Universal Basic Income

The case for UBI in Developed vs Developing Countries

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Universal Basic Income

- Three dimensions
  - Cash transfers (not in-kind, coupons, vouchers etc)
  - Unconditional (unlike CCT programmes in Mexico, Brazil)
  - Universal (no socio-economic or demographic criteria)
- Rare confluence of interest in both developing and developed countries

Renewed Interest Stems from Policy Initiatives

- Being implemented in several developed countries (e.g., Finland , the Netherlands, and the Canadian province of Ontario) & discussed in others (Scotland)
- Some developing countries too, such as India, Kenya & is part of several experiments involving unconditional cash transfers (UCTs)
- Banerjee et al WBRO 2017, Bastagli et al 2016, Evans & Popova (2014) provide reviews

Antecedents – Developed world

- Thomas More, Thomas Paine, Fourier, Mill, Bertrand Russell
- Support from economists from both left and right – Hayek, Meade, Tobin, Atkinson
- Milton Friedman’s negative income tax proposal
- Current trends related to attempts to reform the welfare state (esp relevant given 75 years of the Beveridge Report)

Antecedents – Development Policy

- Three broad categories of development policies
  - Enabling the poor greater access to markets
  - Improving the access of the poor to public services and infrastructure
  - Transfers - explicitly redistributive in nature (conditional, unconditional, in-kind etc)

Some questions

- To what extent are the cases for UBI in developing and developed countries similar?
- In answering this it is important to
  - Distinguish between normative and feasibility arguments
  - Distinguish between the kind of problems UBI is trying to solve, for example:
    - Unemployment?
    - Poverty alleviation?
- To what extent the support for UBI depends on viewing it as a complement or substitute to other welfare and development policies?

Arguments in Favour of UBI

- The arguments in favour of the first two features of a UBI – cash transfers and unconditionality - are similar in both country contexts
  - A UBI cuts administrative costs and empowers citizens by giving them choice and control over how to spend the money received as assistance.
  - Standard economic inefficiencies associated with in-kind or conditional transfers, such as distorted resource allocation from both the demand and supply sides, direct bureaucratic costs, and corruption, limit considerably the social returns on public funds.

- It is not that there are no administrative costs associated with cash transfers or that there is no potential for corruption.
- Also, for cash transfers to be feasible, a well-functioning financial infrastructure is necessary, which is often not the case in developing countries
- A frequent concern that is raised about a UBI is founded on paternalistic grounds – whether having a fixed guaranteed income makes people want to work less and squander the cash on inessential consumption

- However, evidence suggests that this is largely unfounded in developing countries
  - Banerjee et al. (2016) re-analyse the results of seven randomised controlled trials of government-run cash transfer programmes from six countries worldwide to examine their impacts on labour supply.
  - Across the seven programmes, they find no systematic evidence of impact on either the propensity to work or the overall number of hours worked, for either men or women.
  - Evans and Popova (2014) review evidence from 19 studies with quantitative evidence on the impact of cash transfers on temptation good expenditure, as well as 11 studies that surveyed whether respondents reported they used transfers to purchase temptation goods supported by data from Latin America, Africa, and Asia.
  - They find either no significant impact or a significant negative impact of transfers on expenditures on alcohol and tobacco.

- The third feature of a UBI - that it is universal as opposed to targeted to specific groups – is the most debated.
- On the positive side, it prevents inclusion and exclusion errors associated with contingent or means-tested welfare assistance programmes, including cash transfers.
- A UBI circumvents the challenges of targeting by being a lump-sum transfer, which is independent of the behaviour (as are unconditional cash transfers) and characteristics (income, age, health, or family-status) of the recipient.

- On the negative side, two frequent criticisms of a UBI are that the direct cost of any universal programme is high, and the fact that the poor and rich will receive the same transfer does not seem very equitable.
- Neither of these criticisms are strong.
  - No serious case for UBI comes without a complementary proposal for full or partial offsetting of costs from other direct transfer programmes for the poor, or the garnering of higher taxes.
  - Whether taxes are raised or not, under an income-tax scheme with wide coverage, the gross transfers to the rich will be offset by taxes.
  - Therefore, in net terms, only those below a certain income level will receive a net transfer (& why a UBI is similar to the negative income tax scheme)

- It is precisely in this dimension where the arguments in favour of UBI differ sharply between developing and developed country settings.
- Given the state capacity of developing countries, only a very small fraction of the population pays income taxes.
- For example, in India a mere 2.3% of the population file tax returns and about 1% pay taxes, rendering the fiscal instruments to reclaim the transfer from the rich severely limited.
- The Economic Survey, an annual report on the state of India’s economy, shows that there are only 7 taxpayers for every 100 voters in the country.
- The corresponding figure for Scandinavian countries is nearly 100 and the figure for most developed countries is in the 60-80 range.

- This renders the scope of a UBI more limited in a developing country setting, as funding is a challenge given the limited tax-base
- Furthermore, the tax base often excludes some affluent sections of society - concerns about fairness.
- It might seem that developed countries can afford any form of extra expenditure better - not only do they have a wider tax-base, they are also richer.
- However, when we compare the country contexts, poverty is relative given differences in the cost of living as well as the subjective definitions of what constitutes poverty.

- For example, in India, giving everyone a sum that equals the yearly income corresponding to the poverty line is about 10% of GDP, while the corresponding figure for the US is 20%. Both these numbers are impractical given the fiscal realities of the respective countries.
- Therefore, for a UBI to be practical, it has to be scaled down from these sums and adapted to the particular country context.
- Since relatively small sums can still have a considerable impact in developing countries, given the differences in the costs of living as well as the abject level of poverty, the case for a UBI is stronger.

- Turning to the economic arguments behind a UBI in developed and developing countries (as opposed to state capacity) there is a major difference
- In the former, it is the looming threat of unemployment due to globalisation and automation, as well as an increasing consensus on inequality as a policy problem that has renewed earlier debates about what is the best way to carry out economic redistribution.
- In developing countries, it is extreme poverty and a political consensus around poverty alleviation as the main economic policy objective that has driven debates as to what constitutes the best approach to combat poverty.
- There is a case for UBI as a policy response to unemployment (or, more broadly, the rise of the gig economy) as well as poverty in developed countries.
- But it is clearly no alternative to a progressive income or wealth tax if inequality is the main concern. In contrast, the case for a UBI as a policy measure to combat extreme poverty in developing countries is rather compelling.

- We have already noted the problem of state capacity relating to the tax-base as a key constraining factor.
- Some argue that it will deplete funds for other anti-poverty policies.
- Even so, as long as it is posed alongside other poverty alleviation measures, it is worth testing on an affordable scale.
- We should also be clear in recognising that a UBI is only a safety net that provides relief from extreme deprivation relating to goods and services that are available in the marketplace - it is not a substitute for public goods and services.

- In discussing the merits and demerits of the UBI or any other welfare or development policy, it is important to avoid some standard pitfalls.
- **First**, all policies have some pros and cons, and so just picking a problem with or highlighting a nice feature of a particular policy is not good enough.
- The focus should be on relative costs and benefits of different policies.
- For example, if we compare a UBI scheme with Employment Guarantee schemes the trade-offs are as follows - the latter is self-targeting and so has a lower total cost than a UBI scheme for comparable amounts of per-person benefits.
- However, MNREGA has the disadvantage that some employment opportunities are foregone, a problem the UBI avoids.

- **Second**, one size does not fit all.
- We should be open to the possibility that different policies could work well in different contexts.
- Cash transfers only make sense if you have ready access to markets, which is not true if you live in remote rural areas in which we have to rely on in-kind transfers.

- **Third**, there is no magic pill that will cure all problems.
- A UBI or a cash transfer will provide some relief to the poor, but will not provide a long-term solution to the problem of poverty.
- For that one needs investment in health, education, and skill formation to enable the poor to take advantage of growth opportunities, and investing in infrastructure and regulatory conditions to facilitate private investment for employment generation.
- To give an analogy, giving certain nutritional supplements may help a person who is ill to gain some strength, but it will not cure any disease, nor will it make the person an athlete.

Concluding Thoughts

- My sense is that a lot of opposition to schemes like the UBI reflects the worry that they will displace other anti-poverty policies in the developing country context.
- In the developed country context, some of the opposition is due to similar displacement of other welfare policy worries
- However, the effect on labour supply is more of a concern in developed country contexts, than in developing ones due to the greater likelihood of income effects