

Basic Incomes and the Pandemic

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2021 Korea Basic Income Fair

Universal Basic income

- A rich society can and should ensure everyone a basic standard of living, with access to basic necessities of life (health, food, shelter, education, work)
- There are various ways to achieve this
- The universal basic income (UBI) is a way of doing so that has some distinct advantages
 - Low administration costs relative to more targeted programs
 - Targeting is almost always imperfect—money often doesn't get to some individuals who desperately need it
 - Universality can garner stronger political support
 - Avoids the “indignities” of means tested programs

Some evidence that it may even contribute to economic performance

- Gives individuals resources to search for a good “match” for their skills
- Reduces inequality—and there is now a widespread understanding that more-equal societies perform better, for a whole variety of reasons
- “Safety net” of UBI allows for more risk-taking
- Benefits to societal welfare are even greater
 - Allows some individuals to pursue their interests and passions in ways that they otherwise couldn't
 - Facilitates individuals making educational investments that are necessary for societal transformations

Many countries have turned to UBI (or almost UBI) in the midst of pandemic

- The pandemic happened suddenly
- The economic fallout was equally sudden
- The crisis exposed fragilities of the economic system (and the magnitude of inequalities)
- Large numbers of individuals living paycheck to paycheck
- In some countries, like the US, inadequate social safety net
 - Without the administrative capacity for handling surge of unemployed
- In some countries, like the US, no mandatory paid sick leave
 - Workers without reserves went to work if they could, even when sick
 - Spreading the disease

Pandemic UBI

- Both protected the most vulnerable individuals
- And helped prevent the downturn from getting even deeper
 - Downturn was simultaneously a supply side shock (especially evident in the lockdowns) and a demand side shock (as individuals who were living paycheck to paycheck lost their jobs and were forced to contract spending)
 - Evidence that spending went up when individuals in the lower half of the population received their checks
- Played a role in checking spread of disease
 - Individuals could afford not to go to work when they were sick
 - Made lockdowns more politically acceptable
- A deeper downturn could have had long-term (hysteresis) effects, with scarring—as more firms went bankrupt and as household and firm balance sheets were more deeply weakened
- UBI could be implemented quickly
 - Especially in countries that had a good administrative basis and good financial system—so money could be quickly transferred from government to the accounts of individuals
 - Important lesson for future: create the necessary links

In U.S. “bang for buck” might have been improved

- Well-off individuals put checks into savings—didn’t stimulate the economy much
 - Average savings rate increased in 2nd quarter to around 25%, before falling to around 15%—much higher than “normal” rates
 - With savings at the bottom close to zero (or more accurately measured, negative—postponed rent payments), this implies *very* high savings rates at the top

Korea showed how it could be even better designed

- Time-dated vouchers—so “money” had to be spent now, when the economy needs it—not later, when spending could add to inflationary pressures
- Vouchers can be designed to be limited to spending in sectors of the economy where needed
 - Local services—not manufacturing (spending on which would increase trade deficit, with little impact on the domestic economy)
 - Pandemic had large differential effects across sectors, and so it was important to try to target spending

An alternative: Guaranteed employment

Underlying principles

1. There is dignity in work
2. There is much work that needs to be done
 - a. Retrofitting the economy for climate change
 - b. Providing care for the elderly, the sick, our youth
 - i. Low pay in these professions result of legacy of discrimination
 - ii. Pay should reflect social value—not exploitation of market forces
 - iii. Rich countries can afford to pay livable wages

In long run, robotization and AI may lead to a world where there is a scarcity of jobs—but we're decades away from that

- When that day arrives, may have to confront issues of equality in access to jobs (e.g. through shortened work week)

UBI in the post-pandemic world

- UBI has proven itself to be an effective instrument in responding to the Covid-19 emergency
- Crises happen frequently and are hard to predict—this crisis occurred just 12 years after 2008 global financial crisis, and that crisis occurred just 11 years after 1997 East Asia crisis
- UBI—particularly well-designed UBI programs—can be an important part of the response to such crises. They should be a standard part of the “toolkit”
 - And countries should take further actions to ensure that they can be quickly implemented—new technologies make this far easier

A mix of instruments for promoting social equality

- UBI needs also to be considered for inclusion in a portfolio of instruments in more normal times
- Along with a work guarantee program
- Important to ensure that individuals and families don't fall between the cracks
 - Other advantages (such as greater political support and lower administrative costs) than targeted programs
 - Can be designed to have big bang for the buck
- The experiences with the pandemic UBI programs and other experiments with UBI should provide data from which we can learn much about the impacts of UBI and how to design better UBI programs
- Given the ever-increasing levels of inequality in most countries, we will have to use all the instruments at our disposal