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Basic income policies: theory and empirical evidence

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Outline

- Focus on Unconditional Basic Income
- What is it?
- Why is UBI interesting?
- Theory:
 - Efficiency
 - Equity
- Problems: costs, incentives etc
- Evidence:
 - Quasi-experiments
 - Experiments
 - Simulations

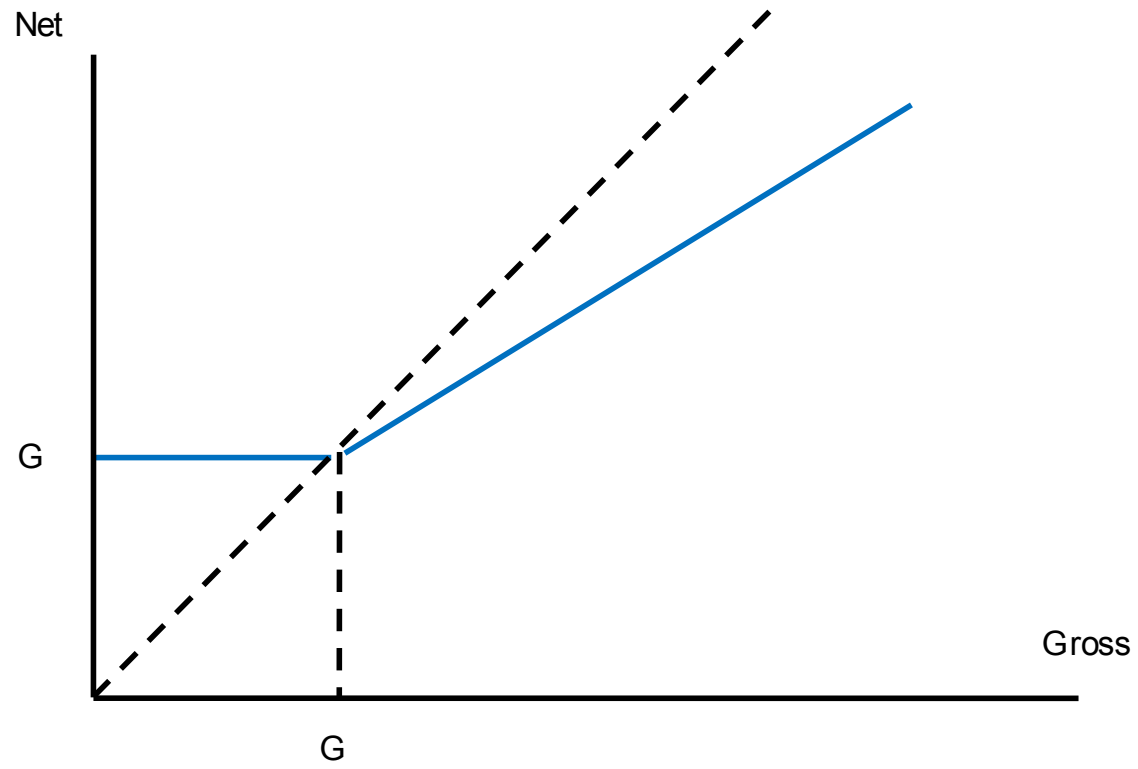
Focus on UBI

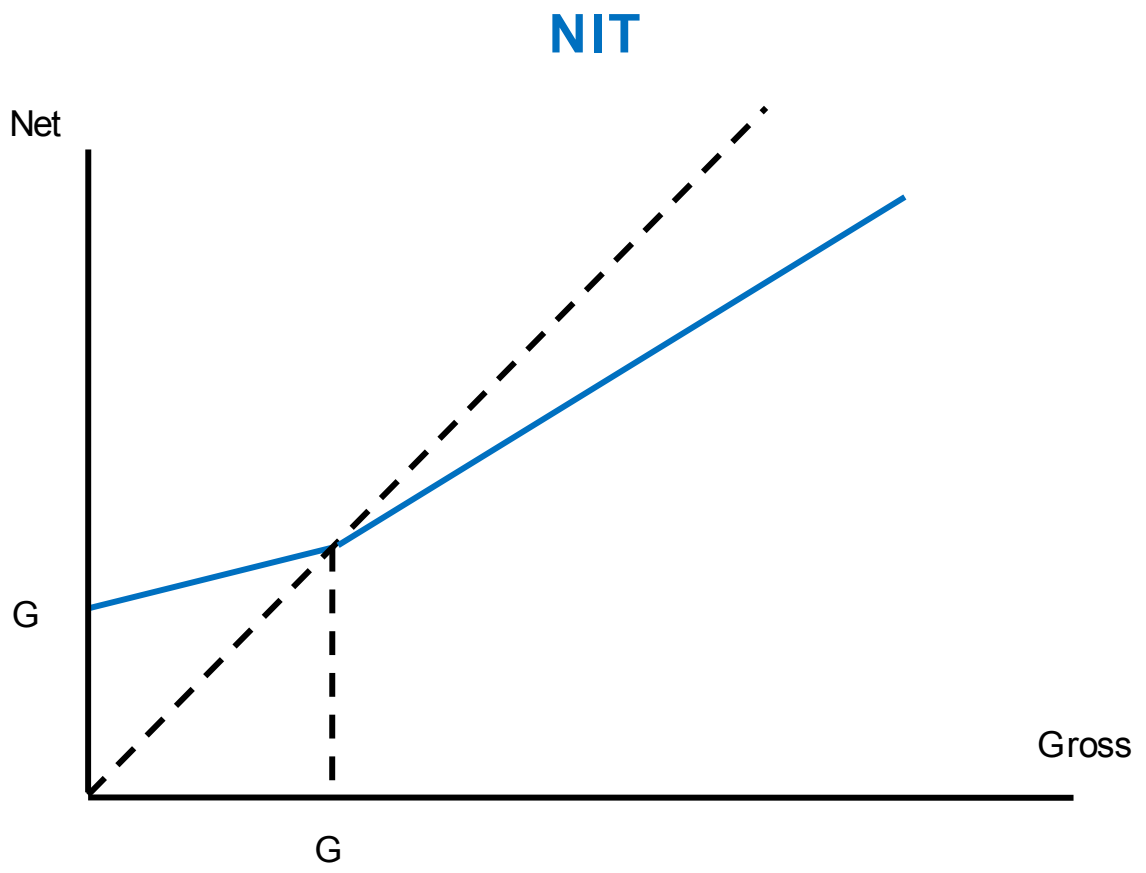
- UBI = Unconditional Basic Income
- Other names: Citizen's Income, Social Dividend etc.
- What is it?

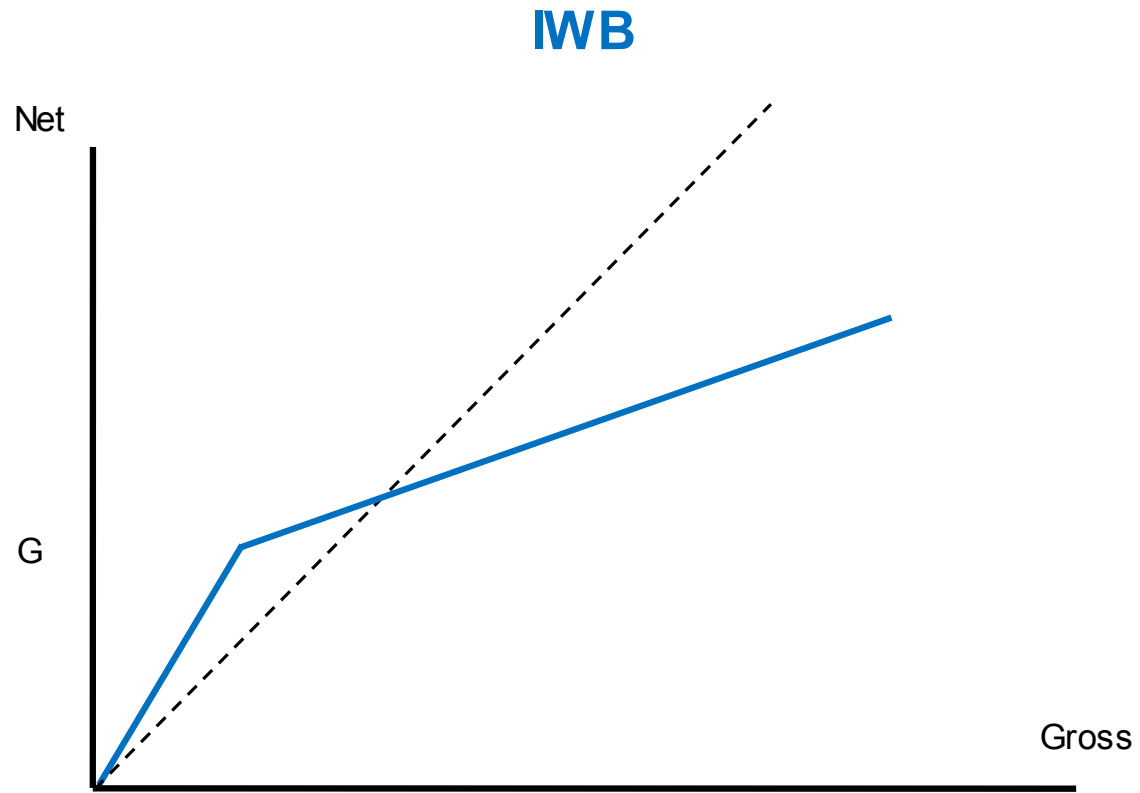
What is it?

- Compare UBI with:
- Conditional Basic Income (CBI) or Means-tested or Guaranteed Minimum Income
- Negative Income Tax (NIT)
- In-Work Benefits (IWB) or Wage subsidies or Tax Credits etc.

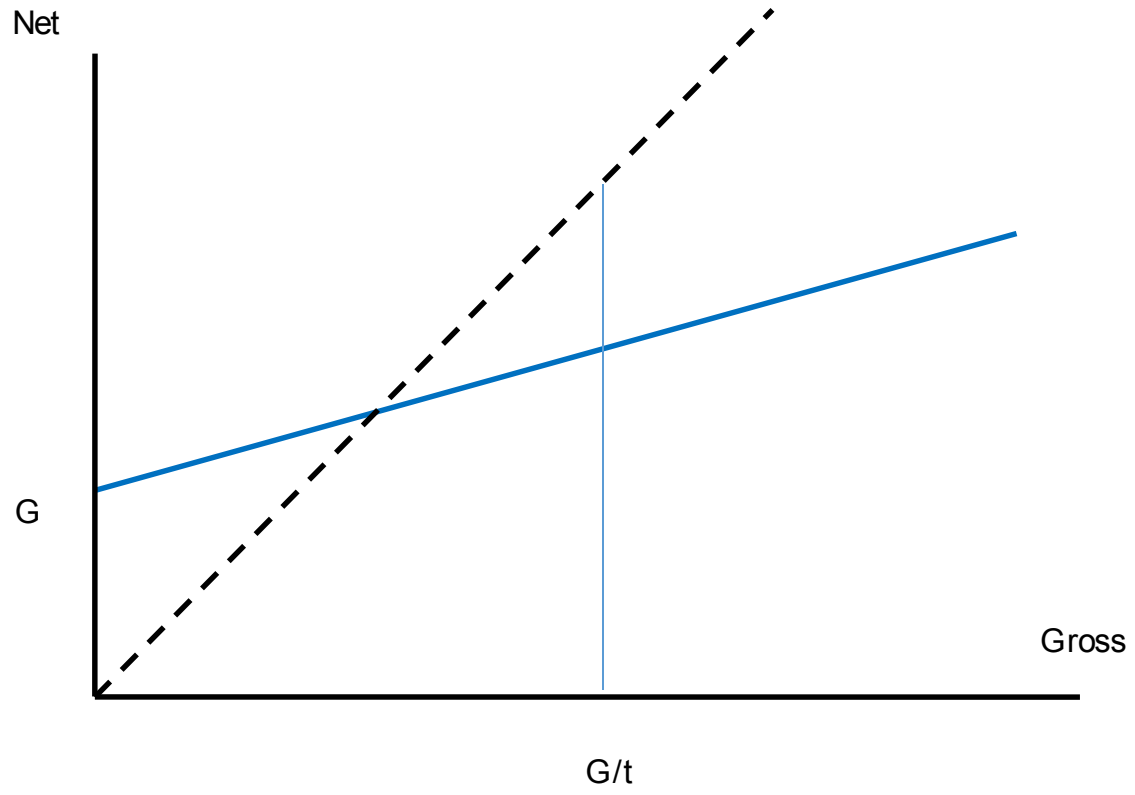
CBI



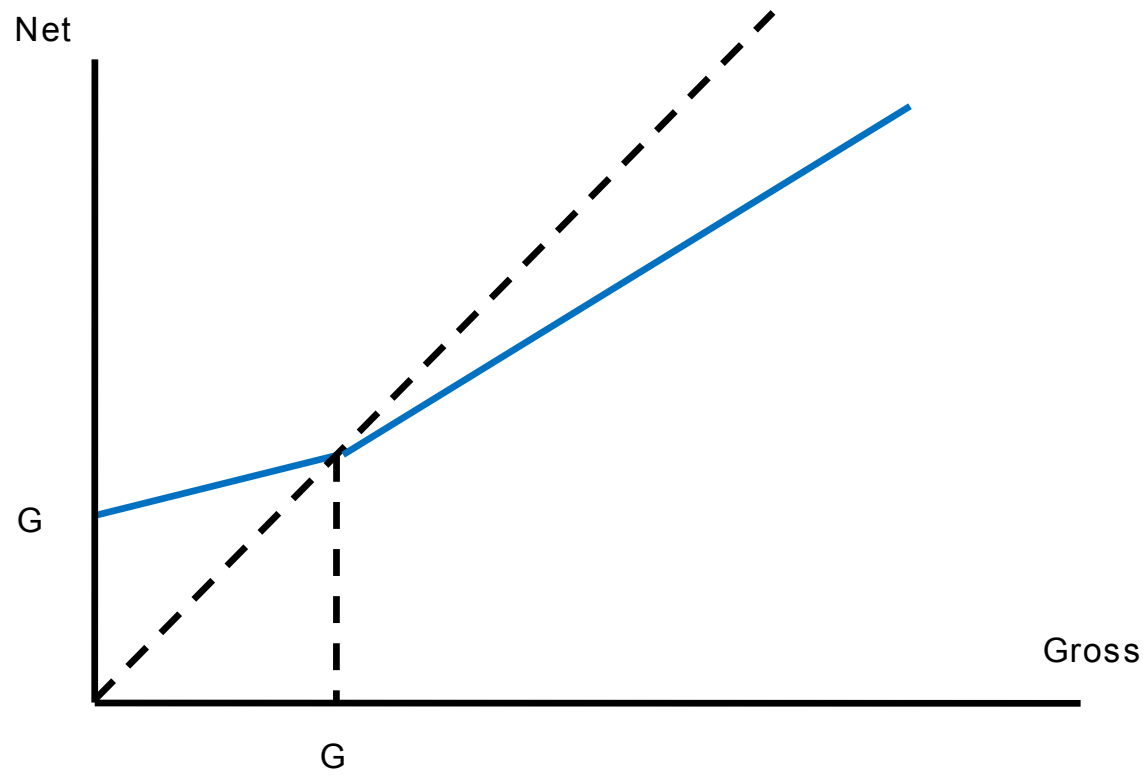




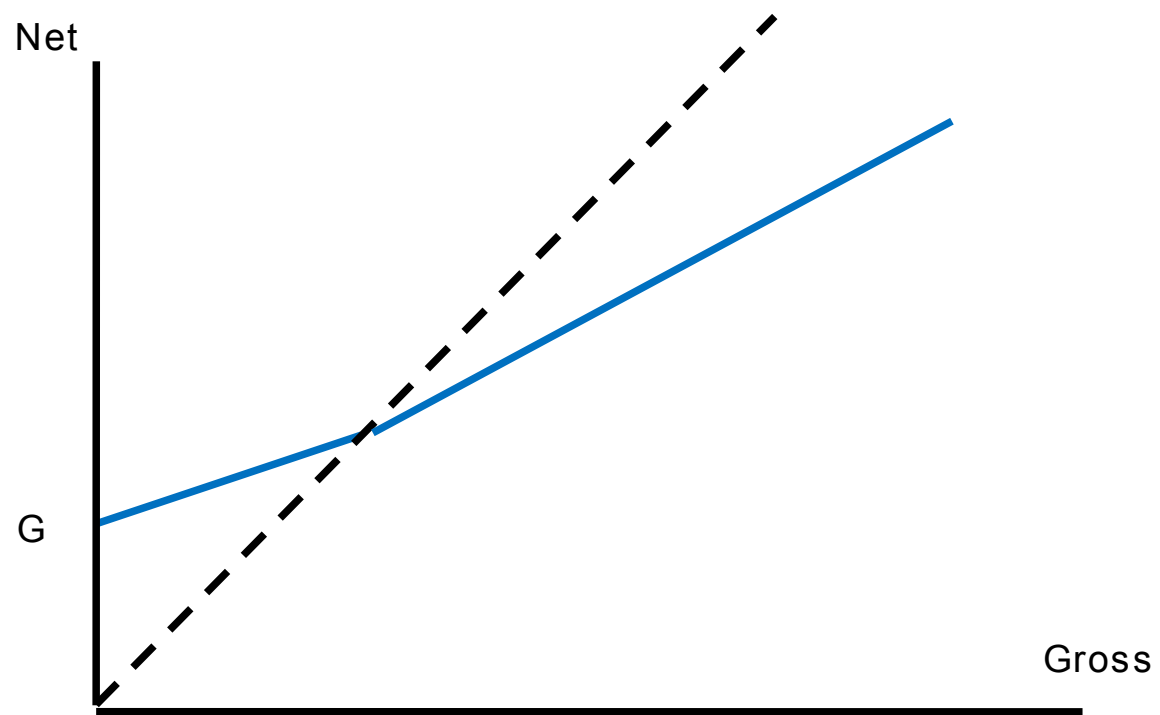
UBI



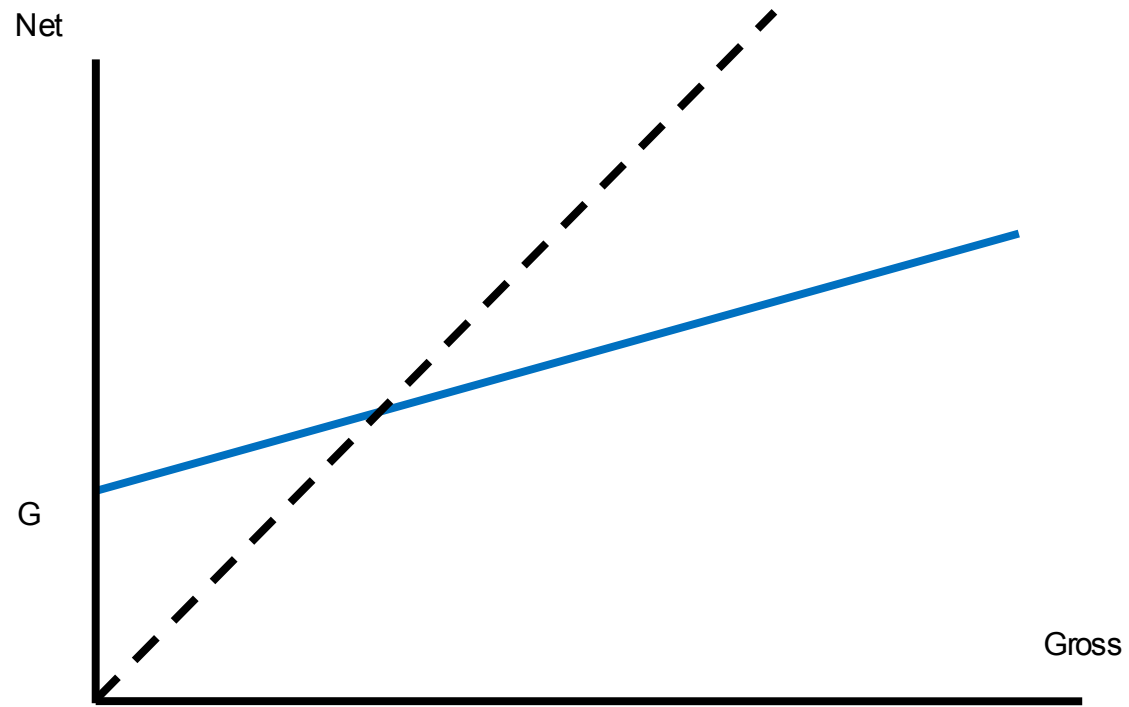
UBI as a special case of NIT



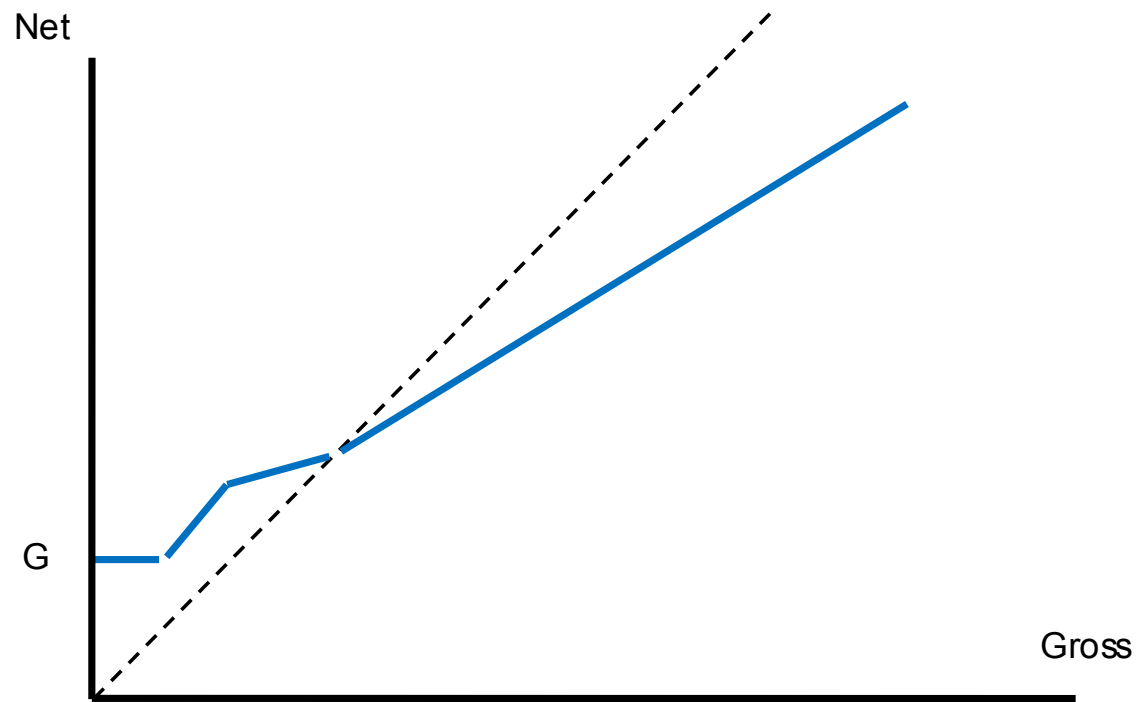
UBI as a special case of NIT



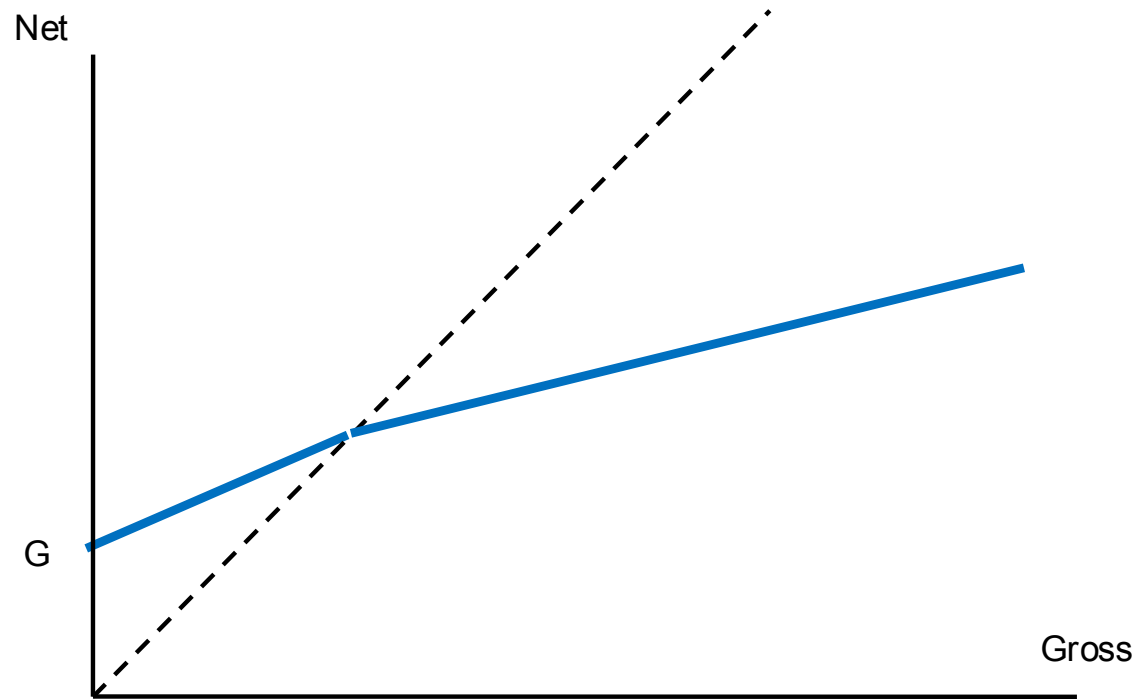
UBI as a special case of NIT



Mixed recipes: CBI + IWB



Mixed recipes: UBI + IWB



Why is UBI interesting?

- End of 2° WW to mid-70s: some sort of CBI in most Western Countries
- 80s and 90s: introduction of some sort of IWB
- New millenium: Globalization, Automation, Big Crisis.
- Welfare dependency, poverty trap, precarization etc.
- Need for a redesign of welfare
- Cuts on welfare and/or more sophisticated CBI and IW
- But also a return of interest in UBI...
- ... Old idea: Paine, George, Hayek, Lange, Simon, Meade etc.

Theory: Efficiency

- Basic universal endowment to promote individual responsibility and freedom (Hayek, *The Road to Serfdom*, 1944)
- Simplification, individual responsibility, «Get rid of bureaucrats», etc. (M. Friedman, *Capitalism and Freedom*, 1962)
- Left-Libertarian: Van Parijs, *Real Freedom for All*, 1995
- No stigma, low administration costs, no take-up problems,, less errors, less corruption etc. (A. Atkinson, *Inequality. What Can Be Done*, 2015).

Theory: Efficiency (cont'd)

- No «poverty trap» (implicit in non means-testing)
- Larger opportunity sets lead to better (more efficient) choices – educational, occupational, productive
- Incentive to entrepreneurship through reduction of risk-aversion
- Risk-averse individual should prefer a lump-sum certainty equivalent to contingent payments
- **Efficient redistribution**: it approximates Lump-Sum transfers (2° Welfare Th.)

Theory: Equity

- Globalization and Automation
 - Polarization (T. Cowen, *Average is over*, 2013)
 - Automation (Sachs and Kotlikoff. *Smart Machines and Long Term Misery*, NBER WP 18629, 2012)

Theory: Equity (cont'd)

- Distributing the benefits and compensating the losses of growth
 - UBI helps the re-allocations required by automation and globalization
 - G. Standing, Responding to the crisis: Economic stabilization grants, *Policy & Politics*, 2012
 - UBI as a buffer against the precarization and systematic risks intrinsic in globalization (G. Standing, *The Precariat*, 2012)
 - P. Krugman, Sympathy for the Luddites, *The New York Times*, 2013

Theory: Equity (cont'd)

- The «share» version of UBI
 - T. Paine, *Agrarian Justice*, 1797
 - J. Meade, *Agathotopia: The Economics of Partnership*, 1989
 - R. Shiller, livelihood insurance (*New Financial Order: Risk in the 21st Century*, 2003)
 - D. Ray, *The Universal Basic Share* (2016 post on Ray's blog Chhota Pegs)

Thomas Paine

- T. Paine (*Agrarian Justice*, 1797). A modern reformulation:
 - Common resources (land, air, water, spectrum etc.) belong to everyone in principle.
 - Free access to common resources is inefficient.
 - Private property or centralized management more efficient.
 - The original owners (everyone) should be compensated by the equivalent of the «produce» obtainable under free access \Rightarrow UBI
 - An implementation: Alaska Permanent Fund Dividend (about \$2000)

Theory: Equity (cont'd)

- Compensating unpaid work
- Compensating the general contributions to «common knowledge», «social capital» *et similia*: theory of cognitive capitalism, social production etc.: possibly starting with Marx's General Intellect (*Grundrisse*)

Theory: Reversed trade-off Equity vs Efficiency

- The «too poor to be efficient» argument (P. Hill, *Population, prosperity and poverty*, 1977)
- Some degree of universal and unconditional redistributions saves on wasteful rent-seeking (Milgrom & Roberts, *The Efficiency of Equity in Organizational Decision Processes*, *American Economic Review*, 1990)

Problems

- How do we pay for UBI?
 - Income or wealth taxes
 - Flat Tax
 - Taxes on privately-owned common resources (back to T. Paine?)
 - Taxes on externalities (close to the last point)
 - Redesigning welfare: reduce or drop other welfare policies
 - «Selective Universality»: UBI limited to sub-population defined by exogenous characteristics (e.g. age, gender, family background)

Problems (cont'd)

- Bad incentives for labour supply?
 - Income effect on low income people
 - Substitution effect on high income people
- Gives money to the rich «surfers»?
 - false problem:
 - with a flat tax rate = t , the transfer is «exhausted» at gross income UBI/t
- The poor can't handle the money
 - «... After all, if they knew how to manage money, how could they be poor in the first place?...»

Quasi-experiments

- Imbens et al. (1999)
 - Study on lottery winners in the US. No effect on labour supply for amounts around \$15000 per year. Minor effects for larger amounts (around \$80000)
- Marx et al. (2008)
 - Study on winners of Win for Life lottery (Belgium). Minor or insignificant effects on labour supply.
- Akee et al. (2010)
 - Longitudinal study in North Carolina (recipients of a Government transfer). Big effects on human capital investments

Experiments

- Widerquist (2005) – survey of US experiments in the 70s
 - Blattman et al. (2014) - Uganda
 - Pasma (2014) – survey
 - Overseas Development Institute (2016) – survey
 - Mein Grundeinkommen (pilot)
-
- Overall, the experiments confirms some of the positive efficiency effects:
 - more efficient choices
 - increased propensity to entrepreneurship

Uganda 2008

- Blattman, Fiala and Martinez, *Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda*, QJE, 2014
- Government + World Bank experiment
- 15-35 years old, peasants: \$1 per day
- 6000 treatment, 6000 control
- Lump sum transfer \$365.

Uganda 2008, four years after

- Most of the \$365 used to get a new skill (tailor, carpenter, auto mechanic, hairdresser ecc.).
- Treatment group income is 40% larger than control group's
- 41% of the treatment group left agriculture. 29% in the control group

Planned experiments

- Netherlands, local pilot in Utrecht and other cities
- Finland
- Canada (Ontario), announced by Government
- Silicon Valley (Oakland), pilot (100 households) to be run by YCombinator
- New Zealand (?)
- Kenya (GiveDirectly), pilot completed, large experiment to come (A. Krueger, former Chairman of the Council of Economic Advisers)

Finland (KELA)

- 2017-18
- Assess whether UBI can be used as an alternative to current social assistance
- Focus on incentives: «poverty traps»
- 2000 unemployed
- EUR 560 per month, tax free

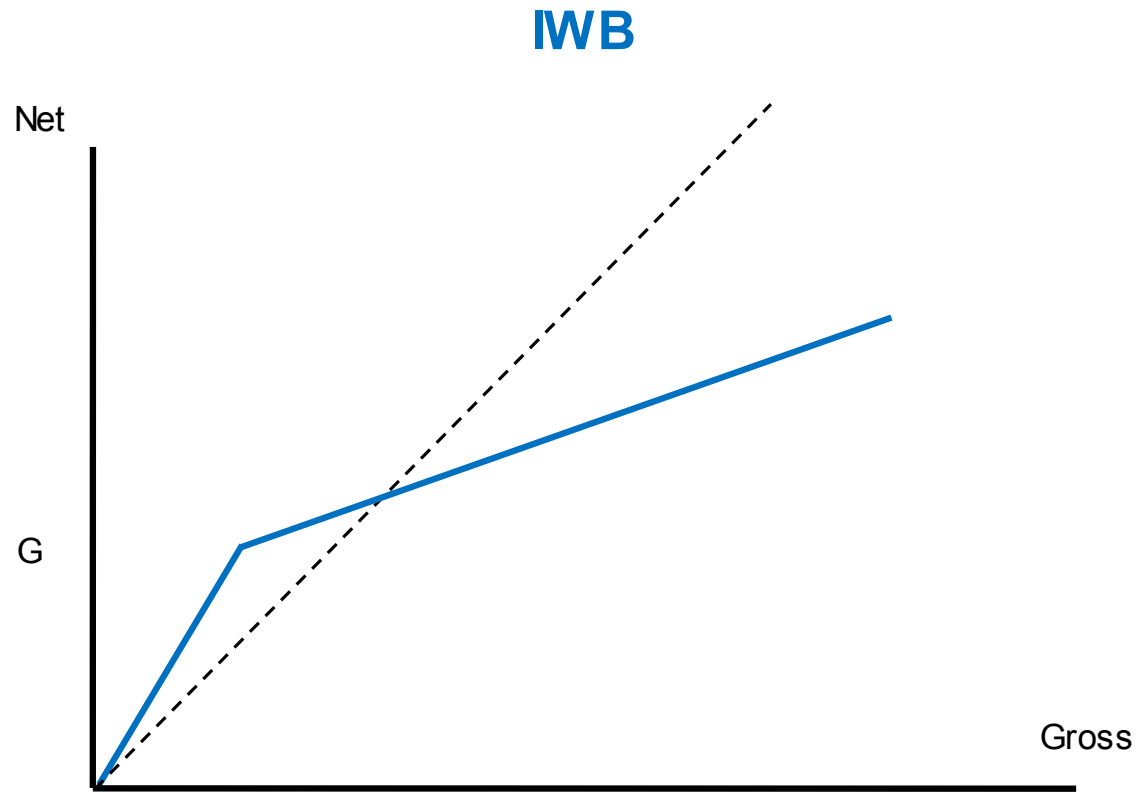
Simulations

- Calibrated DSGE models:
 - Van der Linden (2004), calibrated DSGE: UBI optimal
 - Fabre et al. (2014), calibrated DSGE: UBI good but traditional UI better

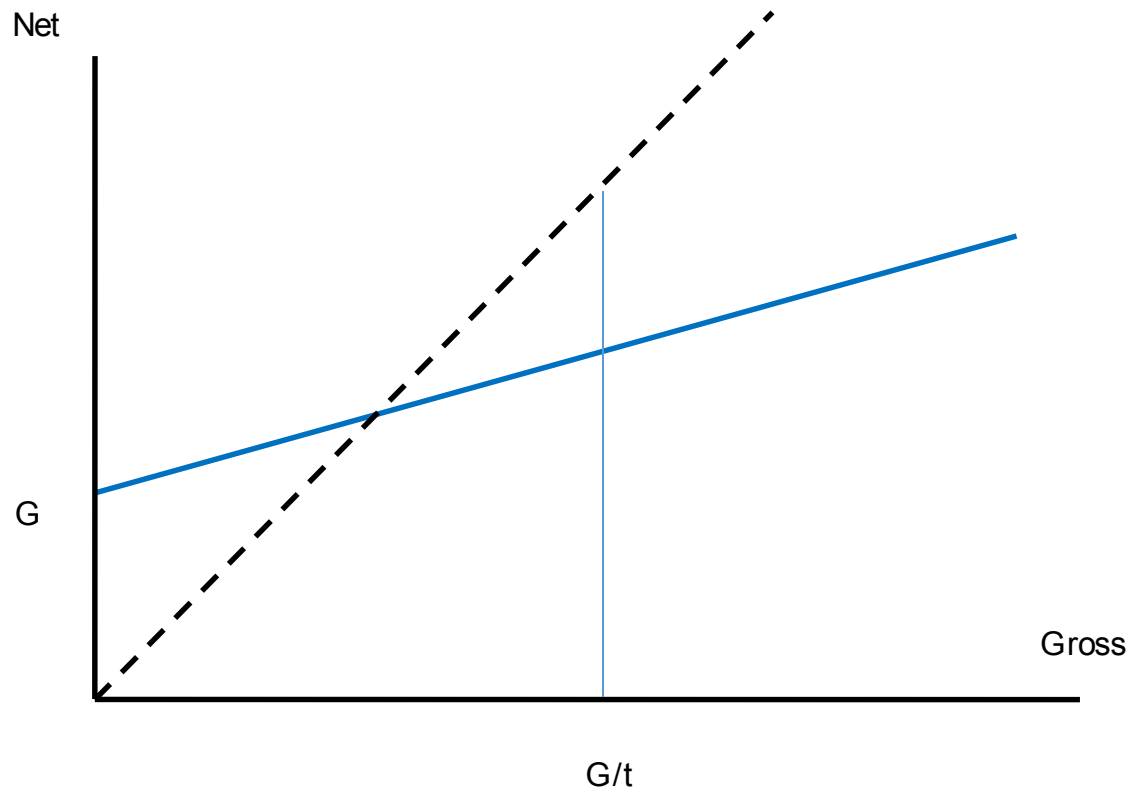
Simulations

- **Behavioural microsimulation**
 - Sommer (2016): Germany, positive effects of UBI on labour supply
 - Colombino (2015): Italy, UBI good (depends on welfare criterion)
 - Steiner (2015): Germany, UBI good
 - Clavet et al. (2013): Quebec, UBI too expensive
 - Horstschräer et al. (2010): Germany, inconclusive
 - Scutella et al. (2004): Australia, UBI promising
 - Colombo et al. (2008): Germany, inconclusive

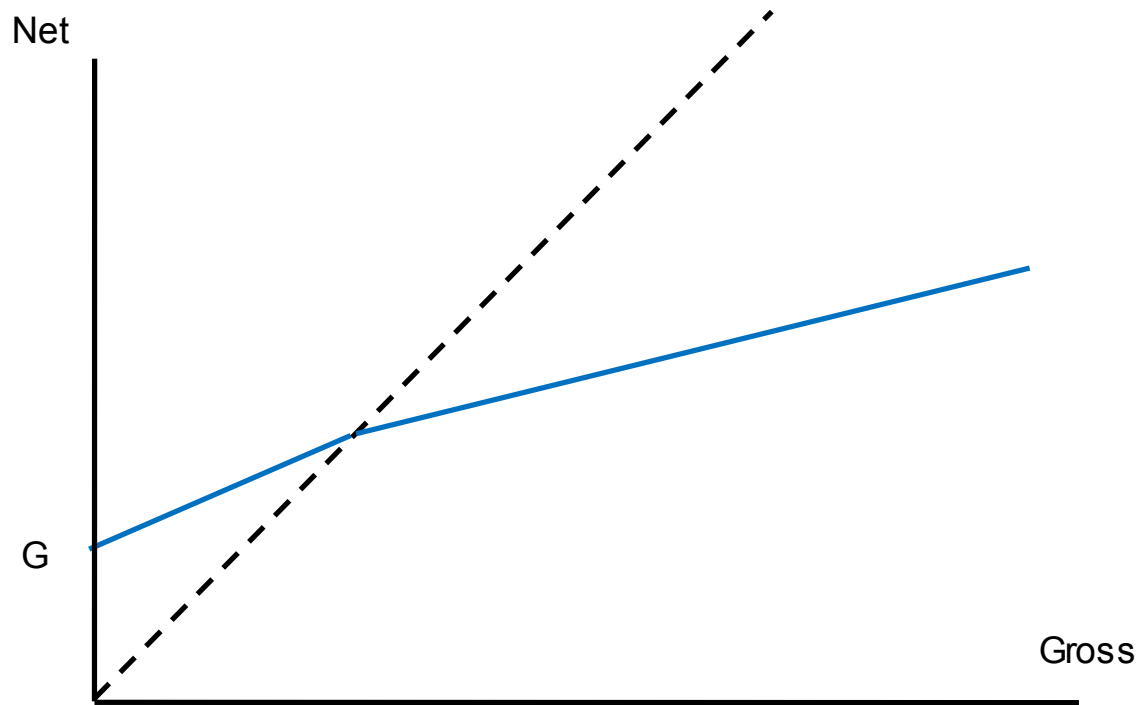
- U. Colombino, Five crossroads on the way to basic income. An Italian tour, *Italian Economic Journal*, 2015, 1(3)
- Microeconomic model
- Simulation of 30 alternative reform in Italy
- Welfare evaluation



UBI



Mixed recipes: UBI + IWB



The two best policies according to different welfare criteria

| Utilitarian | Gini-Sen | Gini-Sen-Poverty rate | Gini-Sen-Poverty gap |
|-------------------------|--|-------------------------|--------------------------|
| IWB₇₅ | UBI₃₃+IWB₇₅ | UB₁₀₀ | UBI₁₀₀ |
| IWB₅₀ | UBI₅₀ | UBI₇₅ | UBI₇₅ |

Effects of the two best policies according to Gini-Sen

| Policy | Female employment | Male employment | TMTR | Winners |
|--|-------------------|-----------------|------------|------------|
| UBI₃₃+IWB₇₅ | - 0.41% | - 0.25% | 51% | 69% |
| UBI₅₀ | - 0.80% | - 0.25% | 51% | 66% |

CBI vs UBI: the «poverty trap»

| Policy | Female employment | Male employment | Average transfer <i>per</i> household |
|-------------------------|-------------------|-----------------|---------------------------------------|
| UBI₇₅ | - 1.77% | - 0.41% | 9800 |
| CBI₇₅ | - 1.67% | - 0.25% | 3300 |

Good alternatives to UBI

| Policy | TMTR | Winners | Average transfer <i>per household</i> |
|--|------------|------------|---------------------------------------|
| CBI₃₃+IWB₇₅ | 49% | 68% | 5300 |
| CBI₃₃+IWB₇₅ with Flat Tax | 40% | 62% | 5300 |

- Five crossroads on the way to basic income. An Italian tour, *Italian Economic Journal*, 2015, 1(3)
- Is unconditional basic income a viable alternative to other social welfare measures? *IZA World of Labor*, February 2015