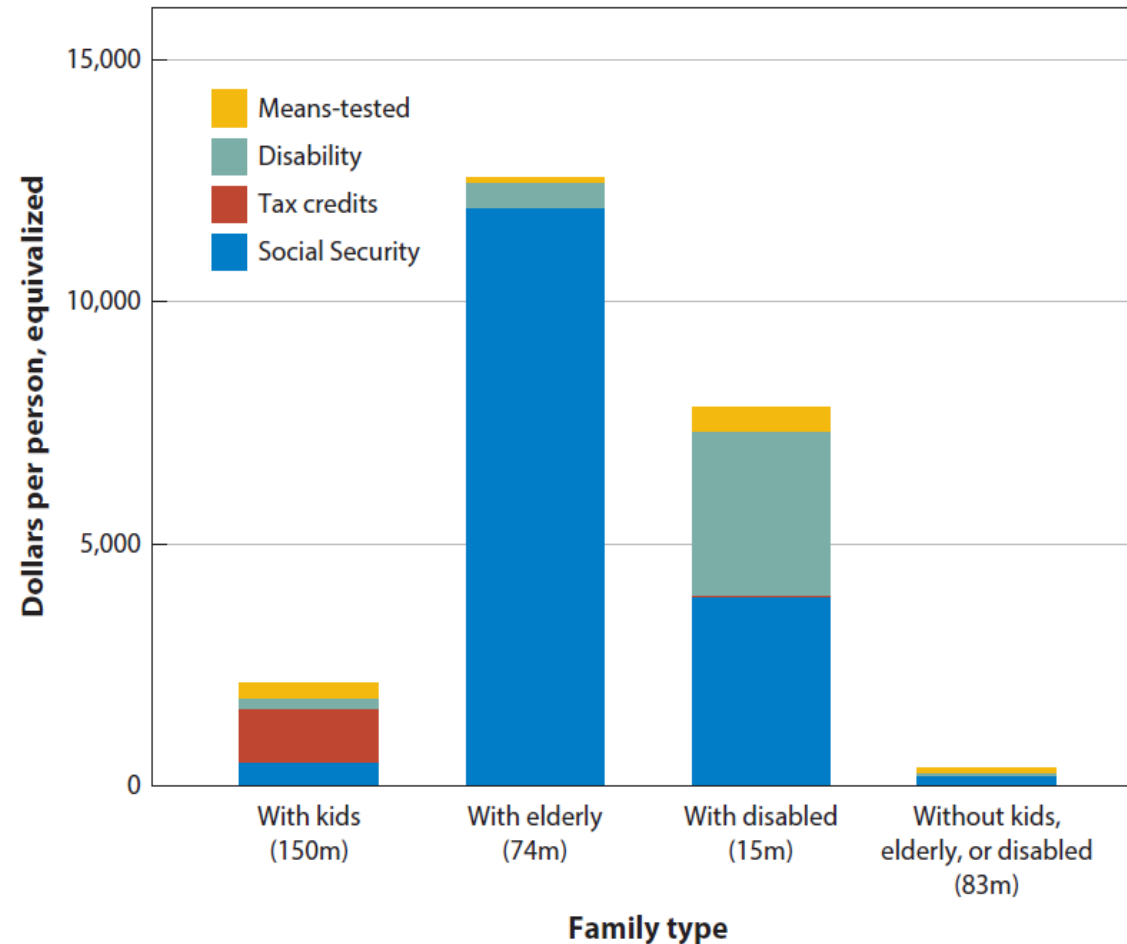
<i>Income quintile</i>	UBI, no phase-out	\$10K to all adults w/ <20K earnings; 30% phase out	Existing transfers
< 10,000	0.58	0.52	0.65
10,000-40,999	0.47	0.40	0.18
41,000-74,999	0.50	0.28	0.09
75,000-123,599	0.47	0.20	0.05
>=126,600	0.48	0.14	0.04
Cost	\$2.49T	\$1.54T	\$1T

From Kearney & Magstad, 2019

UBI would change redistribution across categories

Existing safety net primarily serves elderly, disabled, families with kids.

- *From Hoynes & Rothstein, 2019; data from 2017 CPS*



Gallup poll on UBI fits w/ shifted redistribution

Support for Universal Basic Income in the U.S., U.K. and Canada

Do you support or not support a universal basic income program as a way to help people in [the U.S./the U.K./Canada] who lose their jobs because of advances in artificial intelligence? (% Support)

	U.S.	U.K.	Canada
	%	%	%
Gender			
Men	40	72	72
Women	46	81	77
Age			
18-29	59	84	81
30-49	51	81	78
50-64	34	72	72
65+	32	66	66
Education			
Upper secondary education or less	38	80	78
Higher technical education, vocational training, community college education or associate degree	42	71	75
Bachelor's degree	54	74	73
Master's or doctoral degree	51	72	71

On work: Will it reduce labor supply?

Some proponents say no (good thing); other proponents say yes (good thing)

Evidence from income transfers --

- AFDC on labor supply of low-income single mothers:
 - 10-15% reduction in employment, off a low baseline (see, JEL review by [Moffitt 1992](#))
 - *But*, both inc & sub effects; applies to a particular group with low labor force attachment, from many years ago.
- Multiple NIT experiments in 1960s/1970s:
 - SIME/DIME: G of \$23K-\$34K, BRR of 50-80%; Modest reduction in work, larger for women, see [Burtless 1986](#).
 - Canadian Annual income maintenance RCT showed smaller reductions ([Hum & Simpson, 1993](#))
 - *But*, both inc & sub effects; also, labor supply elasticities are probably different now
- Alaska Permanent Income Fund—\$1,000-\$2,000/year to all adults since 1982; [Jones & Marinescu](#) (2018) find no effect on aggregate employment (red in non-tradable, inc in tradable: interpret as eqm null)
 - *But*, these are not sufficient amounts to live on, akin to what UBI proponents are calling for.
- Lottery winners: ([Imbens, Rubin, & Sacerdote, 1999](#)) – w/ an average annual prize of \$26,000, each \$100 in prizes reduced earnings by \$11. [Cesarini, Lindqvist, Notowidigdo, & Östling, 2017](#) - Winning a lottery prize in Sweden (small, med, large prizes, \$1400K, \$14K, \$140K) leads to an immediate and persistent (10 yr) reduction in earnings; Pretax earnings fall by ~1.1% of the prize amount per year.
- Social Security Disability Insurance: Economists have found that the marginal beneficiary of a disability insurance award would have been almost 30 percentage points more likely to work had they not received benefits (e.g., [Maestas, Mullen, & Strand, 2013](#)).
 - ❖ Labor supply effects of a UBI likely greatest for those marginally attached to the labor force. SSDI is a guaranteed annuity, targeted at marginal population. Seems highly relevant.

On work: Will it increase self-employment?

Would UBI increase entrepreneurship or small business creation?

- [Cesarini, Lindqvist, Notowidigdo, & Östling, 2017](#): winning a lottery prize reduces self-employment income.
 - [Andersen & Nielson \(2012\)](#): liquidity constrained entrepreneurs in Denmark who get a windfall of wealth – increases entry into entrepreneurship, but worse than average outcomes.
 - There is evidence that giving cash to unemployed and poor workers who apply for business and vocational grants in Uganda leads to increase in business development (consistent w/ credit constraints) – [Blatman, Fiala, & Martinez, 2017](#) -- but likely not very relevant to the question of broad-based universal income guarantee, esp in rich countries.
- ❖ Open question: no solid evidence in favor of claim, but it's possible. (Probably less than targeted credit to entrepreneurs.)

On work: Will it lead to training?

Would UBI lead individuals to increase investment in training or education?

- Lots of studies showing tuition subsidies and grants lead to more education, but little evidence on whether a sizable amount of money will lead people to leave low-paying jobs to invest in training/education, and how this might vary with income amount or any income-eligibility targeting.
- Related papers: [Lovenheim \(2011\)](#) – housing wealth shocks lead to increased college enrollment, esp among lower-income families; [Manoli & Turner \(2018\)](#) – EITC in kid's HS senior year increases college enrollment.
- ❖ Question: Low-income families use increase in income to spend on kids' education. Would (single) adults invest in their own education?
- ❖ No known evidence in favor of claim, but perhaps some would. (Probably less than targeted skills building approach.)

On work: Will it liberate workers?

Would it lead people to demand higher wages (b/c reservation wage is higher)?

Will depend on how large the payment is, how large the labor supply reduction would be, & what GE effects would be.

- Some relevant evidence: [Rothstein \(2010\)](#) simulates EITC will reduce wages & NIT increases wages (\$1->\$1.39) b/c of employer incidence.

❖ *Open question:* no solid evidence in favor of claim, but maybe. Surely less than direct wage subsidies.

❖ Note that this goal is directly opposed to 1996 US welfare reform, EITC & EITC expansions

On work: other issues to consider

❖ As compared to what?

- Compared to UI, or EITC, or no transfers

❖ What Social Welfare Function?

- Not targeted support for those with barriers to work, or those w/ high disutility of work.

❖ Opportunity cost of spending

- *Alternative spending*: investments in higher ed/community colleges, subsidized wages/expanded EITC, subsidized childcare

On safety net: targeted v. universal, cash v. in-kind

Requirements are typically “tags” of need (see Akerlof 1978)

Evidence shows that means-tested programs – both cash & in-kind - have large social returns:

- **EITC** (targeted income) – Numerous studies document positive effects of EITC \$ on range of outcomes, inc children’s academic performance, infant health, and maternal mental health. (See review article [by Nichols and Rothstein, 2016](#)).
- **Medicaid** – long-term benefits, social returns ([Brown, Kowalski, & Lurie, 2015](#); [Boudreaux, Golberstein, & McAlpine, 2016](#)
- **Food Stamp** – long-term benefits ([Hoynes, Schanzenbach, & Almond, 2016](#)).
- **Early Childhood Education** – long-term benefits of Head Start (e.g., [Thomson, 2016](#))
- **Childcare** – positive benefits only to lower income families ([Havnes and Mogstad, 2015](#))

Other evidence about impacts of cash to disadvantaged groups:

- **Indian casino profits** paid out to Eastern Cherokee families improve outcomes for children from lower-income families; additional \$4000/year increase educational attainment, reduce crime; seems thru improved parenting ([Akee et al, 2010](#).)
- **Chicago homeless call center:** [Evans, Sullivan, & Wallskog \(2016\)](#) - individuals calling when funding is available are 76% less likely to enter a homeless shelter (up to 12 mos).
- **EFA to low income college students:** [Evans, Kearney, Perry, Sullivan \(2019\)](#) - \$ not helpful unless bundled with comprehensive case management

On safety net: cash v. in-kind; targeted v. universal

- *Open question: What if safety net programs were replaced by cash?*
 - In general, can't learn this from ongoing "UBI" pilots.
- *Open question: Expanding unconditional cash payments to higher income individuals and families?*
 - Kearney and Magnstad (2019): "we are not aware of any evidence showing that incremental income payments paid to higher income people similarly produces positive social returns."
- ❖ *Can potentially learn something from "UBI" experiments in specific contexts*
 - What do people spend money on? (SEED reports 40% of increased income spent on food.) Do they move to better neighborhoods? Invest more in their human capital (or their kids)? Does their mental health improve?

UBI Pilot Programs (from Kearney & Mogstad 2019)

	Finland	Stockton, CA	Ontario	Switzerland	2 U.S. States (Y Combinator)
Annual Transfer	6,720€ (\$7620)	\$6,000	\$16,989 CAN individuals \$24,027 CAN couples	26,280€	\$12,000
Phase-out begins	n/a	must live in n'hood with a median income <= \$46,033)	n/a	n/a	County median income
Phase-out rate	n/a	n/a	50%	n/a	100%
Age restrictions	Age 25-58	18+, reside in Stockton,	Age 18+	n/a	Age 21-40
Treatment group size	2,000 individuals	100 families	2,000 individuals	TBD	1,000 individuals
Dates	2017-2018	2019-2020	2017-2018	TBD	2020-2023 or 2025
Interaction with Welfare Payments	Basic income deducted from transfer payments	UBI supplements transfer income	Replaces most transfer programs	Basic income deducted from transfer payments	Seeking waivers for UBI to supplement transfer income
Additional Notes	Government declined to extend trial in 2018	Extended from July 2020 to January 2021	Trial ended 2 years early	Delayed due to lack of funding	Not yet begun