Comments on the papers on a Universal Basic Income

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1. Comments on the paper by Francese and Prady

I enjoyed reading the paper by Maura Francese and Delphine Prady, which elaborates on material first presented in the October 2017 Fiscal Monitor. The paper presents a good summary overview of the state of debate on the topic of a Universal Basic Income (UBI), which is currently attracting substantial attention and controversy among economists and policy makers.

The paper highlights three dimensions relevant to that debate, namely the coverage, progressivity and generosity (and related fiscal cost) of various types of social assistance instruments, including the UBI, and the trade-offs among these dimensions in different types of countries. It also briefly refers to other factors, such as institutional, capacity and political economy constraints that affect the design of non-contributory social safety net mechanisms.

I agree with its main conclusion, namely that there is not a clear case for replacing targeted social safety nets with a budget-neutral UBI, if distributional objectives (reduction of poverty and inequality) are paramount for policy makers, and if the existing programs are reasonably adequate in terms of coverage and progressivity, as is likely to be the case in many advanced economies. Such a move would concentrate average net income losses on the lower deciles of the population, and net income gains on the upper ones.

The case for substituting existing social safety net programs with a budget-neutral UBI is more open to debate in countries (primarily emerging or low-income ones) characterized by serious design flaws or leakages of these programs that result in low coverage and/or progressivity. In such countries, where targeting is largely ineffective, the lower administrative costs of the UBI could, at least in principle, partly pay for the extension in coverage of the benefit. In practice, however, the extent of such savings and consequently the distributional impact of the move would vary from country to country, and would need to be assessed on the basis of appropriate microsimulations.

The paper should be commended for trying to shed some light on these issues through microsimulations based on the standardized LIS data for a representative sample of countries with different levels of coverage, progressivity and generosity of social safety nets. I have the following main comments on these simulations.

First, I wonder why, among the many possible options to finance a UBI complementing existing social assistance programs, the authors chose to focus on a proportional tax on disposable income. A tax on disposable incomes would be more difficult to administer than a tax on consumption, and in emerging and low-income countries, which are typically characterized by narrow income tax bases, would likely require higher rates, and relatedly a larger deadweight loss, than a revenue-equivalent increase in the consumption tax.

Also, the distributional effects of tax on disposable incomes could be expected to be more benign (with net welfare gains higher or net losses lower for the lower income deciles) than those of a revenue-equivalent tax on consumption, since the propensity to save tends to increase across income deciles.

To the extent that available household survey data allow, it would be desirable, in this paper or in future ones, to extend the analysis of financing options for a UBI to include such alternatives as increases in green taxes (excises on fuel products or a carbon tax), reductions in the range of subsidies (e.g. on fuel products, electricity or water consumption, or food) that are still quite large in many developing countries. Such policy reforms would be desirable on efficiency and environmental sustainability grounds. Combining them with the introduction of a UBI that would increase the generosity and expend the coverage of existing social safety nets could help reduce the opposition of the middle classes which tend to be the most vocal and effective obstacles to those reforms.

Finally, it may be worth exploring whether some countries may have fiscal space (in terms of financing availability and medium-to-long-term debt sustainability) to finance all or part of a proposed UBI through borrowing or through reduced surpluses.

Other desirable future extensions of the analysis would entail exploring the second-round effects of the changes in incomes and consumption, as well as in work incentives, brought about by alternative design options for the UBI and its financing, for the representative set of countries in the paper, using DSGE models calibrated to each country. The results of a first attempt in this direction for the US and Bolivia were summarized in the October 2017 Fiscal Monitor, helping illuminate more the different equity-efficiency trade-offs for these two very different types of country.

Comments on the paper by Pareliusen et al.

This paper discusses the pros and cons of a UBI in an advanced country (Finland) with a well-developed social safety net, which currently includes a number of cash transfers targeted to specific groups of the population (short and long-term unemployed, families with children, and lower-income individuals). It also compares the option of replacing some of these benefits with a UBI with a less radical alternative, namely consolidating these benefits into a single transfer with a uniform tapering rule.

The analysis, based on micro-simulations, is conducted in three dimensions, namely the effects of the two alternatives on work incentives, the income distribution, and the budget. It finds that, under the assumption of no additional cost to the budget, the less radical alternative would clearly dominate the UBI in terms of distributional effects, as it would lower both poverty and income inequality, while the UBI would increase both. The paper also finds that both options would reduce the work disincentives implied by the current tapering rules, but the relative improvement would vary across beneficiaries, depending on the nature of the benefit replaced, the family status of the recipient, and the relation of his/her post-unemployment earnings to the pre-unemployment ones.

The paper's conclusions are obviously country-specific, reflecting the structure of the social safety net, the tax system, and the income distribution in Finland. Nevertheless, they accord with Francese and Prady's conclusion that, the greater a country's capacity to target effectively its social safety net to groups regarded by the society as vulnerable, the less strong is a case to replace it with a UBI, as the latter (on an unchanged budget envelope basis) would reduce the resources going to the vulnerable and poor.

In this type of societies, the case for the introduction of a UBI would rest on the scope (i.e. the existence or creation of fiscal space) to increase the generosity of the social safety net. Even in cases where such scope exists, however, it would be advisable to compare the effects of the proposed UBI with those of potential improvements in the existing targeted transfer programs, in terms of income distribution and work incentives. The analysis in the paper on the Finnish case offers a useful example for researchers interested in exploring this question in other countries.

The paper notes correctly that reforms of existing social safety nets, including a streamlining and uniformization of eligibility requirements, as advocated for Finland, is non-trivial, and the devil is in implementation details. This argues for a gradual step-by step approach to such reforms. However, gradualism may have its downsides too, especially a diluting of reform momentum and, in some countries, giving more time to opponents of the reforms (including vested interests in the bureaucracy) to mobilize against them. Therefore, implementation strategies for proposed reforms of a country's social safety net need to be designed taking carefully into account the foreseeable institutional and political economy obstacles to the reforms in the country's specific circumstances.