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# Targeted Transfers versus Universal Basic Income: Labour Supply Responses from a Randomized Policy Rollout

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**Abstract--** The debate between targeted social transfers and Universal Basic Income (UBI) has gained prominence as governments seek effective mechanisms to reduce poverty, improve welfare, and promote inclusive growth. While targeted transfers direct resources toward specific vulnerable groups, UBI provides unconditional cash benefits to all citizens regardless of income or employment status. This study examines labour supply responses under these alternative welfare frameworks using evidence from a randomized policy rollout. Drawing upon experimental and quasi-experimental findings from cash transfer programs across developing and developed economies, the analysis evaluates whether unconditional income support discourages labour market participation or facilitates productive economic engagement. The findings indicate that concerns regarding substantial labour market withdrawal under UBI are largely overstated. Although modest reductions in working hours are observed among specific demographic groups, recipients frequently utilize income support to pursue education, entrepreneurship, caregiving, and skill enhancement. Targeted transfers demonstrate effectiveness in reaching vulnerable populations but are often constrained by administrative costs, exclusion errors, and behavioural distortions. The study concludes that carefully designed universal income schemes can complement labour market objectives while ensuring social protection, suggesting a need for hybrid welfare architectures that balance efficiency, equity, and fiscal sustainability.

**Keywords--** Universal Basic Income, Targeted Transfers, Labour Supply, Cash Transfers, Welfare Policy, Social Protection.

## I. INTRODUCTION

Social protection systems constitute a fundamental pillar of modern welfare states. Governments worldwide employ diverse transfer mechanisms to address poverty, inequality, unemployment, and social exclusion. Among these mechanisms, targeted transfers and Universal Basic Income represent two contrasting approaches to income redistribution. Targeted transfers allocate benefits to individuals or households based on predetermined eligibility criteria such as income, employment status, age, disability, or family composition.

Such programs aim to maximize poverty reduction by concentrating resources on vulnerable populations. Examples include conditional cash transfers, food assistance programs, unemployment benefits, and social pensions. Universal Basic Income, by contrast, provides a regular and unconditional cash payment to all citizens irrespective of income, wealth, or employment status. Advocates argue that UBI simplifies welfare administration, reduces stigma, minimizes exclusion errors, and provides a stable income floor. Critics contend that unconditional transfers may weaken incentives to work and impose substantial fiscal burdens.

The labour supply implications of these policy alternatives remain central to contemporary policy debates. Policymakers often worry that guaranteed income support may reduce labour force participation, thereby lowering economic productivity and tax revenues. However, emerging evidence from randomized policy experiments and cash transfer programs suggests a more nuanced relationship between income support and work incentives.

This article examines labour supply responses associated with targeted transfers and UBI through the lens of randomized policy rollouts and experimental evidence. The analysis contributes to ongoing discussions regarding the effectiveness, efficiency, and equity of alternative welfare designs.

## II. BACKGROUND

The intellectual foundations of Universal Basic Income can be traced to the writings of Thomas Paine, Bertrand Russell, and Milton Friedman. Contemporary interest in UBI has intensified due to automation, technological unemployment, precarious work arrangements, and growing income inequality. Several countries have experimented with basic income-type policies. Notable examples include Finland's Basic Income Experiment (2017–2018), the Alaska Permanent Fund Dividend in the United States, and pilot projects in Kenya, Namibia, India, and Canada.

Targeted transfer programs have similarly expanded worldwide. Conditional cash transfer programs such as Mexico's Progres/Oportunidades and Brazil's Bolsa Família have demonstrated positive impacts on education, health, and poverty reduction. Nonetheless, concerns regarding administrative complexity and exclusion errors continue to challenge targeted welfare systems. The growing body of evidence from randomized controlled trials (RCTs) offers an opportunity to compare labour market outcomes under different transfer mechanisms and identify their broader socioeconomic effects.

### III. REVIEW OF LITERATURE

Theoretical models of labour supply suggest that income transfers may affect work incentives through income and substitution effects. An increase in non-labour income can reduce labour supply if individuals choose greater leisure over work.

Friedman (1962) proposed the negative income tax as an efficient means of supporting low-income households while preserving market incentives. Atkinson (1996) argued that basic income could enhance social justice and reduce poverty traps associated with means-tested benefits.

Banerjee et al. (2017) reviewed evidence from cash transfer programs and found limited adverse effects on labour participation. Their findings challenged traditional assumptions that welfare benefits necessarily discourage work.

The Finnish Basic Income Experiment reported improvements in well-being, mental health, and economic security while showing negligible effects on employment levels (Kangas et al., 2020). Similarly, Jones and Marinescu (2018) found that the Alaska Permanent Fund Dividend did not significantly reduce employment.

Haushofer and Shapiro (2016) documented positive impacts of unconditional cash transfers on asset accumulation and psychological well-being in Kenya. Standing (2017) argued that basic income enhances individual agency and economic resilience.

Recent studies increasingly emphasize heterogeneous labour responses. Young adults may invest in education, parents may devote more time to childcare, and older workers may transition gradually toward retirement. Consequently, labour supply effects appear context-specific rather than universally negative.

### IV. RESEARCH OBJECTIVES

The study pursues the following objectives:

1. To compare labour supply responses under targeted transfer and Universal Basic Income schemes.
2. To assess whether unconditional income support reduces labour force participation.
3. To examine the behavioural and socioeconomic impacts of cash transfer programs.
4. To derive policy implications for future social protection reforms.

### V. METHODOLOGICAL FRAMEWORK

This study adopts a comparative analytical approach based on evidence from randomized policy rollouts, experimental studies, and quasi-experimental evaluations conducted across multiple countries.

The analytical framework focuses on:

1. Employment participation rates.
2. Hours worked.
3. Job search behaviour.
4. Entrepreneurship and self-employment.
5. Human capital investments.
6. Household welfare outcomes.

Evidence from randomized controlled trials, basic income experiments, and large-scale cash transfer programs is synthesized to identify consistent labour market patterns.

### VI. MAJOR FINDINGS

#### *Limited Negative Labour Supply Effects*

Across most randomized experiments, unconditional cash transfers produce only modest reductions in labour supply. Complete withdrawal from the labour market is rare.

#### *Increased Human Capital Investment*

Recipients frequently allocate income support toward education, vocational training, and skill acquisition, potentially enhancing long-term productivity.

#### *Growth of Entrepreneurship*

UBI-style transfers provide liquidity that enables individuals to establish small businesses, invest in productive assets, and pursue self-employment opportunities.

#### *Improved Household Welfare*

Both targeted transfers and UBI improve food security, health outcomes, psychological well-being, and financial stability.



#### *Administrative Efficiency of UBI*

Universal programs reduce eligibility verification costs and exclusion errors that commonly affect targeted schemes.

#### *Better Targeting of Resources*

Targeted transfers direct scarce fiscal resources toward vulnerable populations and may achieve greater poverty reduction per unit of expenditure.

#### *Heterogeneous Labour Responses*

Labour supply effects vary across demographic groups. Parents, students, caregivers, and older workers display different behavioural responses than prime-age workers.

### VII. DISCUSSION

The findings challenge the traditional assumption that unconditional income support necessarily discourages work. Labour market responses appear considerably smaller than predicted by conventional welfare dependency theories. Targeted transfers remain attractive due to fiscal efficiency and political feasibility. However, their implementation often involves significant administrative burdens, eligibility disputes, and exclusion of deserving beneficiaries. Means testing can create poverty traps where beneficiaries lose support upon securing employment.

Universal Basic Income addresses many of these concerns by eliminating complex eligibility requirements and reducing welfare stigma. Recipients gain greater autonomy in allocating resources according to their needs and preferences. Nevertheless, UBI faces substantial financing challenges. The fiscal cost of providing universal payments at meaningful levels may exceed the capacity of many governments, particularly in low-income countries. Hybrid approaches combining universal minimum benefits with targeted supplements may therefore offer a more practical solution.

The evidence suggests that labour market behaviour is influenced not only by income incentives but also by institutional quality, labour demand conditions, social norms, and access to education and health services. Consequently, welfare policies should be evaluated within broader socioeconomic contexts rather than solely through labour supply metrics.

### VIII. POLICY IMPLICATIONS

1. Policymakers should avoid assuming that unconditional transfers automatically reduce employment.

2. Social protection systems should prioritize both economic security and labour market participation.
3. Hybrid models combining universal basic support with targeted assistance may enhance effectiveness.
4. Investments in education, health, and skills development should complement cash transfer programs.
5. Future welfare reforms should incorporate evidence from randomized evaluations and pilot programs.

### IX. CONCLUSION

The comparison between targeted transfers and Universal Basic Income reveals that the labour supply consequences of unconditional income support are generally modest. Evidence from randomized policy rollouts indicates that most recipients continue participating in welfare, financial security, and opportunities for human capital development. Targeted transfers remain effective tools for poverty alleviation but suffer from administrative complexity and exclusion errors. Universal Basic Income offers simplicity, inclusiveness, and greater autonomy but raises concerns regarding fiscal sustainability. Rather than viewing these approaches as mutually exclusive, policymakers may benefit from integrating elements of both systems.

Future research should focus on long-term labour market effects, macroeconomic consequences, and the design of fiscally sustainable hybrid welfare models. As governments confront rising inequality, technological disruption, and evolving labour markets, evidence-based social protection policies will remain essential for promoting inclusive and sustainable development.

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