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Exploring a Universal Basic Income: Implications for the United States

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ABSTRACT

In the status quo, the United States faces issues of economic disparity, even despite policies aimed at aiding lower and middle-class citizens. To address this concern, the idea of a Universal Basic Income has been voiced. A Universal Basic Income or UBI is a program that provides all citizens with a modest, regular income without means-testing or work requirements. However, a UBI is impractical because of its immense cost, reduction in total GDP, and increasing federal debt. A UBI could increase inflation and disincentivize workers. To address the issues of poverty, the United States ought to better the existing social safety net. This paper advocates for policy reform to these programs to best solve the issues of economic disadvantages.

Introduction

In spite of economic policies aimed at assisting lower and middle class citizens, economic disparity in the United States remains problematic. According to the U.S. Department of Commerce, "income inequality has risen more than 40% between 1980 and 2021" (Kolko, 2023). According to the Economic Policy Institute in September 2023, "median household income dipped by 2.3% . . . The overall … poverty rate rose by 4.6 percentage points to 12.4%, while child poverty more than doubled, rising from 5.2% to 12.4%" (Gould and Cid-Martinez, 2023). In response to these economic drawbacks, politicians have proposed the implementation of a universal basic income. The idea of a universal basic income, or UBI, is simple; "to give all residents a modest regular income grant that is not dependent on means-tests or work requirement" (Haagh, 2019). This project has garnered the support of 2020 Democratic presidential primary candidate Andrew Yang and former United States Secretary of State Hilary Clinton. Andrew Yang's proposal was set at "$1,000/month, $12,000 a year, for every American adult over the age of 18" with the primary goal set "to enable all Americans to pay their bills, educate themselves, start businesses, be more creative, stay healthy, relocate for work, spend time with their children, take care of loved ones, and have a real stake in the future" (Yang, 2020). In an interview, Clinton expressed her interest in implementing a UBI; "I wanted very much to convey a commitment to trying to figure ways to raise incomes" (Matthews, 2017). However, although appealing, implementing such a program in the United States is a recipe for disaster. A UBI is a risky proposal because of its ineffectiveness in individual states and other countries, immense cost, infeasibility, and economic implications.

Detrimental Cost

The cost of a universal basic income is tremendous. According to Daron Acemoglu, Professor of Applied Economics at MIT, "a UBI of just $1,000 per month would cost around $4 trillion per year, which is close to the entire federal budget in 2018. Without major cost savings, US federal tax revenue would have to be doubled, which would impose massive distortionary costs on the economy" (Acemoglu, 2019). The economic implications of such a program would be absolutely devastating. The University of Pennsylvania conducted a study analyzing the three most plausible ways of financing such a financially mammoth initiative; through deficit financing, payroll tax financing, and external financing. Each of these methods provided a similar economic toll. The study found that in a world where the federal government borrows money to finance the UBI, the high debt would push out private investment and capital, reducing the effectiveness of our economy's supply chain connectivity. The study ultimately concluded that such an approach would "lead to GDP that is 6.1 percent lower in 2027" and "increase federal debt by over 63.5 percent by 2027 and by 81.1 percent by 2032" (Penn Wharton University of Pennsylvania, n.d.). If the tax were financed through a payroll tax, the nation would still experience a "1.7 percent decline in GDP" (Penn Wharton University of Pennsylvania, n.d.). Finally, if such a program were to be externally financed as it was in Alaska where the revenue to finance the UBI experiment was generated from payments to mineral extraction, "GDP would still reduce by 3.4 percent" (Penn Wharton University of Pennsylvania, n.d.). It is also important to note that the study conducted by the University of Pennsylvania was a plan much more conservative than that of Yang's proposal, with the universal basic income being studied only costing 1.5 trillion dollars, almost half that of Yang's plan. If issued in the status quo, such a program would yield much more devastating economic problems.

Is a UBI Better than Existing Welfare?

Even looking past the immense cost, a universal basic income would be a much worse alternative solution in comparison to those in place now. In terms of reducing inequality and redistributing resources to the poor, the extreme cost would destroy preexisting programs that are generally better for those who need assistance. Economists Magne Mogstad from the University of Chicago and Melissa Kearney from the University of Maryland argued, "given that resources are necessarily limited and the government would have to operate within a UBI budget, the more that is given universally, the less there is to give to the truly needy … [A UBI would cost] more than the sum of costs for all current federal income support programs plus Medicare and Medicaid" (Mogstad and Kearny, 2019). Such an immense cost would make a tradeoff of resources almost necessary to even consider funding the program. This is extremely problematic when considering the categorization of individuals who need the support the most. A universal basic income is provided invariably and without exception, in contrast to our current safety net which is set to help the ones who need it. This would mean that a UBI "would give transfer payments to people who choose not to work, rather than having real underlying need … Moving from our current system of income support programs to a UBI would mean shifting existing transfer payments away from low-earners to both non-earners and higher earners, as well as away from families with children, the disabled, and elderly to able-bodied individuals" (Mogstad and Kearny, 2019). This tradeoff of a means tested welfare to a universal basic income would mean support for disadvantaged individuals is being sacrificed for aid given to the entire population, including the wealthy. The displacement of means tested welfare holds more negative implications when considering the safety net's historically proven effectiveness. Empirically, these welfare programs have reduced poverty by 45.4 million people in 2021 (Creamer, 2022). The replacement of such programs is problematic when considering how widespread and utilized they are by the population at large with more than one in four adults and one of every two children participating in a safety net program (Macartney and Ghertner, 2023). Adopting a UBI, which would undoubtedly replace these programs, favors the larger population, including the wealthy, over the people who need the assistance the most.

Economic Implications

Another blaring red flag in implementing a universal basic income is its economic implications. Such a system of governmental aid is bound to increase inflation. Simple supply and demand dictates that increased demand allocated by increased funds must lead to an increase in prices to match the new economic needs of the population. If the government were to transfer thousands of dollars to each individual unconditionally and every business, service provider, and entrepreneur was aware of the immense amount of new cash circulating the market, the prospects of prices increasing is almost inevitable (Miller, 2021). As corroborated by a research meta analysis, when accounting for UBI experiments across the world, inflation was exacerbated at alarming rates (Miller, 2021). A UBI not only increases inflation by introducing a massive amount of new money into the market at rapid rates but it also devalues labor of workers. Income is created and generated by workers who contribute to their labor in the production of goods and services. Thus, an increase in income not related to worker's production results in higher prices to balance the new earnings. Economist Heiner Flassbeck draws a simple comparison: "Income and production cannot be separated or divorced. One cannot, in the longer term, have the one but not the other. . . They are intrinsically two sides of the same coin. As a rule, nominal income growth that is not associated with higher productivity . . . which does not have an equivalent on the production side, leads to price increases (i.e. inflation), so that real income growth matches the pace of increases of production" (Flassbeck, 2017).

The risk of inflation is worsened by the fact that a universal basic income would limit workplace productivity and participation. If income is provided without the need to work, it is no question that individuals would have less of an incentive to participate in the workplace. If a certain amount of money that was only given to individuals based on their production in the workforce came from the government with no strings attached, workers would be less productive as they are compensated for an income that is not necessitated by their labor (Flassbeck, 2017). Thus, when investigating case studies conducted in states in America who have implemented unconditional payments, there was approximately a 14 percent decline in labor force participation (ASPE, 1983).

Even if it were implemented, a UBI is ineffective at reducing poverty. Simply, by making payments to all people universal instead of targeting the people at the bottom of the income ladder, income will inevitably redistribute itself upwards, meaning an increase in poverty and inequality. Moreover, even when money is provided to the poorest, there is still a question of whether the money will be used efficiently and if it reduces poverty. In an analysis of numerous countries in Africa who implemented a similar basic income program called cash transfers, child poverty remained unchanged as low income households utilized the money provided by the government on non-essentials (Aizer et. al, 2017). Problematically, even when the money was used to spend on essential needs, such as food, the impact of the payments was not near enough to affect poverty reduction (Bastagli et. al, 2016).

The Better Alternative

The shortfalls of a UBI bring into question what the best solution is to reduce poverty and minimize the gap of inequality. The best way to tackle such problems is to reinvest and revitalize the current social safety net and our welfare programs. The social safety net is a group of programs provided by the government aimed at supporting people in need. This includes programs such as the Earned Income Tax Credit, Temporary Assistance for Needy Families, the Child Care and Development Fund, housing assistance, and Medicaid (ASPE, n.d.). These programs are a better alternative to solving poverty than other solutions including a universal basic income for numerous reasons. For one, in comparison to a universal payment to all citizens, a concentration of initiatives aimed at propping up those in need is a much better alternative. A large amount of money would not just be handed out freely to the middle and upper classes. Instead, specific tailored programs can assist the impoverished. This is specifically why such a safety net has empirically been effective, helping " 36 percent of the poorest escape extreme poverty" (The World Bank, 2018) while also ensuring economic growth that is inclusive of poverty-stricken individuals (Gigineishvili et. al, 2023). Furthermore, social safety net systems are very specific and address a wide variety of needs. Instead of a cash handout, the specific programs can ensure that the payments are going to essential needs and are not being misused by only vouching and accounting for particular needs that these individuals may face.

The implementation of such reforms is quite simple. The current system has its flaws in its principles and priorities of how to assist the poor. Our current system overlooks many destitute individuals, including disabled, elderly, and unemployed people for those who are in the workplace and in ways shifts focus from alleviating poverty to increasing employment (Macaluso, 2021). It also overlooks the long term process of bettering low income families and instead opts for faster, less efficient solutions to minimize poverty (Altmeyer, 1951). The implementation of an effective solution to stop these pitfalls is twofold. First, the federal government should make more inclusive support programs that are specific to groups such as the unemployed, disabled, and elderly which would address their unique needs and accommodate them. Secondly, the federal government can invest in more long term solutions that would shift the focus away from treating the poor as problems needing to be solved. These programs can include education programs, employment training, and tailored skill building. The following can address the shortcomings of our current system while maintaining the substantial benefits that have been proven throughout history.

A limitation of such a reform is the cost. Like any change of government funded operations, the implementation of a reform of welfare would be expensive. However, it is important to note that such reform costs would not even be in the same ballpark as those proposed by a UBI. Unlike the trillions of dollars necessary to finance payments handed freely to all members of society, our social safety net is already being paid for and sustained by the federal government. Moreover, it is also possible for the national government to invest in payments over longer periods of time, allowing the national economy to bounce back from any marginal cost negatives.

The solution of reforming the current safety net and welfare programs stands above other alternatives. The welfare and social safety net system has been in place for almost a century at this point and has developed a streamlined system with administrative successes and efficiency. This holds a stark contrast to implementing other new systems which would require time and materials to develop. Furthermore, expanding our current welfare system would cost much less money than alternatives as it already is active and being funded by the federal government. Instead of spending trillions of dollars on a brand new system, we can marginally expand our current spending on the program that already exists. Finally, other programs, like a UBI, are inherently a shot in the dark. Although we can examine different cases and experiments conducted on these new economic proposals, the effects of these programs on the entire nation can be skewed by an unlimited number of factors. Instead, it stands to reason that continuing to invest into our current program that has held strongly is the safest bet, especially when considering its effectiveness.

Conclusion

Although the concept of a universal basic income has garnered attention from numerous politicians on the national level, the system is fundamentally flawed. Its immense cost, national economic implications, ineffectiveness, and infeasibility prove problematic. The adoption of a UBI in the United States would exacerbate inflation, decrease labor, and destroy the federal government's spending ability. Even if it were implemented, outside of the outrageous cost, the principle of handing out money to the poor has been shown to be ineffective in reducing poverty. As best summarized by Dr Luke Martinelli, "an affordable UBI would be inadequate and an adequate UBI would be unaffordable" (Martinelli, 2017). Instead, the best solution to decrease poverty and reduce inequality is to reform our current welfare program. Our current system has proven effective but still has its shortfalls. By increasing focus on more specific programs and specialized systems, we can curb these shortfalls and ensure a more streamlined structure that allows the government to effectively provide for its people.

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