

# Possible Implications of Universal Basic Income and Universal Basic Assets on Economic Growth and Development

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**Abstract:** *The paper analyzes some characteristics of the contemporary world economy and highlights the major challenges related to socio-economic areas and, on a broader scale, to economic growth and development. The research identifies as possible solutions for those challenges related to inequality, poverty and the impact of the fourth industrial revolution on the labor market the adoption of new and less conventional approaches, such as the Universal Basic Income (UBI), Universal Basic Assets (UBA) and Universal Basic Infrastructure (UB-Infra). The conclusions refer to some less explored potential beneficial implications of these approaches on economic growth and development.*

**Keywords:** *Universal basic income, universal basic assets, universal basic infrastructure, economic growth, economic development*

**JEL Classification:** *B55, D31, D63, D64, E29*

## 1. The paradox of growth in the world economy: positive globally, challenged/distorted locally

If one compares micro and macro - economics with some other sciences then some interesting aspects are revealed: while the two approaches are complementary, they are, at the same time, worlds apart. Micro-economics is very much like the study of the atomic and sub-atomic worlds, the researcher uses different sorts of microscopes and discovers specific laws and characteristics for the micro-world. On the other hand, macro-economics is very much like astronomy, where the researcher uses telescopes and radio-telescopes for studying galaxies that are far, far away. At the same time, the phenomena studied by macro-economics are not only highly aggregated, but also refer to much longer periods of time.

The study of world economy falls into the second category and may lead to some paradoxical results, something that happens very often when very different entities (in our case national economies) are put together and some totals and averages are computed while the discrete/individual values for the economic indicators may be extremely different.

From this perspective if one looks at the world economy of the past 50 years from the perspective of the Gross Domestic product (GDP) a growing trend becomes apparent, with very minor and short term deviations. Even the Great Recession of 2008-2009 at the level of the world economy meant very little: just a -0.7% decline of the world output for just one year, namely 2009 (IMF, 2011). This average was misleading, as most of the averages, because during that single year of minor decline of world output "since GDP has been measured" (Deal, M., McCann, A. 2013), the Euro area had a negative growth of -4.3%, United States of -3.5%, Japan -6.3% while China had a growth of 9.2% and India of 6.8%. Therefore, while the world economy as a whole had for one year a minor contraction, some countries experienced not only a recession but a real crisis that took years to be overcome, while others reduced their growth rates to levels which have been completely unattainable for the developed world (rates of over 6-7% per year) during the past 30 years.

The long term differences in the economic growth rates of states have generated a reshuffling of the rankings and by 2014 China became the first world economy if GDP at purchasing power parity is used as a yardstick.

This **paradox of growth** (sustained for the whole world economy but not for each and every participant) has been replicated in the vast majority of the developed countries by **another paradox**: that of increasing

inequality that is based on an extreme polarization of wealth. In order to substantiate the use of “extreme polarization” in the previous statement, enough is to say that in 2017 the three wealthiest people in United States had more wealth than the bottom half of the population, that was 160 million people or 63 million households while approximately 20% of Americans had zero or negative net worth (Institute for Policy Studies, 2017). At the same time, at a global level, just 8 people had in 2017 more than the bottom half of the world population, that is 3.7 billion people (Oxfarm International, 2017).

The paradox of growth from the inequality perspective is that income inequality between countries has fallen significantly during the last 30 years but this phenomenon has been accompanied by rising inequality within countries, particularly in the developed ones. According to an IMF report between 1987-2017 about 53% of the countries encountered the phenomenon of increasing income inequality; the phenomenon has been particularly acute in the most advanced countries, where wealth has been polarized to the top 1% and even more to the top 0.1% (IMF, 2017).

From economic, social and political perspectives the main problem with such extreme inequality is that in time it is also accompanied by related phenomena, that of poverty and social exclusion. The aspect that may really lead to social and political tensions is poverty and not inequality because in any country what counts is not how rich are the richest, but how poor are the poorest. The problem is that in the past 30 years incomes of the low and middle segments of population in the majority of developed countries have stagnated or even declined while those of the top 1% have increased continuously. Long term inequality and poverty have led to social tensions which, in turn, led to political reactions, such as bringing to power of leaders and parties that propose a solution for the “forgotten” and the less fortunate members of society. The British referendum in favor of leaving the European Union, the result of the presidential election in the United States in 2016, as well as the results of elections in Germany, Italy, Austria, Hungary, to mention only some examples, reflect this deep dissatisfaction of a significant part of the respective societies. In this context it is rather an axiom that political instability is not supportive of economic growth and development and, in the end, it is not supportive of prosperity.

Although a lot of data and analyses are focused on the United States, European Union has also been affected by inequality, poverty and social exclusion. In March 2018 a World Bank Report stated that populism in the European Union has been generated by poverty and that economic pessimism was rational in areas where large parts of population were left behind (World Bank, 2018a). The World Bank Report showed that for a period of 25 years (between 1990 - 2015) the earnings of the lowest 10% of the European population declined by 7% while the earnings of the highest 10% increased by 66%. In the same context Eurostat data for 2015 indicated that 119 million Europeans (23,7% of the population) were at risk of poverty and social exclusion, a percentage that means almost one in four people (Eurostat, 2017).

Some key aspects in relation to the above mentioned issues and challenges need to be stressed:

- The discussion about inequality **does not** in any way propose or support equality. Equality is not specific to nature and real world and the idea of social and economic equality is, in our opinion, purely utopian;
- At the same time, the support of prosperity for as many as possible, the provision of fair rules of the game and of fair chances to all those willing and able may represent not only “the American dream” but also a blueprint for sustainable growth and for non-conflictual societies.

Regarding inequality and poverty the facts are real and measured, their manifestation has already led to political manifestations and the long term results point to an unsustainable type of socio-economic environment. Actions need to be taken in order to reposition the affected societies and economies on tracks similar to those that allowed at least 30 years of development and prosperity to the Western countries after the Second World War. This is why in the following part economic growth and development are approached from the perspective of sustainable growth based on the existence of socio-economic stability.

## **2. Challenges for economic growth and development in the context of globalization**

In the past years many shortcomings and dysfunctions have been explained by the consequences of globalization. But globalization is just an objective phenomenon stimulated by the advances of transport and communication technologies, by large scale production and considerable improvement of the international framework of regulations and institutions that deal with trade, foreign investment and capital flows. At the same time, globalization contributed to an international context that supported the development of many developing economies while rising the living standards for many billions people, of which about 800 million only in China between 1978 – 2017 (World Bank, 2018b).

It is interesting to note that the positions vis-a-vis globalization have been initially positive (during the 1960s until late 1990s) in the developed countries and less positive or even negative in the developing countries. But in a process which reflects a law of dialectics mentioned first by Hegel, that is the “negation of the negation”, particularly after year 2000 the positions changed to a large extent. Nowadays there are many negative attitudes vis-à-vis globalization in the developed countries (an example being the Trump administration in the United States) while many developing countries are supporting globalization as being beneficial for their development (examples being China and India).

Such a change of perception and position can be explained by the fact that globalization generated (even indirectly) very high levels of inequality in the developed countries, leaving considerable parts of the population either unemployed or under-employed, for long periods of time and for reasons beyond their control. In some developed countries tensions emerged as people or some politicians perceived or presented globalization and one of its consequences (the delocalization of production) as a “steal” of jobs from their countries.

Another negative reaction to globalization has been determined by the fact that the labor markets of many developed countries have been confronted in the past 20 years with an increasing inflow of migrants from developing countries that accepted lower salaries and less social protection, thus affecting the incomes or rights of local labor from the respective countries.

For the developing countries or for countries that are relatively less developed in comparison with their economic partners globalization generated mixed results. On the one hand there were positive aspects like higher volumes of exports to developed markets (meaning more jobs and more incomes) and significant remittances sent home by the people from the respective developing countries that went to work abroad (usually in more developed countries). But on the other hand, for developing countries globalization had also less positive consequences in the form of the migration of qualified and highly qualified people to developed countries, in search of better jobs, better payment and better life conditions. It is to be noted that such a brain drain and the related negative implications consisting in economic and social costs has happened not only between developing and developed economies but also between the new and old European Union member states.

Therefore, depending of the perspective of the people judging globalization, there is both a “good” and a “bad” side of globalization, these being in fact the two sides of the same coin.

The main problem is that the “good” side of globalization has been providing different benefits to different categories of countries and different segments of their population: the benefits have been perceived either at the very top of the developed countries (the 1% or 0.1% of the population that is extremely wealthy) or at a large scale level in some developing countries (for example in China where significant proportions of the population have been lifted from poverty).

At the same time, the “bad” side of globalization have been concentrated on parts of the population of the developed countries (those who benefited very little or not at all from globalization), as well as in the developing countries that have been disadvantaged by the terms of trade, the global division of labor and the global balance of power.

The main challenges determined by globalization in relation to economic growth and development have been reflected in:

- Trade deficits in case of some developed countries (most notably the United States);
- Inequality, poverty and less chances for some parts of the population in developed countries;
- The risk of instability due to the political implications of the inequality, poverty and social exclusion.

The current US administration tries to rebalance the relation of US economy with the rest of the world (relation that had as result huge trade deficits) by direct negotiations with the main trading partners. While some results have already been obtained, they cannot be, in our opinion, either long term or sufficient.

Therefore, when speaking about economic growth and development different approaches are needed that offers feasible solutions for the majority of population. Large scale changes that can provide such solutions are difficult to be conceived, let alone to be implemented. But among the most provoking and original ones are those referring to providing an Universal Basic Income (UBI), Universal Basic Assets (UBA) or Universal Basic Infrastructure (UB-Infra), in fact mechanisms of redistribution that aim to provide a fair and better chance to the less fortunate and disenfranchised parts of society.

In the following section we analyze how the adoption of such measures can have a direct and quantifiable impact on the economic growth and development in the countries that adopt them.

### **3. UBI, UBA and UB-Infra: are they possible solutions for today's challenges to the economic growth and development?**

The mentioned concepts are focused on the effects on the individual or family and only recently they started to be studied from the point of view of economic growth and development.

**The Universal Basic Income** is in fact a form of social security based on a periodic cash payment unconditionally delivered to all on an individual basis. Debates are ongoing in relation to the mechanism of transfer: should the transfer be done to all individuals or only to those below a certain income or wealth level. A true UBI which also implies the simplest administration mechanism would provide a limited amount to each and every citizen. What can be said is that there are many supporters of the UBI concept, including from the business sector and many governments are either evaluating it or, even more, testing it in pilot studies.

A short list of international organizations and other major players (businessmen, leading economists) that support UBI demonstrate both the large support and the variety of perspectives from which the implications of the concept are studied. Such a list include:

- United Nations: Supports the analysis of UBI in the context of the right to development (6-23 June 2017);
- International Monetary Fund: Serious analysis of implications on inequality (October 2017);
- European Commission: Follows with great interest the experiments in Europe, 2016
- Nobel prize economists: Peter Diamond, Sir Christopher Pissarides;
- Key businessmen and innovators: Mark Zuckerberg, Elon Musk, Richard Branson.

The majority of the supporting positions reflect the fact that economic growth and development have to be conceived in relation with the people, with society, not only as statistical figures. From a different perspective sustainable economic growth means not only a sustainable relation with the environment, with nature, but also a sustainable/bearable relation with the people. In this context the IMF stated that UBI could reduce income inequality and protect people affected by technological change and globalization: "In an economic environment in which job insecurity is increasing (for example, because of job market disruptions associated with technological progress), expanding available insurance mechanisms may become an important policy objective. A UBI could provide a stable source of income to individuals and households and therefore limit the impact of income and employment shocks" (IMF, 2017).

**The Universal Basic Assets** represent a more fundamental approach in the sense that it does not think about providing some monthly relief to the disadvantaged people but rather to offer them the conditions for becoming self-sufficient (economically secure) and prosperous. Providing some monthly cash allowances to disadvantaged people will not help in the long run if the economy is not properly functioning and growing in a sustainable way (Coyle, D., 2017).

This approach is based on the assumption that inequality of incomes is generated by inequality of access to assets (such as housing, health care, education and some form of capital/financial resources). The importance of Universal Basic Assets in building a sustainable economy and society have been stated by numerous economists, including Thomas Piketty: "Policy discussions about rising global inequality should focus on how to equalize the distribution of primary assets, including human capital, financial capital, and bargaining power, rather than merely discussing the ex-post redistribution through taxes and transfers" (Piketty, T. et al., 2017).

The availability of assets is more and more important as the specific of modern economies is that more and more people have temporary or on demand jobs - according to some statistics 20 – 30% of working people in United States and Europe have some form of independent/temporary jobs (Pofeldt, E., 2016).

The international experience on the importance of access to assets for individual progress and prosperity is so clear that no doubts are possible. In countries (such as Denmark, Norway, Finland, and Canada ) where access to fundamental assets (education, health care, housing) is provided even children born in poor families have almost the same chances that children born in higher level of income families to attain the top 20% levels of income. By contrast, in United States, children born in poor families have only a 10% chance to attain the top 20% levels of income and in some parts of United States even a 2.8% chance (Gorbis, M., 2017).

In the context of Universal Basic Assets we can mention an initiative that has been launched in Great Britain, in November 2017 having in view the provision of an Universal Basic Infrastructure (UB-Infra) to all British citizens (Industrial Strategy Commission, 2017). By Universal Basic Infrastructure the initiative has in view both a good physical infrastructure as well as high quality health and education infrastructure and services. The concept is based on the economic resources of the state and puts together economic goals (such as increases

of productivity and innovation, of exports and markets) with social goals (wellbeing of the people) and environmental goals (such as the decarbonization of economy).

#### 4. Conclusions

The Universal Basic Income, Universal Basic Assets and Universal Basic Infrastructure, as well as any similar measures, can have a significant impact on economic growth and development by both **direct and indirect effects** which are presented in Figure 1. This conclusion is based on the fact that people that have access to UBI, UBA or UB-Infra will use the respective funds or assets at least in three areas:

- Buying of essential goods and services (foods, clothes, pharmaceutical products, essential household appliances, etc.);
- Buying education service for improving their skills and therefore increasing their chances to have better jobs;
- Starting a small business as they have some capital as result of the addition of UBI or UBA to their existing means.

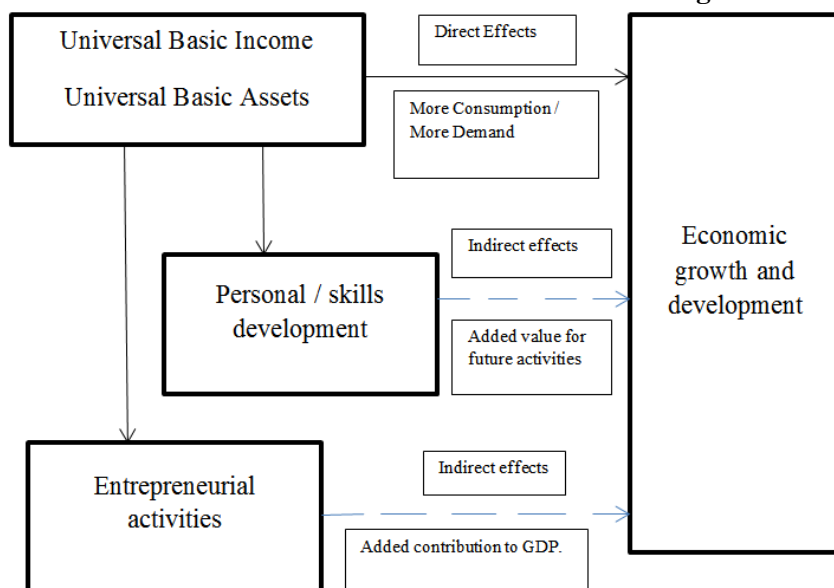
**The direct effects** refer mostly to the economic growth and they are based on the increase of demand as result of the use of funds made available through UBI and UBA. Some people with very limited resources will use the funds just for bare necessities (like food, clothes or renting a space for living) but their acquisitions will represent an increase of demand in the economy and therefore an increase of GDP.

In this context it is worth mentioning that researchers from the Roosevelt Institute concluded in September 2017 that the provision of a guaranteed income of \$1,000 per month for all US citizens financed by the increased federal debt would accelerate the growth of the United States economy by an additional 12.56% over an eight years period. This growth would mean an increase of the GDP of United States by 2.48 trillion US\$).

An optional approach studied in the mentioned research indicated that in case the funds for the UBI would be obtained from redistributive taxes the growth of the US GDP would be smaller, of only 2.62% over the 8 years period but with the advantage of a reduction of the federal deficit by 1.39%. An additional benefit would be that of a decrease of unemployment.

**The indirect effects** refer not only to **economic growth** (for instance by the increase of the number of entrepreneurs and companies that will generate more contribution to GDP) but also to **economic development** and they are based on the qualitative increase of either labor skills (by means of the use of UBI and UBA to increase the education level of work force) or of the structure of economy which may be improved as result of the creation of new small and medium sized enterprises.

**Figure 1. Direct and indirect effects of UBI and UBA on economic growth and development**



Source: Diagram designed by author.

As a conclusion we can say that the world economy of today and each and every economy that is part of it are influenced and changed by many factors ranging from different economic growth rates, the manifestation of inequality and poverty to climate change and the implications of the fourth industrial revolution.

In order to reach a new dynamic equilibrium, both at a global level and at local levels, a new socio-economic and political model is required, a model based on new values, new mechanisms and new institutions. It is clear that for the moment Universal Basic Income, Universal Basic Assets and Universal Basic Infrastructure are just smaller or larger scale experiments. But, in our opinion, such experiments they pave the way forward for those who dare.

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