Free Money For Everyone? The Realities of Universal Basic Income

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Abstract

This research paper aims to identify the implementation obstacles Universal Basic Income faces, as well as the problems that it could resolve. These obstacles include political conflict that exists between conservatives and liberals regarding UBI, and also the resistance that the rich will display regarding new taxes to support UBI that will dramatically affect them. A few of the socioeconomic problems that a UBI aims to resolve are poverty, wealth inequality, and automation. All three of these problems are directly impacting society in today's world and so far no feasible solution has been proposed. Eliminating these problems by implementing a UBI can help society achieve fairness and equality.

Free Money For Everyone? The Realities of Universal Basic Income

Today's world faces many issues, and often overlooked ones are poverty, wealth inequality, and automation. Poverty is an enormous problem in today's society, with the poverty rate at 12.7% in 2016, or constituting 40.6 million Americans (Semuels, 2017, para. 2). Wealth inequality is another critical issue. Wealth inequality is the unequal distribution of assets, and mainly income, across the various participants in an economy. The problem has become so critical that globally, 42 people hold the same wealth as the poorest 3.7 billion (Elliot, 2018, para. 1). Yet another problem society faces today is automation, which has already begun impacting many industries. From simple-task robots, to self-driving trucks, "robots" have begun to take over and are here to stay. In order to eliminate these problems, people need to start taking action, and they have the tool to do so: Universal Basic Income. Universal Basic Income is a form of social security, in which all citizens of a country receive a regular, liveable, and unconditional sum of money from the government. UBI would most likely be funded by income taxes, removal of the current welfare systems, and reduction of medical costs through healthcare reform. Implementing Universal Basic Income could prove to be a herculean task, however, the reality is that it could help society resolve a handful of socioeconomic issues it is currently facing.

There is a great deal of controversy regarding UBI, but if resolved, it has the potential to relieve society of numerous problems. Some examples of this include, but are not limited to, whether UBI should be paid to those unwilling to work, whether it should be given to non-citizens, whether it should be given to children, and many more. However, this paper focuses on the two most important qualities of UBI the political conflict that surrounds it and

three socioeconomic problems it could solve. Two schools of thought exist when it comes to

implementing a UBI. A liberal implementation would include new, progressive taxes in order to

fund for the UBI. In such an implementation, a UBI *replaces* select welfare programs (Andrew

Stern's plan). On the other hand, a conservative approach seeks to *eliminate* the current welfare

system and completely replace it with UBI (Charles Murray's plan). The current welfare system

in the U.S is completely comprised of means-tested programs, which are determinations of

whether an individual or family has means to survive without government assistance. It is also

important to note that in order to eliminate poverty, each citizen would have to be provided with

at least~$12,000/year. Ideally, this amount would be as high as possible but since UBI is

relatively unheard of by most people, it is smart to keep this amount as low as possible while still

having a big impact, in order to increase willingness to implementing it.

Although some argue that the costs of implementing a UBI are exorbitant, this idea is a

misconception. According to Kovic (2017), the belief that a UBI would be an additional cost to

other welfare programs is wrong. The government would not increase its spending on welfare

programs with the introduction of a UBI, but rather replace certain inefficient, high-cost

programs with it (para. 19). Santens (2017) contributes to that concept by arguing that welfare

programs related to food and nutrition account for $108 billion a year, and programs that offer

short-term assistance for families in need account for $17 billion a year (para. 4); this money

could instead go to the UBI. He believes that the government could get rid of select social

programs that offer assistance to people whom are not in deep poverty status namely for tax

expenditures such as home ownership tax expenditures, treatment of capital gains different from

ordinary income and others. These tax expenditures mainly benefit the rich. (Santens, 2017, para. 5). There may be more programs that could be replaced by a UBI.

UBI may require new, progressive taxes to be funded. However, it cannot be solely funded through taxing the rich. The most critical taxes for supporting the implementation of UBI include a carbon tax, a financial transaction tax, and a Value-added tax (VAT).

A carbon tax on the usage of fossil fuels at $50/ton of CO_2 with a $15 increase per ton per year would raise $1.5 billion just the first year. By 2040, this figure could shoot up to $1.5 trillion. A financial transaction tax of 0.34% would yield $75 billion per year. VAT is similar to a sales tax; however, sales tax applies only to retail price whereas VAT applies at different stages of production. A 10% VAT could yield $750 billion per year (Santens, 2017, para. 9, 10, 12 & 13). While such taxes could be a valuable step to implementing a UBI, these taxes would greatly affect the rich, and therefore will be met with great resistance from this population.According to Flassbeck (2017), particular groups of people have large influence over legislation and society in general. For this reason, the top 1% of the population, including executives of the large corporations would be highly resistant to additional taxes, and may instead try to pass them on to consumers (para. 17). Therefore, there are many feasibility factors to consider when examining how to implement and fund UBI.

Another obstacle facing UBI is that there are two differing, fundamental schools of thought regarding this policy. Stern's plan of implementing a UBI in the United States may be more feasible compared to Murray's in reducing poverty, as many vital welfare programs would still exist (Matthews, 2017, para. 43). For Stern's plan (or any leftist plan) to work, it would need to be truly universal and unrestricted. Moreover, it would need to supply adequate funds to lift

entire populations from poverty, in addition to current social security programs (Battistoni, 2017, para. 31). While Stern's proposal aims to reduce or eliminate poverty, Murray's proposal focuses on the elimination of the welfare state and replacing it with UBI. According to Matthews (2017), there's no single policy that is supported by both schools of thought, in as far as eliminating poverty as well as the welfare state. This issue does not pertain to only Murray's proposal, but rather any proposal to implement a UBI that limits government intervention or that is conservative (para. 36). These conservative, right-wing proposals are further criticized by Battistoni (2017) as she writes:

> The right-wing version of basic income, by contrast, wherein paltry lumps of cash replace public services and goods, is a UBI not worth having. This version of basic income is a mechanism to streamline—a more accurate word might be "gut"—the welfare state in the name of libertarian ideas of freedom. People know what they need better than the state does, the argument goes; how people will be able to afford healthcare on $12,000 a year is less often addressed.(para. 32)

This schism between the two opposing sides will probably be the biggest hurdle that UBI proponents would need to overcome in order to implement a UBI that would actually help eliminate poverty, reduce wealth inequality, and the unemployment that will inevitably come with automation.

Poverty is a major issue the United States is currently facing. A World Bank investigation found that 769 million people, who are the world's most poor people, survived on no more than $1.90 a day in 2013. Out of these, 3.2 million reside in the United States, whereas 3.3 million live in other rich countries (Deaton, 2018, para. 4). However, when taking into account the much

higher cost of living in a rich country compared to a poorer one, this amount raises to $4 a day, which amounts to 5.3 million Americans, who are very poor based on global norms (Deaton, 2018, para. 8). These numbers show that many Americans to this day live in extreme poverty. Extreme poverty in the United States has also been investigated by the United Nations. A team of investigators, after visiting many U.S. states, found that most of those that live in extreme poverty not only live on the streets, but also lack access to safe sanitation and bathrooms, and undergo excessive police scrutiny and intimidation . They also found that most of these people were people of color and women, but a considerable number of white Americans also fell into this category (Nadasen, 2017, para. 3) These findings exhibit that poverty is an enormous problem today. The number of households in poverty has doubled in the last twenty years, and according to Nadasen (2017), if this tendency continues, this number will become even higher (para. 13).

One reason for implementing a UBI is that it has the potential to eliminate or dramatically decrease these problems with poverty. As Matthews (2017) notes, the most inexpensive way to decrease poverty in the United States with a UBI, will probably involve higher benefits for children than adults (para. 49). He explains this sentiment, when he says that poverty in the US is clustered around children; therefore, families with children will end up having to receive more money to stay above the poverty line (Matthews, 2017, para. 53). Using a UBI to eliminate poverty as opposed to the current means-tested system will prove to be more efficient. According to Santens (2016a), paying out $1.5 trillion to lessen poverty and inequality would probably be a financially smarter option than trying to prevent the outcomes of poverty. For example, health problems and crime rates wouldn't take place as much if a UBI were

implemented (para. 10). Similarly, only 25% of those who actually need assistance actually receive it in a means-tested system, due to bureaucracy and difficulties in applying for them; however, this problem wouldn't exist with a UBI, simply because everyone would receive it. For example, in Wyoming only 1% of those living in poverty receive TANF, a temporary assistance program by the government (Santens, 2016a, para. 25). Therefore, it is safe to assume that a UBI would only help in reducing or even eliminating poverty altogether.

A UBI can decrease wealth inequality by redistributing income from the top to the bottom. There are many ways this redistribution can happen. A UBI funded through flat or progressive income taxes would be able to redistribute income. This redistribution of income from the uppermost 20% earners to the bottommost 60% would in turn reduce the particularly high levels of inequality (Santens, 2016b, para. 18). While this type of funding for a UBI would be ideal, it might be difficult to implement, due to the previously discussed influence rich people have over politics. Another way to fund a UBI and also lower income inequality would be through money creation. However, this is not ideal, because it lessens the value of the UBI and increases cost of living for the poor (Santens, 2016b, para. 19). This way should probably be avoided, because it would be easy for the rich to recuperate their money's value. Equally important is the fact that programs like UBI in other countries have proven to have great multiplier effects. Multiplier effect refers to the amount of money in an economy after an injection takes place. For example, in Ethiopia, for every $1 that was put in their UBI-like program, $2.5 was added to the economy. In the United States, for every $1 the government spends on food stamps, $1.79 gets added to the economy. In comparison, for every $1 given as a bonus to Wall Street bankers, $0.39 gets added to the economy. This is because poorer people

tend to spend their money, whereas rich people don't. (Santensb, 2016, para. 21). Therefore, the

stimulation of the economy that would take place if a UBI was implemented would help

redistribute wealth.

Last but not least, a UBI could counteract the increasing unemployment that will emerge

from automation. A report published by McKinsey Global Institute, estimates that 75 to 375

million employees, or 3-14% of the workforce worldwide, could lose their job by 2030 due to

automation. This will especially take place in richer countries (Kaats, 2018, para. 5). Some

companies have already started adopting automation. Most notably, McDonald's has already

started putting automated kiosks in place of actual employees.The company estimates a 5-9%

return on investment in the first year, with this number significantly increasing with time

(Berger, 2017, para. 6). McDonald's is only one example; automation is taking place everywhere,

and millions of jobs are at risk. Corporations that replace their workers with robots would raise

their profits exponentially with time. Some of this profit should be taxed in order to pay for a

UBI to give back to the displaced workers (Berger, 2017, para. 7). Moreover, corporations should

be accountable to use part of the enormous profits and savings from automation to help the

displaced workers. Legislators could pass a sliding-scale automation tax, "where a company

qualifying itself as using an automated workforce would be taxed depending on how many

human workers they have performing tasks compared to how many tasks are performed by

automated workers that a human could rightly do" (Berger, 2017 para. 10). These taxes could

then be utilized to partly fund a UBI.

The problems that arise from poverty, wealth inequality, and automation can be

eliminated using a UBI. They will, however, require the cooperation of not only the top income

earners and corporations, but also the politicians. It doesn't matter whether one is Democrat or

Republican, this is not a partisan issue. It is imperative that we resolve these problems in order to

become a more fair society. I strongly encourage our politicians, and every citizen concerned

about these issues, to at least consider how implementing a UBI would help eliminate them.

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