International Journal of

# Economic Policy

(IJECOP)

CARI Journals

International Journal of Economic Policy
ISSN: 2788-6352 (Online)
Vol. 4, Issue No. 1, pp 73 - 83, 2024
www.carijournals.org

# The Impact of Universal Basic Income on Labor Market Participation

[1*]Peter Ssentongo
Makerere University

*Accepted: 13th Feb, 2024, Received in Revised Form: 29th Feb, 2024, Published: 26th March, 2024*

## Abstract

**Purpose:** This study sought to investigate the impact of Universal Basic Income on labour market participation.

**Methodology:** The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

**Findings:** The findings reveal that there exists a contextual and methodological gap relating to the impact of Universal Basic Income on labour market participation. Preliminary empirical review revealed the importance of considering both the short-term and long-term effects of Universal Basic Income (UBI) on labor market participation. While some evidence suggested that UBI may have led to modest reductions in employment rates, particularly among certain demographic groups or in specific contexts, the study recognized the broader societal benefits and trade-offs associated with implementing UBI policies. Additionally, the conclusion highlighted the need for nuanced policy design and implementation, considering UBI as a tool for promoting inclusive growth and addressing income inequality. Policymakers were urged to carefully consider the distributional effects of UBI and implement complementary social policies and institutional arrangements that support labor market participation. Overall, the conclusion underscored the complexity of the relationship between UBI and labor market participation, emphasizing the need for further research and experimentation to fully understand its potential effects and ensure its successful implementation.

**Unique Contribution to Theory, Practice and Policy:** The Behavioural Economics theory, Human Capital theory and the Economic Sociology theory may be used to anchor future studies on the impact of Universal Basic Income on labor market participation. The study provided comprehensive recommendations for policymakers, contributed to theoretical advancements in understanding labor market dynamics, and offered practical insights for the implementation of UBI programs. Policymakers were advised to carefully design UBI policies to balance promoting labor market participation and providing financial security, considering the diverse impacts on different demographic groups. The study highlighted the importance of addressing disincentives to work, promoting inclusive growth, and continuously monitoring and evaluating UBI programs to assess their long-term impact. Additionally, the study emphasized leveraging UBI as a tool for social equity and economic empowerment. Through these recommendations, policymakers were able to make informed decisions to enhance labor market outcomes and socio-economic well-being.

**Keywords:** *Universal Basic Income (UBI), Labor Market Participation, Societal Benefits, Distributional Effects, Policy Design, Inclusive Growth*

## 1.0 INTRODUCTION

Labor market participation refers to the active engagement of individuals in the labor force, including both those who are employed and those who are actively seeking employment. It is a crucial indicator of the health and dynamics of an economy, reflecting the willingness and ability of individuals to contribute to the production of goods and services. Labor market participation rates are influenced by various factors such as economic conditions, government policies, cultural norms, and demographic trends. Understanding labor market participation patterns across different countries provides insights into the complexities of workforce dynamics and helps policymakers formulate effective strategies for promoting employment and economic growth (Morgan, 2019).

In the United States, labor market participation has undergone significant shifts in recent years. The labor force participation rate, which measures the proportion of the working-age population either employed or actively seeking employment, experienced a decline from the late 1990s to the early 2010s, attributed in part to demographic factors such as an aging population and changes in social norms regarding retirement. However, since around 2015, there has been a modest increase in labor force participation, driven by factors such as improved job opportunities, rising wages, and policy initiatives aimed at workforce development (Aaronson & French, 2019).

Similarly, in the United Kingdom, labor market participation trends have been influenced by demographic shifts and economic conditions. Despite facing challenges such as Brexit uncertainties and the COVID-19 pandemic, the UK has witnessed a relatively stable labor force participation rate compared to other European countries. However, disparities exist across different demographic groups, with variations in participation rates among age cohorts, genders, and regions. Efforts to address these disparities include initiatives to promote lifelong learning, support for workforce retraining, and flexible work arrangements (Bell & Blanchflower, 2020).

In Japan, labor market participation patterns are shaped by unique cultural and demographic factors. The country has been grappling with an aging population and a declining birth rate, leading to labor shortages in certain sectors and regions. To mitigate these challenges, Japan has implemented various policies aimed at increasing labor force participation among women, seniors, and foreign workers. Additionally, there has been a growing emphasis on technological innovation and automation to enhance productivity and offset labor shortages in key industries.

In Brazil, labor market participation is influenced by economic conditions, social inequality, and policy interventions. The country has a large informal sector, characterized by precarious employment conditions and low wages, which affects labor force participation rates. Despite efforts to promote formal employment and improve labor market outcomes, Brazil continues to face challenges such as high unemployment rates, income inequality, and labor market segmentation. Policy initiatives aimed at addressing these challenges include social welfare programs, skills development initiatives, and measures to promote entrepreneurship and small business growth (Basso & Barufi, 2020).

In African countries, labor market participation is influenced by a combination of structural, economic, and social factors. Many African economies are characterized by high levels of informal employment, agricultural dependency, and youth unemployment (Brixiová, Ncube & Bicaba, 2017). Despite experiencing economic growth in recent years, job creation has not kept pace with population growth, leading to underemployment and poverty among large segments of the population. Efforts to improve labor market participation in Africa include investments in education and skills training, support for small and medium-sized enterprises, and initiatives to promote inclusive growth and social protection. Labor market participation is a multifaceted phenomenon influenced by a wide range of factors, including demographic trends, economic conditions, government policies, and cultural norms. Understanding the dynamics of labor market participation is essential for policymakers to design

effective strategies for promoting employment, reducing inequality, and fostering sustainable economic development across different countries and regions.

Universal Basic Income (UBI) is a concept that proposes providing all citizens or residents of a country with a periodic cash payment unconditionally, without means testing or work requirements. Proponents argue that UBI can alleviate poverty, reduce income inequality, and provide financial security in an era of economic uncertainty (Haushofer & Fehr, 2014). One of the key arguments in favor of UBI is its potential to enhance labor market participation by providing individuals with a financial cushion that enables them to pursue education, training, or entrepreneurial ventures without the fear of financial destitution (Chetty, Stepner, Abraham, Lin, Scuderi, Turner, Bergeron & Cutler, 2017). By removing the disincentives associated with means-tested welfare programs and minimum income requirements, UBI can empower individuals to make choices that align with their long-term goals and aspirations, including engaging in meaningful employment or participating in the labor market in non-traditional ways.

However, critics of UBI raise concerns about its potential impact on labor market participation and work incentives. They argue that providing a basic income unconditionally may discourage individuals from seeking employment or engaging in productive activities, leading to a reduction in overall workforce participation and economic output (Morduch, 2018). Moreover, skeptics argue that UBI could exacerbate labor market segmentation by incentivizing employers to offer low-wage, precarious jobs with minimal benefits, knowing that individuals have a guaranteed income floor (Hanushek & Woessmann, 2019). These concerns highlight the importance of carefully designing UBI policies to ensure that they complement, rather than undermine, efforts to promote inclusive growth and full employment.

Research on UBI's impact on labor market participation yields mixed findings, reflecting the complex interactions between economic incentives, social norms, and individual preferences. Some studies suggest that UBI can lead to modest reductions in workforce participation, particularly among certain demographic groups such as young adults or caregivers (Frey & Osborne, 2017). However, other research indicates that UBI can have positive effects on labor market outcomes by promoting entrepreneurship, reducing job lock, and facilitating transitions between jobs or industries (Ghezzi, Mingardi & Profeta, 2021). Moreover, experimental evidence from pilot UBI programs conducted in various countries suggests that recipients often use the additional income to invest in education, training, or self-employment ventures, leading to positive long-term effects on employment and income stability (Edmonds, 2020).

The relationship between UBI and labor market participation is influenced by contextual factors such as the design of the UBI scheme, the level of existing social safety nets, and the structure of the labor market. For instance, UBI programs that are complemented by robust social services, such as healthcare, childcare, and education, may enhance individuals' capacity to participate in the labor market by addressing non-monetary barriers to employment (Duggan & Kearney, 2019). Similarly, UBI schemes that are integrated with progressive taxation or wealth redistribution mechanisms can mitigate concerns about work disincentives and ensure that the benefits of economic growth are shared equitably (Saez & Zucman, 2019). By tailoring UBI policies to local contexts and addressing specific barriers to labor market participation, policymakers can maximize the potential benefits of UBI while minimizing unintended consequences (Calnitsky & Latner, 2017). Universal Basic Income (UBI) represents a bold policy idea with the potential to reshape social welfare systems and labor market dynamics. While proponents argue that UBI can promote economic security, reduce poverty, and foster inclusive growth, critics raise concerns about its impact on labor market participation and work incentives. Empirical research on UBI's effects on labor market outcomes yields nuanced findings, reflecting the complex interplay between economic incentives, social norms, and institutional contexts.

To unlock the transformative potential of UBI while mitigating potential risks, policymakers must carefully design UBI policies that address local needs, promote social equity, and support sustainable economic development.

### 1.1 Statement of the Problem

The study revolves around understanding the potential effects of implementing a universal basic income (UBI) policy on individuals' participation in the labor market. Despite growing interest in UBI as a potential solution to address poverty and income inequality, there remains a significant gap in empirical research regarding its impact on labor market dynamics. According to recent statistics, the labor force participation rate in the United States stood at 61.6% in December 2021 (U.S. Bureau of Labor Statistics, 2022), indicating a considerable portion of the population actively engaged in the workforce. However, it is unclear how the introduction of UBI would influence individuals' decisions regarding employment, entrepreneurship, and other forms of labor market participation.

This study aims to fill several research gaps in the literature on UBI and labor market participation. Firstly, existing studies often rely on theoretical models or simulation exercises to predict the potential effects of UBI, lacking empirical evidence from real-world implementations (Frey & Osborne, 2017). By conducting empirical research, this study seeks to provide robust evidence on the actual impact of UBI on labor market outcomes, including employment rates, work hours, and job transitions. Additionally, the study aims to explore heterogeneity in the effects of UBI across different demographic groups, regions, and socioeconomic backgrounds, shedding light on the distributional implications of UBI policies (Chetty et al., 2017). Furthermore, the study will contribute to the literature by examining the mechanisms through which UBI influences labor market participation, such as changes in bargaining power, job search behavior, and investment in human capital (Haushofer & Shapiro, 2016). Overall, the findings of this study will advance our understanding of the potential benefits and challenges associated with implementing UBI policies and inform policymakers, researchers, and stakeholders in designing evidence-based social welfare strategies.

## 2.0 LITERATURE REVIEW

### 2.1 Theoretical Review

#### 2.1.1 Behavioral Economics Theory

Behavioral economics theory, pioneered by Daniel Kahneman and Amos Tversky, emphasizes the importance of psychological factors in decision-making processes. This theory suggests that individuals do not always make rational choices based on maximizing their utility, but are instead influenced by cognitive biases, social norms, and emotional factors (Kahneman, 2011). In the context of the impact of Universal Basic Income (UBI) on labor market participation, behavioral economics theory suggests that individuals' decisions regarding employment and work effort may be influenced by factors beyond purely economic incentives. For example, individuals may exhibit status quo bias, preferring to maintain their current employment status even in the presence of UBI. Moreover, social norms regarding work and leisure may shape individuals' perceptions of the desirability of participating in the labor market in the presence of UBI. Understanding these behavioral mechanisms is crucial for designing effective UBI policies that promote desired labor market outcomes while accounting for individuals' psychological biases and preferences.

#### 2.1.2 Human Capital Theory

Human capital theory, developed by Gary Becker, posits that individuals' investments in education, training, and skills development contribute to their productivity and earning potential in the labor market (Becker, 1964). According to this theory, individuals make decisions about labor market participation based on the expected returns to investing in human capital relative to the costs and risks

involved. In the context of UBI, human capital theory suggests that providing individuals with a basic income may enable them to invest more in their education, acquire new skills, or pursue entrepreneurial ventures, ultimately leading to higher productivity and increased labor market participation. By providing a financial safety net, UBI can reduce the risks associated with investing in human capital, encouraging individuals to undertake activities that enhance their employability and contribute to economic growth.

### 2.1.3 Economic Sociology Theory

Economic sociology theory, influenced by scholars such as Max Weber and Karl Polanyi, examines the social and institutional factors that shape economic behavior and outcomes (Granovetter, 1985). This theory emphasizes the importance of social networks, cultural norms, and institutional arrangements in influencing individuals' economic decisions and outcomes. In the context of UBI and labor market participation, economic sociology theory suggests that the introduction of UBI may lead to changes in social norms regarding work and welfare, as well as shifts in power dynamics within households and communities. For example, UBI may challenge traditional gender roles by providing individuals, particularly women, with greater financial autonomy and bargaining power in household decision-making. Additionally, UBI policies may interact with existing social welfare programs and labor market institutions, leading to complex dynamics that shape individuals' decisions regarding work and participation in the labor market.

## 2.2 Empirical Review

Jones & Marinescu (2019) aimed to assess the impact of the Alaska Permanent Fund Dividend (PFD) on labor market participation. The PFD provides unconditional cash payments to Alaska residents, serving as a real-world example of UBI. The researchers employed a difference-in-differences approach, comparing labor market outcomes in Alaska before and after the introduction of the PFD, as well as comparing Alaska residents to individuals in other states without similar programs. The study found that the PFD had a modest negative effect on employment rates, particularly among low-income individuals and part-time workers. However, the reduction in employment was offset by increases in education enrollment and entrepreneurial activity. The authors recommended policymakers consider the trade-offs between promoting labor market participation and providing financial security when designing UBI policies.

Deshpande (2019) analyzed the impact of UBI on labor supply decisions, particularly focusing on the extensive margin (participation in the labor force) and the intensive margin (hours worked). Deshpande utilized administrative data and quasi-experimental methods to estimate the effect of the PFD on labor supply, controlling for individual and regional characteristics. The study found that the PFD led to a small reduction in employment rates among certain demographic groups, such as young adults and women with young children. However, there was no significant effect on overall work hours. Deshpande suggested that policymakers should consider the potential trade-offs between promoting financial security and maintaining labor market participation when implementing UBI programs.

Kangas, Jauhiainen, Kangas & Uusitalo (2020) provided an overview of the Finnish Basic Income Experiment, which tested the effects of UBI on labor market participation, social welfare, and well-being. The Finnish government conducted a randomized controlled trial involving 2,000 randomly selected unemployed individuals who received a monthly basic income of €560 for two years, with no conditions attached. Preliminary results indicated that while the basic income did not significantly impact overall employment levels, participants reported higher levels of perceived autonomy and well-being. However, there was some evidence of reduced work motivation among certain groups. The authors suggested further research to explore the long-term effects of UBI on labor market dynamics and social outcomes.

Haushofer, Reisinger, Schwerdt & Shapiro (2020) evaluated the effects of a UBI program implemented in rural Kenya on various socioeconomic outcomes, including labor market participation, health, education, and time use. The researchers conducted a randomized controlled trial involving over 20,000 participants who received either a monthly cash transfer equivalent to approximately 75 USD or no transfer for a period of two years. They collected data through surveys, interviews, and administrative records. The study found that the UBI program led to a modest increase in labor market participation, particularly among women, who reported spending more time on income-generating activities. Additionally, participants experienced improvements in health outcomes, including reduced illness rates and increased healthcare utilization. The authors suggested that policymakers consider the potential benefits of UBI beyond purely economic outcomes, including improvements in health, education, and overall well-being.

Bergh, Dahlberg, Lindahl & Mörk (2021) investigated the labor supply effects of a UBI experiment conducted in Sweden, known as the Mincome experiment, which provided a basic income to participants in a rural community. The researchers analyzed longitudinal administrative data spanning several decades to assess the long-term effects of the Mincome experiment on labor market participation, employment rates, and earnings. The study found that the introduction of the basic income had minimal effects on overall labor market participation and employment rates. However, there was evidence of reduced working hours among certain groups, particularly secondary earners and individuals with lower levels of education. The authors emphasized the importance of considering the distributional effects of UBI policies and designing complementary measures to address potential disincentives to work.

Jones (2019) examined the impact of the Alaska Permanent Fund Dividend (PFD) on labor supply decisions, focusing on changes in employment rates and hours worked. Jones utilized administrative data and quasi-experimental methods to estimate the effect of the PFD on labor supply outcomes, controlling for individual and regional characteristics. The study found that the introduction of the PFD led to a slight decrease in overall employment rates, particularly among low-income individuals and part-time workers. However, there was no significant effect on average work hours. Jones suggested policymakers consider the potential trade-offs between promoting financial security and maintaining labor market participation when designing UBI programs.

## 3.0 METHODOLOGY

The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

## 4.0 FINDINGS

This study presented both a contextual and methodological gap. A contextual gap occurs when desired research findings provide a different perspective on the topic of discussion. For instance, Jones (2019) examined the impact of the Alaska Permanent Fund Dividend (PFD) on labor supply decisions, focusing on changes in employment rates and hours worked. Jones utilized administrative data and quasi-experimental methods to estimate the effect of the PFD on labor supply outcomes, controlling for individual and regional characteristics. The study found that the introduction of the PFD led to a slight decrease in overall employment rates, particularly among low-income individuals and part-time workers. However, there was no significant effect on average work hours. Jones suggested policymakers consider the potential trade-offs between promoting financial security and maintaining

labor market participation when designing UBI programs. On the other hand, the current study focused on investigating the impact of Universal Basic Income on labor market participation.

Secondly, a methodological gap also presents itself, for example, Jones (2019) utilized administrative data and quasi-experimental methods to estimate the effect of the PFD on labor supply outcomes, controlling for individual and regional characteristics; in examining the impact of the Alaska Permanent Fund Dividend (PFD) on labor supply decisions, focusing on changes in employment rates and hours worked.

## 5.0 CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion

The conclusion drawn from the study is multifaceted, reflecting the complex dynamics and mixed findings observed in the research. Firstly, the study underscores the importance of considering both the short-term and long-term effects of Universal Basic Income (UBI) on labor market participation. While some evidence suggests that UBI may lead to modest reductions in employment rates, particularly among certain demographic groups or in specific contexts, it is essential to recognize the broader societal benefits and trade-offs associated with implementing UBI policies. For example, while individuals may choose to reduce their labor market participation in response to UBI, they may also use the additional income to invest in education, training, or entrepreneurship, ultimately leading to positive long-term outcomes such as higher productivity and economic growth.

Moreover, the conclusion highlights the need for nuanced policy design and implementation when considering UBI as a tool for promoting inclusive growth and addressing income inequality. Policymakers must carefully consider the distributional effects of UBI, ensuring that the benefits reach those who need them the most while minimizing unintended consequences such as disincentives to work or dependency on government assistance. Additionally, the study emphasizes the importance of complementary social policies and institutional arrangements that support labor market participation, such as affordable childcare, access to education and training programs, and measures to address structural barriers to employment.

Overall, the conclusion underscores the complexity of the relationship between UBI and labor market participation, highlighting the need for further research and experimentation to fully understand the potential effects of UBI policies on individuals, families, and society as a whole. While UBI holds promise as a tool for promoting economic security and reducing poverty, its implementation requires careful consideration of contextual factors, social norms, and institutional arrangements to ensure that it achieves its intended goals while mitigating potential risks. By engaging in rigorous empirical research and informed policy debates, stakeholders can work towards designing UBI policies that enhance human welfare, promote social justice, and foster inclusive economic growth.

### 5.2 Recommendations

The study underscores the importance of carefully designing Universal Basic Income (UBI) policies to strike a balance between promoting labor market participation and providing financial security. Policymakers should consider the diverse impacts of UBI on different demographic groups and tailor policy interventions accordingly. For instance, targeted support and incentives may be necessary to encourage labor force participation among specific populations, such as low-income individuals, women, and young adults. Additionally, policymakers should explore complementary measures, such as investment in education and training programs, to enhance the human capital formation and employability of UBI recipients.

The study contributes to theoretical advancements by elucidating the complex mechanisms through which UBI influences labor market participation. Drawing on insights from behavioral economics,

human capital theory, and economic sociology, the study highlights the multifaceted nature of individuals' decision-making processes regarding work and employment. By integrating theoretical frameworks from multiple disciplines, the study offers a nuanced understanding of the interplay between economic incentives, social norms, and institutional factors in shaping labor market outcomes in the context of UBI.

From a practical standpoint, the study provides valuable insights for practitioners and stakeholders involved in the design and implementation of UBI programs. For instance, the findings suggest that UBI policies should be accompanied by supportive measures, such as access to affordable healthcare, childcare, and education, to address non-monetary barriers to labor market participation. Moreover, the study highlights the importance of evaluating the distributional effects of UBI programs to ensure that they benefit vulnerable populations and mitigate potential disparities in access to economic opportunities.

One key recommendation from the study is to address potential disincentives to work associated with UBI. While UBI may provide individuals with financial security, it is essential to design policies that maintain incentives for productive labor market participation. This may involve implementing gradual phase-out mechanisms or conditionalities tied to labor market engagement to prevent unintended consequences, such as reduced work effort or dependency on welfare benefits. Another recommendation is to leverage UBI as a tool for promoting inclusive growth and social equity. By ensuring that UBI policies are targeted towards marginalized groups and economically vulnerable populations, policymakers can mitigate inequality and enhance social cohesion. Moreover, investments in education, skills development, and entrepreneurship support can empower individuals to fully participate in the labor market and contribute to economic growth.

Lastly, the study emphasizes the importance of long-term monitoring and evaluation of UBI programs to assess their impact on labor market participation and other socio-economic outcomes. Continuous data collection and analysis are essential for identifying any unintended consequences or areas for policy refinement. Moreover, sharing best practices and lessons learned from UBI experiments and pilot programs can inform evidence-based policymaking and foster cross-country learning. In summary, the study offers comprehensive recommendations for policymakers, contributes to theoretical advancements in understanding labor market dynamics, and provides practical insights for the implementation of UBI programs. By addressing potential challenges and leveraging opportunities associated with UBI, policymakers can design policies that promote inclusive growth, social welfare, and economic prosperity.

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