Discussion of:
Universal Basic Income: The Worst Bar of All Others?

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The views and findings expressed here are those of the author's and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

Basic Idea and Main Results

- The paper studies the effects of an expenditure-neutral UBI reform:
  - Uses a heterogeneous agents model with incomplete markets calibrated to the US economy.
  - Departs from a means-tested transfer system which includes UI.
  - Adds three channels: incomplete take-up, illegitimate transfers, and administrative costs.
  - Embeds a frictional labor market with involuntary unemployment and out-of-labor force state.
- Main results:
  - Expenditure-neutral UBI increases aggregates and lowers wealth inequality.
  - Lowers average welfare, hurting more the poor nonemployed.
  - Incomplete take-up is the main channel: benefits least educate and mitigates welfare losses.
  - More generous UBI is welfare-increasing vis-a-vis re-scaled economy.

Strong Suits and Main Contribution

- Strong Suits:
  - Carefully and precisely written.
  - Excellent literature review and connection with contemporaneous papers.
  - Clean contribution and experiments.
  - Clear mechanism and impact on results.
  - Uses plethora of data sources for calibration.
- Main Contribution:
  - Quantifying the mitigation of welfare due to incomplete take-up.
  - Highlighting the quantitative relevance of the out-of-labor-force state.
  - Focus on the breakdown across educational groups.
  - Emphasizing the difference in results when re-scaling the benchmark economy.

Main Table of the Paper

Table 5: Breakdown by level of education

	LHS	HS	SC	C
CEV	0.48	-2.31	-0.95	0.40
Employment	4.08	0.41	0.24	0.19
Unemployment	-0.65	-0.16	-0.09	-0.07
Average Wage	-2.14	0.70	0.89	0.90
Job-finding rate	-0.13	0.76	0.44	0.46
Unemployed JSE	-0.03	3.75	2.74	3.29
OLF JSE	28.75	–	–	–
Change in Benefits				
Average	-0.45	-0.28	0.03	0.78
Average among Poor	-1.02	-1.31	-1.00	-0.79
Claimants among Poor (%)	46.06	56.92	57.75	65.23

Note: This table decomposes the effects of replacing the benchmark welfare system with an expenditure-neutral UBI by levels of education. The first line reports the consumption-equivalent variation (welfare change). The following six lines report changes in labor market outcomes and job search effort (JSE). The last three lines report the change in average transfers and in average transfers to the poor (i.e., those with less than 10000 USD in assets), followed by the share of the poor that claim benefits.

Discussion of the Paper: Major and Minor Points

- Major discussion points:
  - Uphill battle in finding a gap in the literature.
  - How novel is the question and methodology?
  - Technical: asset-testing and nonconvexities in the budget constraint.
  - Absence of age heterogeneity and transitional dynamics.
- Minor discussion points:
  - UI main testing is on monetary requirements.
  - Absence of AFDC/TANF.
  - Details on calibration.

Major Points - First Batch

- Uphill battle given large literature:
  - Just in 2023: Guner et al. (ECTA), Daruich and Fernandez (AER), Conesa et al. (JPubE), Rauh and Santos (AEJ:Macro R&R), Jaimovich et al. (ReStat R&R)
  - Authors do excellent job in comparing with literature.
  - Still, depending on target journal, contribution needs to be perhaps broader (suggestions along the way).
- Novelty of methodology:
  - Hinges on new channels, but only one is relevant: incomplete take-up.
  - Does not fully model incomplete take-up a la Moffitt.
  - Major innovation suggestion: endogenous take-up. Channels is relevant, unique, and can be capitalized.

Major Points - Second Batch

- Model technicalities:
  - Authors (correctly so) model asset-testing.
  - This generates complications: Wellschmied (2021), Luduvice (2023), Clausen and Strub (2020 and older versions)
  - How do authors circumvent that? Perhaps my ignorance of continuous-time methods.
- Absence of age heterogeneity and transition:
  - Most papers in the literature frontier include both.
  - Age heterogeneity very relevant due to design of transfer system.
  - Transitional dynamics needed for welfare calculations. Even more relevant if capital is increasing in the long-run.

Minor Points

- UI and requirements:
  - Excellent that authors include UI requirements, often overlooked literature.
  - Also excellent citations.
  - However: main requirement is monetary, not tenure. More relevant for calibrated period.
- TANF: Very important transfer that is asset-tested is missing. Also plays a role on the OLF state.
- Details on calibration:
  - Remarkable and extremely precise fit.
  - Also excellent inequality statistics.
  - But how? Not clear from paper.