

The Macroeconomic Effects of Universal Basic Income in NYC: New Working Paper

Research findings address open questions about basic income's potential effects on welfare and inflation

Press Release

New York, NY -- FRIDAY, JANUARY 17 -- A new working paper, supported by the Jain Family Institute, presents the first attempt to model a UBI's general equilibrium effects at the city level. In "Universal Basic Income and the City," Khalil Esmkhani and Jack Favilukis of the University of British Columbia, and Stijn Van Nieuwerburgh of New York University, explore the effects of a guaranteed income policy implemented at the city-level in New York City. They find that, when financed through a progressive income tax, a \$5,000-per-household-per-year UBI increases general welfare and, perhaps surprisingly, does not lead to housing market inflation. Their research sheds new light on the possible inflationary effects of basic income policies. It also suggests that the method used to finance a UBI has significant implications for the policy's outcomes and characteristics.

The research team used a Dynamic Stochastic General Equilibrium (DSSE) model to test the basic income. DSSE models allow market conditions to vary over time, account for "random" variations in household and economic characteristics, and require all included markets to clear simultaneously. Professors Jack Favilukis and Stijn Van Nieuwerburgh had previously used this model to examine [affordable housing policy in New York City](#), and the model is particularly useful for exploring the effects of policy on housing markets and housing affordability. The Jain Family Institute provided a grant for this work to the researchers, and guided the development of the initial research question.

The first important takeaway of the working paper is that under both financing scenarios (changes to tax level or progressivity) the UBI increases aggregate welfare. The second is that, contrary to common assumptions, a UBI does not generate housing market inflation. Instead, the combination

of the benefits and taxes lead to a net reduction in rents and housing prices.

Stephen Nunez, project lead on Guaranteed Income at the Jain Family Institute, commented:

“When we read Favilukis and Van Nieuwerburgh’s previous paper on housing policy in New York City, we knew that their model would be well suited for addressing one of the huge open questions in guaranteed income research. We’re thrilled that we could support the team’s work on this first major research project in our initiative around guaranteed income’s general equilibrium effects.”

Jack Favilukis, associate professor of finance at the Sauder School of Business, University of British Columbia, said:

“The idea of UBI is relatively new and not well understood, therefore its important to think through all of UBI’s implications. This explores its implications for a key area: housing markets.”

Michael Stynes, CEO of the Jain Family Institute, added:

“UBI advocates and opponents alike have been concerned about the possibility that increased inflation and housing prices would cancel out the benefits of a guaranteed income, but this first working paper suggests unexpectedly positive effects, at least for large cities like New York. We are looking forward to more macroeconomic analysis of UBI and are excited to see how this area of inquiry and debate will develop.”

About the researchers:

Khalil Esmkhani is a PhD Candidate at the Sauder School of Business, University of British Columbia.

Jack Favilukis is an associate professor of finance at the Sauder School of Business, University of British Columbia.

Stijn Van Nieuwerburgh is the David S. Loeb Professor of Finance and Director at the Center for Real Estate Finance Research at the Stern School of Business, New York University.

About the Jain Family Institute:

The Jain Family Institute (JFI) is a nonpartisan applied research organization in the social sciences that works to bring research and policy from conception in theory to implementation in society. Founded in 2015 by Robert Jain, JFI focuses on building evidence around the most pressing social problems. In basic income, JFI's research focuses on macroeconomic effects; meta-analyses of cash transfer studies around the world; and, most extensively, on policy design and implementation. JFI partners with governments in the US and abroad to build and implement pilots that will answer some of the most important remaining questions about direct cash transfers. JFI also collaborates research institutions and universities from around the world to develop best practices to improve data-sharing and build the evidence base.

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