An Overview of Universal Basic Income:

Discussion on the Benefits of a Single System Welfare Standard

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Abstract

In the past two decades there has been renewed interest in the proposition of a Universal Basic Income. A UBI is a system of direct monetary payments from government coffers to all citizens of a state or locality with the purpose of providing a sum for essential livelihood. In contrast to most current social welfare programs, the UBI requires no means test for the citizen to become a recipient. This idea has attracted attention for the radical simplicity of its design and implementation. Beginning with a discussion of the principles of the UBI, the paper then analyzes how Basic Income compares with other programs of a similar nature. Discussion then moves to a brief review of case studies of UBI and the positive social and economic outcomes observed in those experiments. Theoretical benefits including public and private efficiency gains, reduced governmental administrative costs, and increased labor market mobility are explained along with an assertion on the morality of welfare as it relates to egalitarian ideals. Finally, simple calculations are included to facilitate an examination on the viability of a UBI in the United States. This paper seeks to provide a general understanding of the Universal Basic Income concept to a wide range of audiences and argue for the myriad of significant benefits it could afford in place of current systems of welfare provisioning.

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Introduction

"What if the government paid you to do nothing?" This is generally how popular journalism begins an easily digestible article about the prospect of a Universal Basic Income (UBI) plan, a system of direct cash payment from a government to its citizens without regard to otherwise earned income or its recipient's employment status. By framing the proposal in this manner, popular journalism sets up much more political controversy about the UBI than is seen by economists of greatly differing perspectives. Last year the Keynesian macroeconomist Paul Krugman endorsed the idea of a basic minimum income for all citizens (Krugman, 2013). A man of conservative economic positions, Milton Friedman, also proposed his own form of a UBI system known as the Negative Income Tax (Friedman, 1967). With these men of usually opposed perspectives in agreement about the foundational idea of basic income, it is apparent why this has becoming an appealing proposition. The primary purpose of the following discussion on UBI is to provide a general understanding of the concept by discussing the principles of UBI and the variations of its implementation. The discussion will then move to a review of recent case studies while discussing the theoretical benefits of using Universal Basic Income in place of current social welfare programs in the United States.

The Basics of Universal Basic Income

The economist George D.H. Cole first discussed the concept of *basic income* in his paper Principles on Economic Planning in 1935. Cole justified this payment of a "social dividend" to all members of the community by reasoning that everyone deserved

to share in the spoils of its collective efforts (1935). The idea quickly gained traction and by the 1960s was being turned into policies for actual implementation. But while there have been several approaches to Basic Income in recent history by some nations, no national political entity has ever implemented a true UBI system. According to the Basic Income Earth Network (2013), several key aspects characterize a true Basic Income propositions:

1. Direct cash payment provided to all citizens of a defined political region
2. No means test
3. No work requirement
4. Replaces all other forms of welfare assistance
5. Paid to individuals rather than households

A general approach to a true Universal Basic Income doesn't require much explanation, as the amount of stipulations is rather small. Rather, its radically different nature requires more explanation in how it differs from current programs than explanation of the schema itself. Universal Basic Income systems in applied practice will likely differ in the amount paid as a proportion of relative poverty levels, the timing of the payment, and the amount by which other programs are reduced – though a true UBI would replace all other programs. The only fundamental requirement of a UBI would be a simple age restriction, generally the legal age of adulthood. From the substantially generous proposal in Switzerland of $2,800 USD per month to the comparatively meager monthly sum of $10 USD equivalent provisioned in the Namibian experiment (Lowery, 2013), UBI systems aim to raise all individuals out of poverty by supplementing their working incomes. Just as with most anti-poverty programs, the lower income segments of

society would benefit more in relative terms, but providing a UBI to all adult citizens would generate benefits beyond the goals of poverty reduction. These benefits are discussed in greater detail in later sections of this paper.

Variations of Universal Basic Income

Negative Income Tax & Earned Income Tax Credit

The Negative Income Tax is perhaps one of the most famous variations on a Basic Income plan. Formulated by the late, Libertarian economist Milton Friedman, a Negative Income Tax is essentially a sliding scale of welfare benefits fixed around a specific income point. Those on the downside of the income point would receive direct payments in greater amounts the farther down they moved from the point, while those above it would pay taxes in an increasing proportion as their incomes progressed upwards. This system would achieve the efficiency gains of eliminating the current colossal welfare state while allowing free choice among recipients that more correctly aligns with the ideal of free markets (Friedman, 1967). The single greatest disadvantage to this plan, however, is the disincentive effect on productive work that would be likely to follow (Moffitt, 1981). A Negative Income Tax could essentially replace productive work at poverty level and may encourage illegal and unreported work in order to maintain benefits. Furthermore, income reporting and auditing would still be highly critical for ensuring the fairness of this system, creating higher administrative costs than a true UBI. Apart from economic considerations are the lackluster chances of this system becoming politically viable, especially in the climate of increased polarization in the United States at this time (Desilver, 2013). Because the same cash amount is provided to all individuals, a proposition that meets the true requirements of a Universal Basic Income

could be more politically viable by escaping often-made claims of unfairness and fraud (Chunn & Gavigan, 2004).

The Negative Income Tax never became a viable legislative reality in the United States; rather, in 1975 the Earned Income Tax Credit was introduced into the American tax code. Similar to the purpose of a UBI and Friedman's proposal, the tax credit supplements the income of working class families on a sliding scale but does so without the elimination of any other welfare programs. When the Earned Income Tax Credit turned 30 in 2005, Steve Holt of the Brookings Institute published research claiming the EITC is the "largest antipoverty program in the United States" and that it "is a robust and largely successful part of American labor and antipoverty policy." Holt goes on to claim that the EITC's effectiveness could be improved by increased low-income household participation and better education on how to apply and receive the benefit (Holt, 2005). A Universal Basic Income system would rectify these problems through compulsory participation and eliminate the need for education on the elective participation process.

Guaranteed Minimum Income

Seemingly identical to the idea of a Universal Basic Income is the Guaranteed Minimum Income (GMI) concept; it is critical to note that while linguistically similar, the latter diverges from the former drastically in the methodology. A GMI is generally achieved through a variety of welfare programs and labor price floors with the aim of providing a minimum standard of living for the poor. Though not a single official policy, the United Sates has a de facto guaranteed minimum income through welfare programs such as the Food Stamp Program, Supplemental Security Income, and Temporary Assistance for Needy Families. The implementation of these programs is achieved

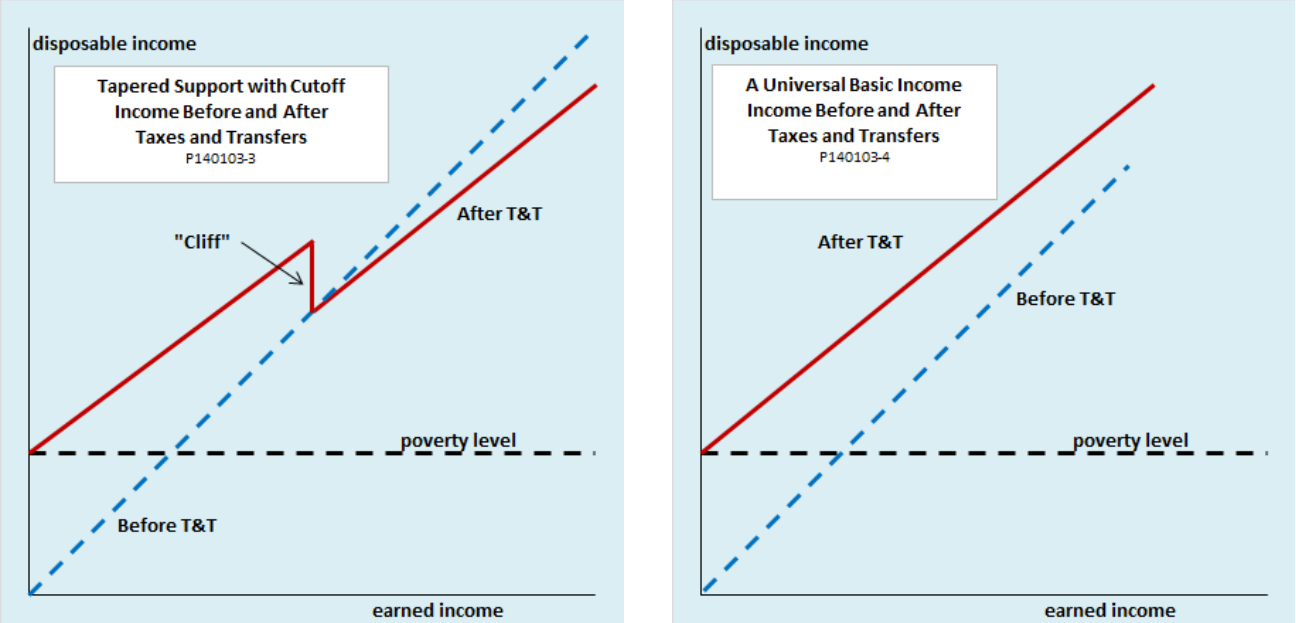
through a number of different bureaucracies of both federal and state governments. Many modern Western states have de facto and de jure GMI programs, such as *Revenu minimum d'insertion* in France and the Jobseeker's Allowance in Britain. Akin to U.S. unemployment insurance, these programs are a direct payment made to unemployed persons meeting a number of conditions. While similar in the poverty-reducing purpose of the UBI, the GMI concept creates additional government bureaucracy by requiring continual administrative costs. These public inefficiencies could be easily rectified with the reduced administrative costs of a Universal Basic Income, discussed in the Theoretical Benefits section of the paper.

Benefits Observed From Recent Income Experiments

Work Incentive Impact: United States – 1960s and '70s

Despite arguments of welfare dependency as described in the 2004 Chunn & Gavigan article, Negative Income Tax experiments conducted by the U.S. government in New Jersey and Seattle during the 1960s and '70s help to examine the positive social outcomes of direct cash income supplementation for low-income households. Despite showing notable disincentives to work among secondary and tertiary earners in the participating households, those secondary earners included married women with children while tertiary earners were often young adults (Levine et al., 2013). Positive social effects from the Levine et al. study included mothers taking longer maternity leaves and young adults completing additional years of secondary school. Providing the same cash benefit across the entire income spectrum could minimize the work disincentive effect of the Negative Income Tax while still achieving the social benefits discussed above.

Negative Income Tax *Universal Basic Income*



Note. Comparison of NIT and UBI on income incentives. Adapted from *Economonitor*, by E. G. Dolan, 2014, Retrieved from URL. Copyright [2014] by Economonitor.com

The figures presented above show a comparison of the Negative Income Tax effects on both disposable and earned income (left) with a Universal Basic Income's effects on both of these incomes (right). Earned and disposable income increases in pure form as work increases as shown by the dashed line. After one earns their income, both taxes and transfers respectively decrease or increase one's earnings with respect to program benefits and applicable marginal tax rates; the solid line represents this. With an NIT, the benefit towards the working individual continues to decline until, at a certain point, the benefit is eliminated entirely when it meets with the income tax. This creates a large disincentive to work both at the point where the benefit ends and at a range of incomes above it by replacing earned income with a cash transfer. Economist Edwin Dolan explains this phenomenon best in the corresponding article,

> "For example, a household with earned income of $40,000, double the poverty level, receives $10,000 in benefits, giving it disposable income of $50,000.

> However, one more dollar of earned income makes the household ineligible for the transfer, so that its disposable income falls to $40,000.80. Earned income has to rise by $12,500 to return disposable income to $50,000." (Dolan, 2014)

The UBI would reduce the work disincentives in this income experiment by providing the same cash benefit to all recipients regardless of income by eliminating the defined income point at which benefits are eliminated. The current marginal tax system would still effectively taper post-tax benefits as seen in the figure on the right, reducing the net cost of the program to the government. The disincentives to work would be minimized in comparison to an NIT program while still achieving the same socially desired benefits discussed in the experiments from the 1960s and '70s in the United States.

Health Impact: Dauphin, Manitoba – 1970s

One of the most notable experiments in the study of Universal Basic Income occurred in Dauphin, MN, Canada from the years 1974 to 1978. While also mimicking the Negative Income Tax by placing benefits on a sliding scale, there was no requirement to work, as is the case with the other UBI variants such as the Earned Income Tax Credit. Recipients with no income sources were provided with an income equal to 60% of Canada's designated poverty line. Every $1.00 earned from other sources would reduce benefits by $0.50. Outcomes of the experiment included more young adults completing grade 12 of high school, a decrease in the hospitalization rate for accidents, injuries, and the diagnosis of mental illnesses (Forget, 2011). The savings to the Canadian healthcare system from reduced hospitalization could at least partially offset the cost of the Universal Basic Income plan. Contrary to the erroneous claim extrapolated from other income experiments that Basic Income would increase divorce rates, there were no

notable changes in the rate during the experiment (Forget, 2011). A better-educated and healthier workforce could provide benefits to the economy by reducing sick days from work, thus increasing productivity. Additionally, the labor force may be better able to adapt to structural labor shifts in the economy by allowing individuals to seek increased education with less worries of income security.

Crime Impact: Omitara, Namibia – 2000s and '10s

A true Universal Basic Income project has recently taken place in the town of Omitara in the country of Namibia. Beginning in January 2008, individuals over the age of 21 who had been residing in Omitara for at least a year prior to the experiment were provided with a payment of $100 Namibian every month; the experiment continued for approximately three years. Positive impacts of this experiment have included drastically increased school attendance and decreased child malnutrition. The decrease in crime was significant; Omitara experienced a 43% reduction in stock theft and an overall 42% reduction in crime overall (Haarman & Haarman, 2012). Raising the incomes of previously destitute Namibians necessarily increased economic activity, and the decrease in theft would indicate that residents were converting from illegal economic activities to legitimate ones. Though Namibia is considered a developing nation and the U.S. far from it, the positive impacts of crime reduction could be replicated if Universal Basic Income were introduced in the Unites States. Providing strong disincentives for crime by reducing poverty with UBI would increase taxable, legitimate economic activity.

UBI in the US: Theoretical Benefits

Technical efficiency of a program is one of the chief regards the government must consider when provisioning welfare. Technical efficiency is "achieved when the

maximum possible improvement in outcome is obtained from a set of resource inputs" (Palmer & Torgerson, 1999). Using this definition of efficiency, this paper will discuss the Universal Basic Income system in terms of its relative efficiency in public, governmental scopes by achieving program goals of providing supplemental income to all citizens while reducing the cost of welfare provisioning. We will also see how a transition to a UBI can increase private efficiency by allowing individuals more flexibility to allocate income to maximize personal utility.

Public Efficiency Gains

The complicated nature of current US welfare implementation is elucidated well by Thomas MaCurdy and Jeffrey M. Jones:

> The U.S. welfare system would be an unlikely model for anyone designing a welfare system from scratch. The dozens of programs that make up the "system" have different (sometimes competing) goals, inconsistent rules, and over-lapping groups of beneficiaries. Responsibility for administering the various programs is spread throughout the executive branch of the federal government and across many committees of the U.S. Congress. Responsibilities are also shared with state, county, and city governments, which actually deliver the services and contribute to funding (2008).

A federal Universal Basic Income arrangement would increase public government efficiency over the current system by eliminating the need for expansive government administration of welfare programs. Including administration, spending for current welfare programs in 2012 was approximately $1.92 trillion (Center on Budget and Policy Priorities, 2013). UBI administration would be as complicated as printing and mailing

checks to a designated address every month, or as simple as directly depositing the amount into a designated banking account. These efficiency gains would be realized at all levels of government, freeing up cash flow in especially tight state and local government budgets.

Private Efficiency Gains & The Moral Argument

Beyond the public efficiency gains, the introduction of a UBI would boost individual efficiency as well. The current system obstructs rational choice by restricting the use of welfare to certain economic activities. For instance, the Supplemental Nutrition Assistance Program dictates that recipients cannot spend the money received on medicine, only certain types of food (U.S. Department of Agriculture, 2013). Universal Basic Income would eliminate that barrier by allowing individuals to participate in completely consensual transactions that are most aligned with individual preferences as may be the case with a family that needs to purchase medicine more than it needs additional food. The reallocation of consumption decisions from limited choices to unlimited choices would allow individuals to prioritize personal spending in accordance with personal needs.

Some have detracted from this claim by stating it is a harsh truth that many individuals do not make optimal or even rational buying decisions. The Florida Family Policy Council claims that the poor are the primary spenders in the gambling industry (Stemberger, 2011). Aside from the inaccuracy of this claim, which Stemberger points out in the same article, the theory behind reckless spending by low-income earners is based largely on the purchasing decisions made using discretionary income. A single system welfare system sets clear expectations for the provision of welfare for all people.

Without food or other living expense costs subsidized, individuals are necessarily placed in a situation where the direct payment from government must be spent on the basic necessities of life. Setting the payment at an appropriately low level will also encourage work to supplement those needs or wants which are not sufficiently met by the Universal Basic Income.

Additionally, government policy should align with the founding notions of freedom and equality by allowing all individuals, regardless of income, to decide what purchases are most relevant to them. Incidents of child neglect by caretakers who don't choose to spend their income, privately or publicly provisioned to them, on taking care of their child are still illegal in this system. It is the responsibility of government agencies to ensure that the rights of children are protected according to state and federal law, therefore, detractions of the UBI based on notions of possible poor decision-making skills are unrelated to the proposition.

Reduced Mobility Costs

The introduction of a Universal Basic Income extends to the realm of basic microeconomic labor theory. In their 2011 book *Modern Labor Economics: Theory and Public Policy*, authors Smith and Ehrenberg describe the economic theory behind monopsonistic labor markets. A monopsony comes into existence when there are market barriers for laborers in the market, giving the firm extra power in determining wages. There are many common costs associated with creating monopsonistic labor markets; some of these include moving and job-seeking costs. This combination of factors contributes to monopsonistic power for employers in certain labor markets, allowing

them to offer below-market wages to employees. As mobility costs for labor increase the firm's monopsony power increases, driving wages down.

The current structure of welfare benefits contributes to this labor market monopsony by tying certain benefits to certain locations. One may receive better benefits located in New York than South Dakota, but the prospects for a higher paying job are in South Dakota. By utilizing UBI to unify welfare benefit allocation across the country, individuals will have greater incentive to relocate where there is higher compensation for work, removing a distortion in labor markets. This will have the additional macroeconomic benefit of aligning workers to their relevant job skillset, creating greater efficiency in the economy as a whole through increased specialization.

Estimated Monetary Benefit Analysis

According to the Center on Budget and Policy Priorities, the United States government spent about $1.92 trillion on social welfare spending in 2012. This includes healthcare spending (Medicare/Medicaid/CHIP), Social Security, and other social safety net programs such as TANF. The following scenarios are an analysis of the reallocation of current spending into a single system welfare proposal aligned with the principles of a Universal Basic Income proposition discussed in the "Basics of Universal Basic Income" section of this paper.

Equation Key:

2012 US Welfare Spending = S_h

2012 US Welfare Spending sans Healthcare = S

2012 Estimated Adult (18+) US Population = P

Estimated Annual UBI Benefit = B

Scenario 1:

$$\mathbf{S_h / P = B}$$

$1.91T / 240,113,369 = $7954.58

Scenario 2:

$$\mathbf{S / P = B}$$

$1.18T / 240,113,369 = $4914.35

Note: All data sourced from Center on Budget and Policy Priorities (2013) and the US Census Bureau. (2013).

Scenario 1. This analysis elucidates the scenario in which a true Universal Basic Income system is adopted, replacing all current forms of mandatory social welfare spending by government. The US Department of Health and Human Services currently designates the income poverty line for a single individual at $14,350 per year (2013). The estimated annual benefit of $7954.58 would raise the earnings of that individual to $22,304.58 per year: this is almost $3,000 higher than the designated poverty line for a family of two (currently at $19,380 per year). This would be a common scenario for single parents with one child. It is important to note that two adults in the same household would both receive the UBI, increasing the household income by nearly $16,000. Of course this would not be comprised of entirely additional discretionary income. In all likelihood, a boost in discretionary income would be limited, as the elimination of current

welfare programs would be replaced on the individual level with the direct cash transfer. This would allow individuals to prioritize spending on the goods and services most relevant to them.

Scenario 2. This analysis has been included to recognize both social and political realities surrounding healthcare funding. With the new healthcare marketplace in its infancy, it cannot yet be reliably known what the average cost of fully compulsory and privatized insurance would cost the average individual. The implementation of Scenario 1 would need to include a uniform healthcare system to support clear expectations surrounding both government and private expenditures on insurance. This could either include a completely socialized insurance provision or an entirely privatized and compulsory one. On either the front-end or back-end of the program, UBI would be reduced accordingly to finance health insurance.

Additional Scenarios. All related discussions to savings as it relates government expenditures have been chiefly concerned with the efficiency gains of reduced administrative costs. The aforementioned scenarios are revenue and deficit neutral, proposing only that current resources be reallocated more shrewdly. In light of large annual federal deficits and an ever-increasing public debt, it would be wise for policy-makers to consider the opportunity to lower expenditures through this proposed reform of the welfare system. Benefits could be adjusted anywhere below the one outlined in Scenario 1, necessarily decreasing budget deficits. With that said, lawmakers of any point on the political spectrum should be strongly cautioned from using this opportunity to eliminate social welfare spending altogether or supplementing current programs. Both

income equality and financial solvency are important to the long-term macroeconomic and political health of a nation.

Recognition of Possible Negative Impacts

Before concluding this discussion of the Universal Basic Income, it is necessary to recognize that there are several possible negative impacts. First, a UBI as described in Scenario 1 would likely provide an overall reduction of welfare benefits to families in some states with generous welfare programs. The conservative-leaning Cato Institute estimates that Massachusetts provides the highest value benefits package among the fifty states to a family of four, coming in at $42,515 (Tanner & Hughes, 2013). In contrast, the Cato studies states that Mississippi provides the lowest level of benefits at $16,984. The study does fail to make note that many of these benefits can be dependent upon a work requirement, meaning a family earning $0.00 could not simply collect $42,515 per annum. Nonetheless, it illustrates the important point that benefits for low-income families are currently very generous in some areas of the country and a reduction could, at the very least, temporarily negatively impact some families in areas with higher costs of living. As stated in the mobility costs section, equalizing benefits across the country may counteract this negative effect by encouraging families to move to areas with lower costs or living without fear of losing benefits.

Another possible drawback to Universal Basic Income is the previously discussed disincentive for work. While UBI minimizes this outcome by equalizing benefits across the income spectrum, there is the possibility that some may find that they are willing to replace current hours worked in favor of the direct cash payment. This effect would has a greater propensity to occur in non-exempt, hourly positions primarily since it is easier to

reduce time worked when paid by the hour rather than at a set salary. These changes would be dependent on each worker's personal preference for work, leisure, and income. Despite this, a negative work incentive could also have the positive effect of reducing unemployment. By reducing individual hours worked without reducing demand for labor, more workers could enter into the labor market and obtain part-time employment. Combining a UBI with a theoretical maximum hours labor law is an interesting prospect to consider in an age of increasing mechanization of industry. The true impact of such a proposition is the subject of possible further research.

Conclusion

With the advantages of Universal Basic Income plainly observed through theory and experimentation, the evidence in support of a UBI as a viable alternative to current welfare policies is self-evident. Case studies of UBI in recent history have shown there are significant positive social and economic impacts including increased levels of education, decreased healthcare system costs, and reduced crime rates. Lower mobility costs will lead to greater opportunity for lower-income citizens whose current welfare benefits disincentivize their movement to higher wage employers. Previous research into the variations of the UBI, namely a Negative Income Tax, show considerable economic benefits to lower income recipients of a direct cash transfer.

From a political perspective, the UBI's egalitarian nature supports common ideals of freedom and opportunity by providing benefits to all citizens, regardless of an arbitrary means test or work requirement. The UBI respects human dignity and creates private efficiency by ensuring the individual is able to make rational consumption decisions. A rough estimate provides nearly $8,000 annually to each citizen to supplement working

income. Significant public sector efficiencies are achieved through the elimination of most current administrative costs related to provisioning social welfare to citizens. Perhaps most importantly, adopting a Universal Basic Income would provide the United States with a unique opportunity to comprehensively address several of the nations most pressing issues: mounting national debt, income inequality, and the effectiveness of anti-poverty policy.

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