



Special Series on Fiscal Policies to Respond to COVID-19

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Managing the Impact on Households: Assessing Universal Transfers (UT)¹

In response to the severe economic downturn triggered by the coronavirus outbreak, there have been calls for universal—or near universal²—transfers (UT) as a direct and speedy approach to providing support to the many households affected by the virus or suffering economic hardship. This note provides an analysis of issues related to UT design and implementation and discusses the political economy of universal household support in the current crisis. Section I compares UT-like measures to other safety net options currently available to countries and offers a simple taxonomy to help assess the conditions when UT would possibly be a desirable tool to provide income support to households. Section II addresses political economy issues related to the universality of support currently being considered in many countries.

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I. UNIVERSAL (OR NEAR-UNIVERSAL) TRANSFERS AS A TEMPORARY INCOME SUPPORT TOOL

Amidst the Covid-19 pandemic, universal transfers are gaining traction in some countries as part of their fiscal response to protect households from employment and income shocks. Since the beginning of the crisis, some advanced economies have adopted, and others are considering, introducing UT as a supplement to their existing social benefit systems. Examples include [Hong Kong](#), [Serbia](#), [Singapore](#), and the [United States](#).³ The aim of such transfers is to provide households facing negative income shocks with temporary support to partly cover essential expenditures such as food, utility bills, mortgages, rents, medical bills, and transportation costs. In principle, UT programs are not necessarily one-off or temporary when thought

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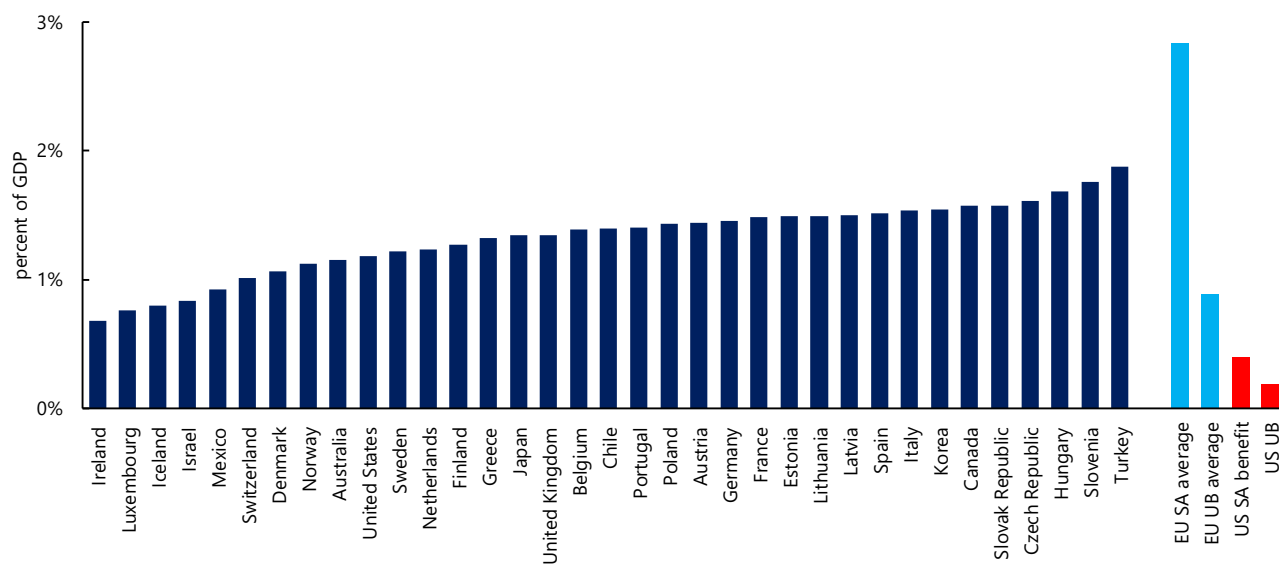
² For brevity, the term UT is used throughout the note and refers to universal and near universal schemes. The term “near universal” refers to restricting the benefit to specific groups in the population. Exclusion, for instance, of top income households or individuals could be implemented through a light self-registration process or increasing income tax rates at the top of the income distribution to claw back the benefit.

³ The U.S. has introduced a USD 1,200 refundable tax credit for all individuals declaring gross income—including recipients of social security benefits—below USD 75,000 with a USD 500 per child top-up, the tax credit then decreases to zero for gross income between USD 75,000 and 100,000.

as redistributive instruments. This note focuses on UT as a short-lived—one-off or possibly repeated a few times over the short run—bridging tool to provide an income “lifeline” before existing benefits kick in or employment recovers.⁴

The gross fiscal cost of a temporary UT-like measure covering all adult residents would be sizeable.⁵ For instance, across OECD countries, distributing 5 percent of the country median income per capita—an amount comparable to the USD 1,200 per individual UT approved in the U.S., which represents about 6 percent of the U.S. median income—to all adult residents (i.e., above 18-year-old) would entail a gross fiscal cost ranging from 0.7 percent of GDP in Ireland to about 1.9 percent of GDP in Turkey (Figure 1).⁶ Across European countries, this type of transfer would cost on average about 1.5 percent of GDP, or 40 percent of current public outlays on social assistance and unemployment benefits (Figure 1). Should such a transfer be disbursed to all the population, then, the cost would be larger. On the other hand, targeting the transfer—by income or employment status, or family composition—would limit the cost of the measure. For instance, across OECD countries, targeting the transfer only to children (below 18-year-old) and elderly (above 65-year-old) would halve the fiscal cost, from an average of 1.3 to an average of about 0.7 percent of GDP. In countries where solid social safety nets are in place (e.g., most advanced economies), a UT-type measure costing 1.5 percent of GDP would roughly be equivalent to a 75 percent increase of existing social assistance and unemployment benefits.

Figure 1. OECD: Gross Fiscal Cost of a UT Set at 5 Percent of Median Income per Capita (percent of GDP)



Source: IMF staff calculations on WEO, UN, OECD, European COFOG, and PovcalNet World Bank data. Median income data for China, India, Indonesia and Saudi Arabia were taken from Gallup (2013).

Note: The transfer is redistributed to all adult residents above 18-year-old. Social assistance spending (SA) covers family, housing and social exclusion benefits across European countries (EU 27 + UK, Norway, Iceland and Switzerland), and family and social exclusion benefits in the US; UB are unemployment benefits.

⁴ For a discussion on the desirability of UT-type programs as part of country’s permanent redistribution systems see [Francese and Prady \(2018\)](#).

⁵ The net fiscal cost of the UT will depend on whether it is taxable or if it substitutes other social programs.

⁶ The estimated gross fiscal cost depends on country’s demographics—e.g., the younger the country, the cheaper a UT distributed to adult residents only—and income inequality as reflected by the difference between the median and average income per capita. For a discussion on the impact on inequality, see [October 2017 Fiscal Monitor](#) and [Francese and Prady \(2018\)](#).

For any given fiscal envelope, the focus should first be on determining the ability of the current benefit systems to expand coverage and generosity in a timely manner. Compared to targeted transfers, a UT would redistribute uniformly across the population, thus potentially improving coverage of households that are missed by targeted programs, but at the expense of the generosity of benefits for those lower-income households. Thus, the importance of first assessing the potential for strengthening social protection systems as these vary widely across country income groups. Many richer countries, with sound safety net systems, are expanding their social assistance and unemployment benefits by relaxing eligibility requirements, increase benefit levels, and extending benefit duration.⁷ For instance, the US unemployment benefits have been extended to gig workers, self-employed and independent contractors. In contrast, in most emerging and low-income economies, strengthening the weaker social protection systems to effectively provide the timely and much needed relief will be more challenging.⁸ Alternative options may nonetheless be quickly available such as forbearance measures—or lump-sum subsidy of a fixed amount—that could be targeted at households in social housing (for rents) or benefiting from social utility tariffs, which could contain the fiscal costs of support relative to UT-like measures. However, non-earmarked UT are probably more efficient.⁹

Universal transfers can be considered as complementary income support tools to existing benefit systems that may be under high pressure in the face of the crisis. Economic lockdowns are imposing the greatest costs on individuals previously not receiving any social benefits and lacking the savings to weather sudden income losses. In countries where new unemployed can claim existing benefits, they can experience important delays because administrations are overwhelmed by massive simultaneous requests.¹⁰ If, on top of massive influx of new demands, programs are being expanded without proper extra-staffing in social administrations, and miscommunication and/or lack of information happen, then new enrollments can be further delayed because of longer processing time. In countries where new unemployed are not eligible to—or reachable by—existing benefits, then the need for alternative and quick support is more acute. A UT that would not require individual filing could provide rapid relief while giving time to more targeted schemes to be implemented in the short-to-medium term.

UT-type proposals can effectively mitigate falling incomes for much of the population only if many design issues and country-specific implementation practicalities are rapidly addressed and overcome. Impact will depend, for instance, on the tax treatment of the transfer and detailed coverage/limitations.

- **Implementation challenges.** In advanced economies, tax files and social registries for existing programs will help identify and reach out to potential beneficiaries. Digital tools can help but limited coverage may exclude

⁷ See accompanying note “Expenditure Policies in Support of Firms and Households”.

⁸ Labor disincentive effects of some sort (either from income or substitution effects) are inherent in any type of transfer scheme. Universal transfers are generally less distortionary at the margin. A proper assessment of the distortionary impact of any policy tool requires a comprehensive assessment of the tax-transfer schedule, as marginal and participation taxes for households eligible to existing social benefits may be high suggesting high disincentives to work can also happen under current targeted systems.

⁹ Furthermore, delayed or decreased payments of utility bills will most probably need to be compensated to companies in key sectors such as electricity, water and sanitation, and transportation, with potentially public management risks. However, forbidding disconnections and evictions for unpaid bills and rent for a certain period remains advisable, to address timing differences between the receiving of social benefits and the due date on the bills.

¹⁰ In the last week of March 2020, 3.3 million Americans filed first-time claim for unemployment benefits, the largest number since 1982. In the UK, 950,000 people applied for the main income support benefit between 16 and 31 March 2020 when there are normally about 100,000 applicants for the benefit in any given two-week period. The UK Department for Work and Pensions has moved more than 10,000 staff to deal with claims and is recruiting more to reduce delays in ID verification and payments processing.

large parts of the population from receiving the benefit. The Indian example of Aadhaar—the largest biometric program in the world with 1.2 billion residents enrolled over several years—can probably be emulated to some extent in emerging economies that have the means and centralized information to map individual financial account information with unique ID number, to implement direct transfers. Countries with low bank coverage and/or poor ID systems can nonetheless develop quick ways around through mobile money and alternative methods to identify beneficiaries most in need of immediate support—e.g., through community-based identification, existing social and professional registries at local governments.¹¹ In all countries, as social workers and all public personnel helping vulnerable households on a daily basis are under extreme pressure, introducing a new program will require additional staffing resources.

- **Design features.** Important and practical parameters will need to be agreed upon as well, such as whether to i) include the payment in the regular tax base, apply special tax treatment to claw back even more strongly from those with higher incomes, or exempt it; ii) include non-citizens; iii) adapt benefit amounts to household composition; iv) either include recipients of existing benefits (raising the generosity) or exclude them from the UT scheme; and to v) adopt and announce a credible exit strategy of the UT with a clear deadline on the termination of the program—at least under its “crisis modalities”. These necessary decisions are bound to increase the complexity of an otherwise simple idea—i.e., “give money to everybody”.

Provided a basic delivery system—including some ID system, decent financial inclusion and mobile phones ownership—is in place, key criteria when considering UT-type programs are the performance of existing alternative forms of support in terms of i) current coverage of the poor and ii) current adequacy of benefits (Figure 2):¹²

- **High coverage-High adequacy** (e.g., European, East Asia and Pacific and Latin American countries): on these grounds there is no obvious need for UT-like programs, unless high non-take-up rates of existing programs are a concern, high informality levels prevent adequately reaching households exposed to significant negative income shocks, or the administrative stress of adding new beneficiaries in the system is unduly burdensome and lengthy. France, for instance, has opted for the broadening of partial unemployment benefits, well-known to firms and employees, at about one-third of the total annual cost of guaranteed minimum income programs. In the UK, the requirements to attend a job center of the Universal Child Credit Program will be temporarily relaxed for those who have COVID-19 or are self-isolating according to government advice.
- **Low coverage-Low adequacy** (e.g., South Asian countries): Where feasible, UT-like programs could be effective in providing immediate and broad support to households but need to be compared with alternatives such as fee waivers for some services—e.g., mobile money transaction—in-kind provision of goods and services (especially health services and food), and narrower categorical targeting to population subgroups—e.g., families with children—or specific areas, given scarce budget resources. For instance, Indonesia is increasing e-food vouchers by 33 percent for six months, targeting the bottom 25 percent of the population.
- **High coverage-Low adequacy** (e.g., MENA countries): UT-like programs could be effective in providing immediate and broad support to households and could prove more progressive than providing support to households through price subsidies. In countries with relatively large safety net and banking coverage, a UT could be relatively easy to implement—e.g., the Citizen’s Account Program in Saudi Arabia, providing income-support to all Saudi households via digital transfers. However, in countries where current high

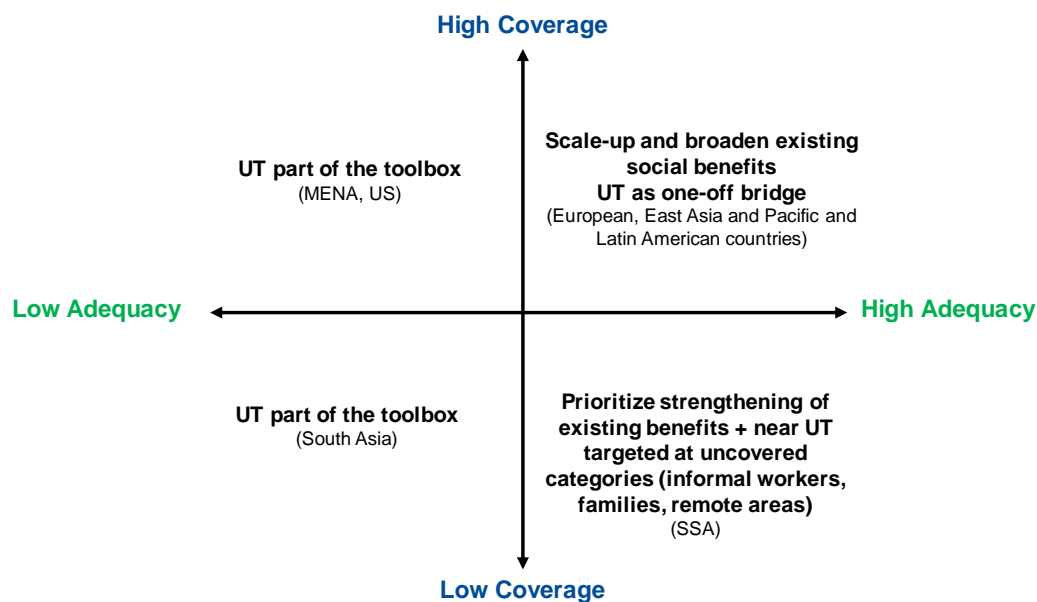
¹¹ In Rwanda, the government will distribute food to households “affected by the virus” whose main earnings come from the informal sector in Kigali (e.g., street vendors, moto taxi). These households will be identified in each neighborhood through the system of “Mudu Gudus”, a network of community organizations in charge of targeting and distributing social transfers from the government.

¹² The broad country groupings here, and in Figure 1, of course conceal significant cross-country variation.

coverage of safety nets is not linked to banking information—e.g., for large-scale in-kind redistribution programs—UT, understood as a monetary support either in cash or digital payments, can prove more challenging to implement and should probably morph into some in-kind support.

- **Low coverage-High adequacy** (e.g., SSA countries): Where feasible, UT-like programs could complement existing programs since redistributing current resources across more households would generate sizeable welfare losses at the bottom of the income distribution. As in the low coverage-low adequacy case, the increased provision of goods and services (especially health, water and transportation services) should be considered as alternatives.

Figure 2. When Feasible, UT-Like Measures Might be Part of the Social Spending Toolbox



Source: IMF staff.

Note: Adequacy and coverage refer to existing social assistance benefit systems. Adequacy reflects the ratio of benefit amount to bottom quintile welfare (as proxied by total expenditure in household survey); coverage reflects the ratio of beneficiaries over the bottom quintile population. SSA: Sub-Saharan Africa.

II. THE POLITICAL ECONOMY OF UNIVERSAL INCOME SUPPORT

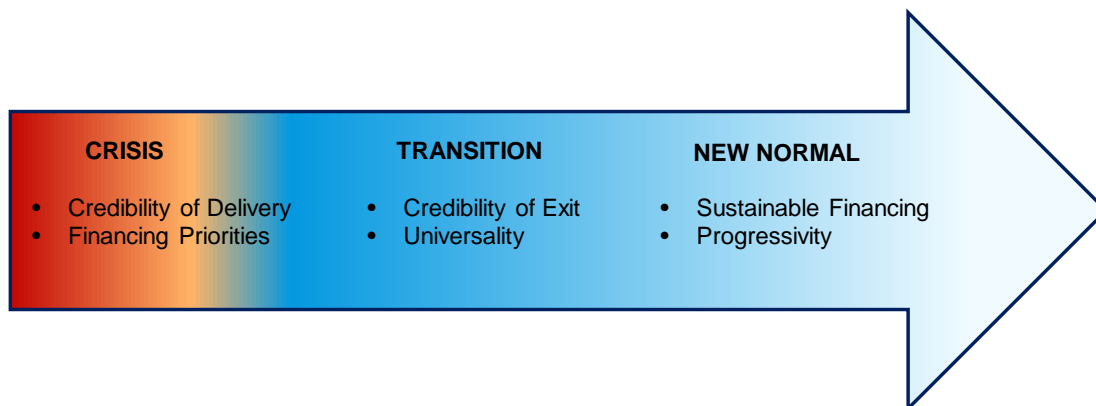
In political economy terms, introducing a temporary UT can be politically challenging for three main reasons: i) **credibility to deliver and exit the program**, ii) **changes in public acceptability of universality**, and iii) **capacity to finance**. These risks can materialize with probabilities that depend on the UT implementation timing (Figure 3):

- **During the crisis.** UT broad coverage and announced exceptional nature are likely to be well-received by the public at large, given the widespread costs economic lockdowns are imposing across entire populations, thus enhancing the sense of solidarity. This type of unconventional and costly policy can further help avoid the perception of an unbalanced governmental support in favor of firms/employers. UT goals can be easily communicated and understood thus building confidence in governments' capacity to act and provide for their population in times of crisis. These advantages create two important political risks for governments. First, they must effectively deliver support to households in a timely manner or their credibility will rapidly deteriorate. Second, they must find the resources to finance a relatively expensive program, which means prioritizing spending of tight fiscal resources across competing demands—e.g., from businesses on the edge

of bankruptcy, from key sectors such as electricity, water, transportation, food supply chain, which need to continue operating.

- **During the transition.** As the crisis phases out, the need for universal income support weakens while the pressure to better target scarce resources on other spending priorities strengthens. Relief packages should carefully balance support provided to enterprises and households, with the objective of enabling a smooth reprioritization as sectoral and household needs evolve. Policy makers should also be clear about the exceptional nature of UT to avoid difficulties in scaling it down after the crisis and time-inconsistency of political commitments. If concerns about well-off households receiving a UT grow as more jobs are created/resume, the financing strategy of the measure should ensure its progressivity. This can easily be done if the UT is taxable and through progressive taxes, such as progressive income and property taxes, that will ensure that the transfer is clawed back from higher-income groups. To further the overall progressivity of taxes and transfers, income tax rates could also be increased at the top of the income distribution to effectively exclude wealthier households from the benefit.
- **During the new normal.** UT infrastructure—i.e., information and data collected on beneficiaries, delivery mechanisms—can provide a basis for strengthening the safety net likely only over the medium term because of the difficulties to ensure adequate support for the most vulnerable within reasonable fiscal cost. Benefit progressivity and fiscal space can be developed over the medium term. However, effectively transitioning from a crisis UT to a more resilient social protection will require significant investment in most emerging and developing countries in universal citizen registries, integrated socio-economic and tax databases, electronic transfer systems, and expanded financial inclusion.¹³

Figure 3. Political Risks Associated to UT as the Crisis Unfolds



Source: IMF staff.

¹³ See also the accompanying note “Reaching Households in Emerging and Developing Economies: Citizen ID, Socioeconomic Data, and Digital Delivery”.