

***UNIVERSAL BASIC INCOME (UBI):
POLICIES & PERSPECTIVES***

**Presentation by
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University of Washington
Evans School of Public Policy and Governance
to
Seattle Economics Council
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Outline of Presentation

- 1. Framework for Evaluating: Social Welfare**
- 2. Why is UBI a Hot Policy Topic Now?**
- 3. Policy Design**
- 4. UBI's Likely Effects**
- 5. Implementation**
- 6. Political Feasibility**
- 7. Federal Jobs Guarantee as Alternative**

Framework for Evaluating: Social Welfare

$$W = f(U_1, U_2, \dots, U_N)$$

Utilitarian: $W = U_1 + U_2 + \dots + U_N$

Rawlsian: $W = \min(U_1, U_2, \dots, U_N)$

U_n is approximately a function of log income

Framework for Evaluating: Social Welfare

Measuring Satisfaction

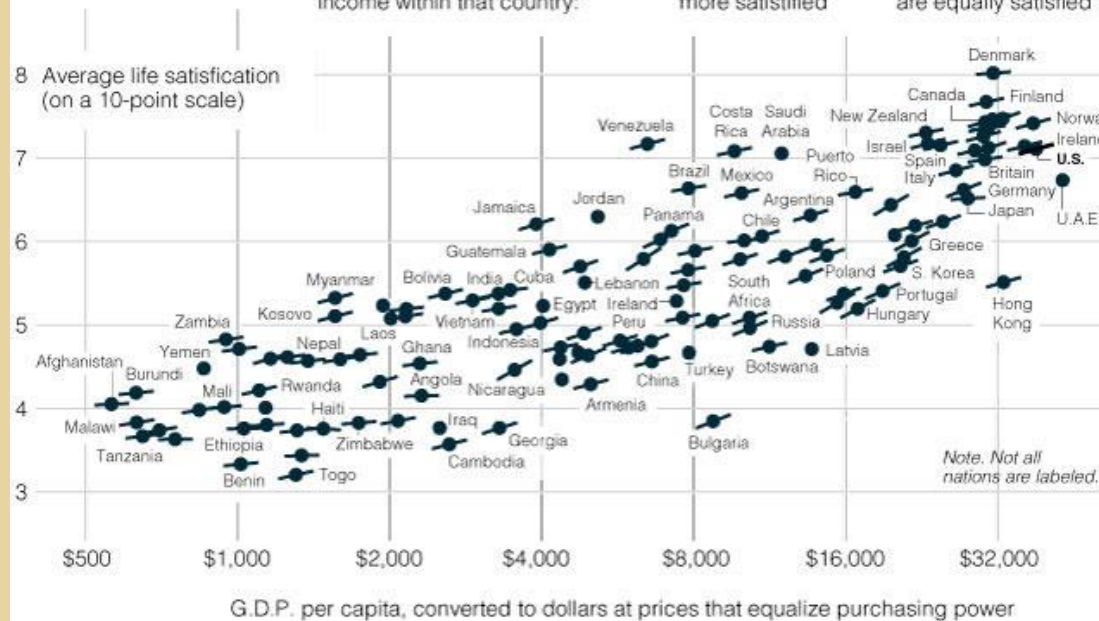
A new study shows that people in wealthier countries are more likely to be satisfied with their lives. Earlier research had suggested that satisfaction did not necessarily increase once basic needs were met.

Percent who rate themselves an 8, 9 or 10 on a 10-point scale of satisfaction



KEY:

- Each dot represents one country
- The line around the dot shows how satisfaction relates to income within that country:
 - Higher-income people are more satisfied
 - Higher-income and lower-income people are equally satisfied



Source: Betsey Stevenson and Justin Wolfers, Wharton School at the University of Pennsylvania

THE NEW YORK TIMES

Subjective Well-Being and Income: Is There Any Evidence of Satiation?

Betsey Stevenson and Justin Wolfers

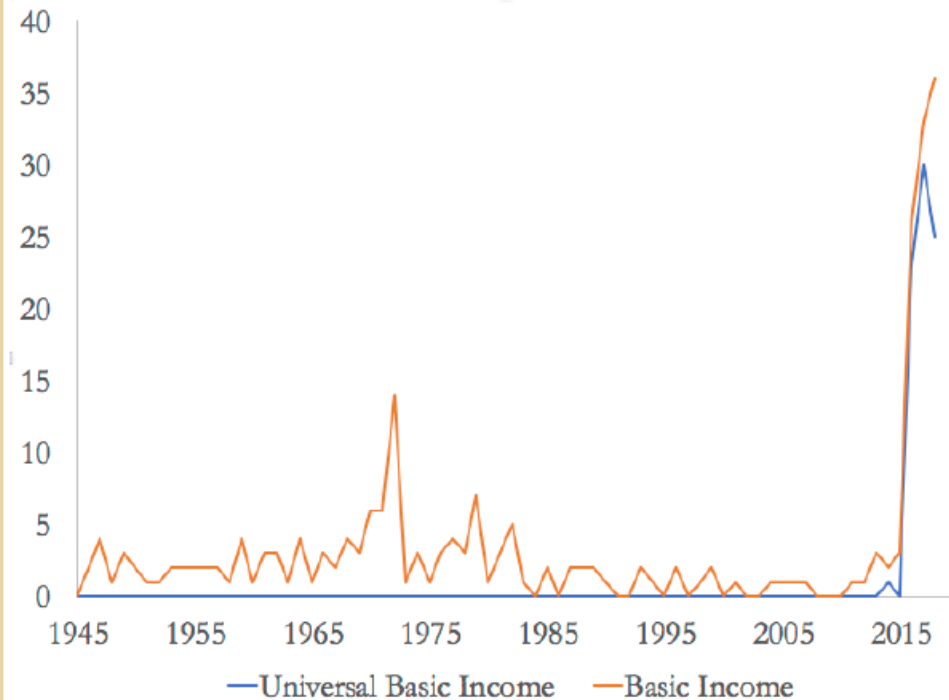
American Economic Review: Papers & Proceedings
 2013, 103(3): 598–604

<http://dx.doi.org/10.1257/aer.103.3.598>

Why is UBI a Hot Policy Topic Now?

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Figure 1. Growing interest in Universal Basic Incomes is evidenced in newspaper usage



Note: Figure shows annual uses of the terms “Universal Basic Income” and “Basic Income” in the New York Times.

Universal Basic Income in the US and Advanced Countries

Hilary W. Hoynes and Jesse Rothstein

National Bureau of Economic Research
2019

Working Paper 25538
<http://www.nber.org/papers/w25538>

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- **Perhaps due to social safety net programmatic complexity**
 - <https://singlemotherguide.com/federal-welfare-programs/>
 - Low sign-up rates

Five Things You May Not Know About the US Social Safety Net

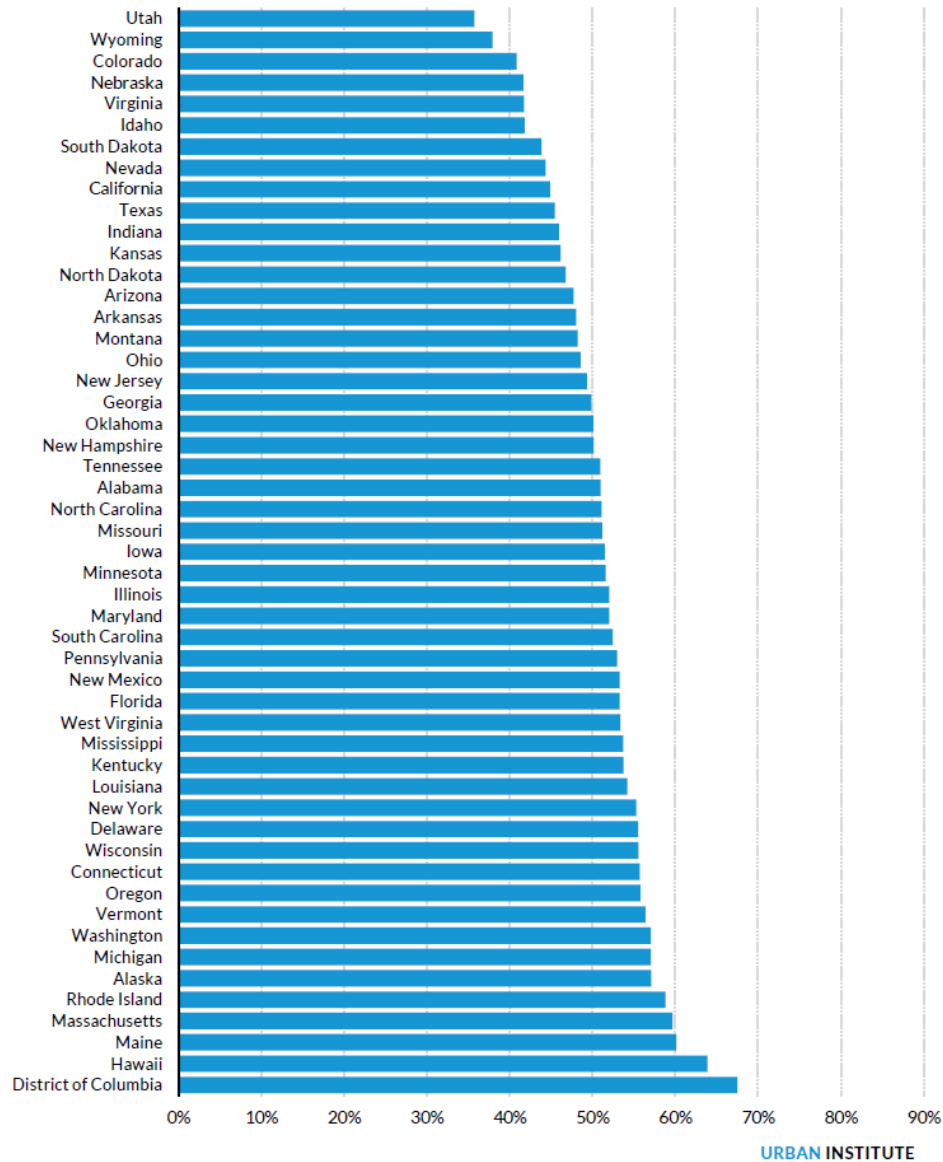
Sarah Minton and
Linda Giannarell

Urban Institute
2019

<https://www.urban.org/research/publication/five-things-you-may-not-know-about-us-social-safety-net>

28% of those living in families whose cash income is below the poverty line do not receive SNAP, SSI, TANF, public/subsidized housing, WIC, or child-care subsidies through the Child Care and Development Fund.

FIGURE 7
Share of People with Income Below 200 Percent of Poverty Thresholds
Receiving US Social Safety Net Assistance, by State
Average monthly estimate for 2012-14



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 - Low sign-up rates
- **Perhaps due to perception that social welfare discourages work**
 - “Today’s government-centric system ... penalizes low-income workers for making more money by drastically reducing benefits at arbitrary points along the income-scale. Because of these poverty traps, single mothers near the poverty line, for instance, can face effective marginal tax rates of 80 or even 90 percent.” (Sen. Lee, 2013).
 - Yet, “(i)n practice, with large negative tax rates through the EITC, and with the decline in cash welfare and the rationing of housing benefits, cumulative marginal tax rates are actually negative at low incomes and positive but modest in magnitude in program phase-out ranges (Kosar and Moffitt 2017)” (Hoynes and Rothstein, 2019, p. 4).

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 - Low sign-up rates
- **Perhaps due to perception that social welfare discourages work**
- **Perhaps due to fear of technology disrupting work**
 - “In principle, the robots should increase productivity and thus dramatically increase global real incomes (Acemoglu and Restrepo 2018). But the concern is that an increasing share of income will go to a small elite (e.g., the owners of the robot patents), leaving everyone else impoverished” (Hoynes and Rothstein, 2019, p. 3).
 - “...we are experiencing the greatest technological shift the world has ever seen. By 2015, automation had already destroyed four million manufacturing jobs, and the smartest people in the world now predict that a third of all working Americans will lose their job to automation in the next 12 years. Our current policies are not equipped to handle this crisis.” (Friends of Andrew Yang, 2019).

Policy Design

- **Big question #1: does UBI replace or augment existing social welfare programs?**
 - Would we keep Social Security, Medicare, and/or Medicaid?
 - Would we eliminate other “equity” programs (e.g., minimum wage).
- **Big question #2: does UBI phase out with income?**
 - Charles “Murray (2016) proposes a phase out at incomes above $P=\$25,000$, using a tax rate of $T=20\%$. (Murray would allow only half of the benefit to phase out; the remainder would be paid regardless of income.)” (Hoynes and Rothstein, 2019, p. 10).
 - Does EITC continue? Is it folded into UBI?

Policy Design

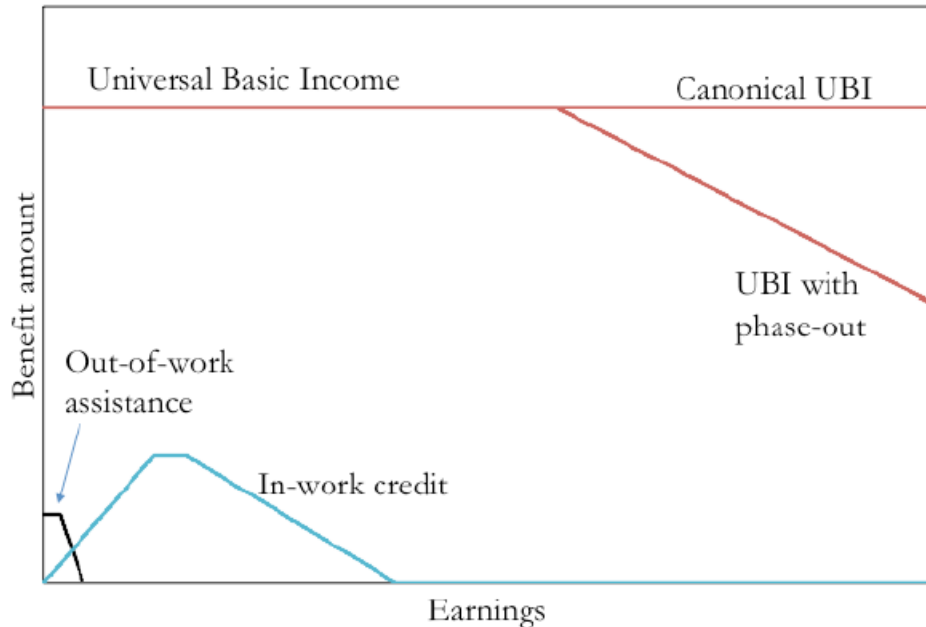
- **Andrew Yang's "Freedom Dividend":**

- "guaranteed payments of \$1,000 per month, or \$12,000 per year, to all U.S. citizens over the age of 18."
- "Andrew proposes funding the Freedom Dividend by consolidating some welfare programs and implementing a Value Added Tax of 10 percent. Current welfare and social program beneficiaries would be given a choice between their current benefits or \$1,000 cash unconditionally – most would prefer cash with no restriction."
- "Social Security retirement benefits stack with UBI. Since it is a benefit that people pay into throughout their lives, that money is properly viewed as belonging to them, and they shouldn't need to choose. Social Security Disability Insurance (SSDI) is based on earned work credits. Supplemental Security Income (SSI) is a means-tested program. You can collect both SSDI and \$1,000 a month. Most people who are legally disabled receive both SSDI and SSI. Under the universal basic income, those who are legally disabled would have a choice between collecting SSDI and the \$1,000, or collecting SSDI and SSI, whichever is more generous."

- **Poverty threshold for a single-adult household in 2019 is \$12,060**

Policy Design

Figure 3. Comparing a UBI to other existing programs



Universal Basic Income in the US and Advanced Countries

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UBI’s Likely Effects: My Simple Analysis

This file presents the data underlying the figures in CBO's July 2019 slide deck *The Distribution of Household Income, 2016*.
www.cbo.gov/publication/55413

Summary Figure 1.
Average Income, Means-Tested Transfers, and Federal Taxes per Household,
by Income Group, 1979 to 2016

Thousands of Dollars

| | Lowest Quintile | Second Quintile | Middle Quintile | Fourth Quintile | Highest Quintile |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Income Before Transfers and Taxes | 21 | 45 | 72 | 110 | 291 |
| Means-Tested Transfers | 15 | 7 | 3 | 2 | 1 |
| Federal Taxes | * | 4 | 10 | 20 | 77 |
| Income After Transfers and Taxes | 35 | 48 | 66 | 92 | 215 |

Source: Congressional Budget Office.

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| Source: Congressional Budget Office. | | | | | | |
| Number of Adults Per Household | 1.43 | 1.40 | 1.51 | 1.56 | 1.65 | |
| Income After Transfers and Taxes Per Adult | 25 | 34 | 44 | 59 | 130 | 60 |
| In (Income After Transfers and Taxes Per Adult) | 3.2 | 3.5 | 3.8 | 4.1 | 4.9 | 3.9 |

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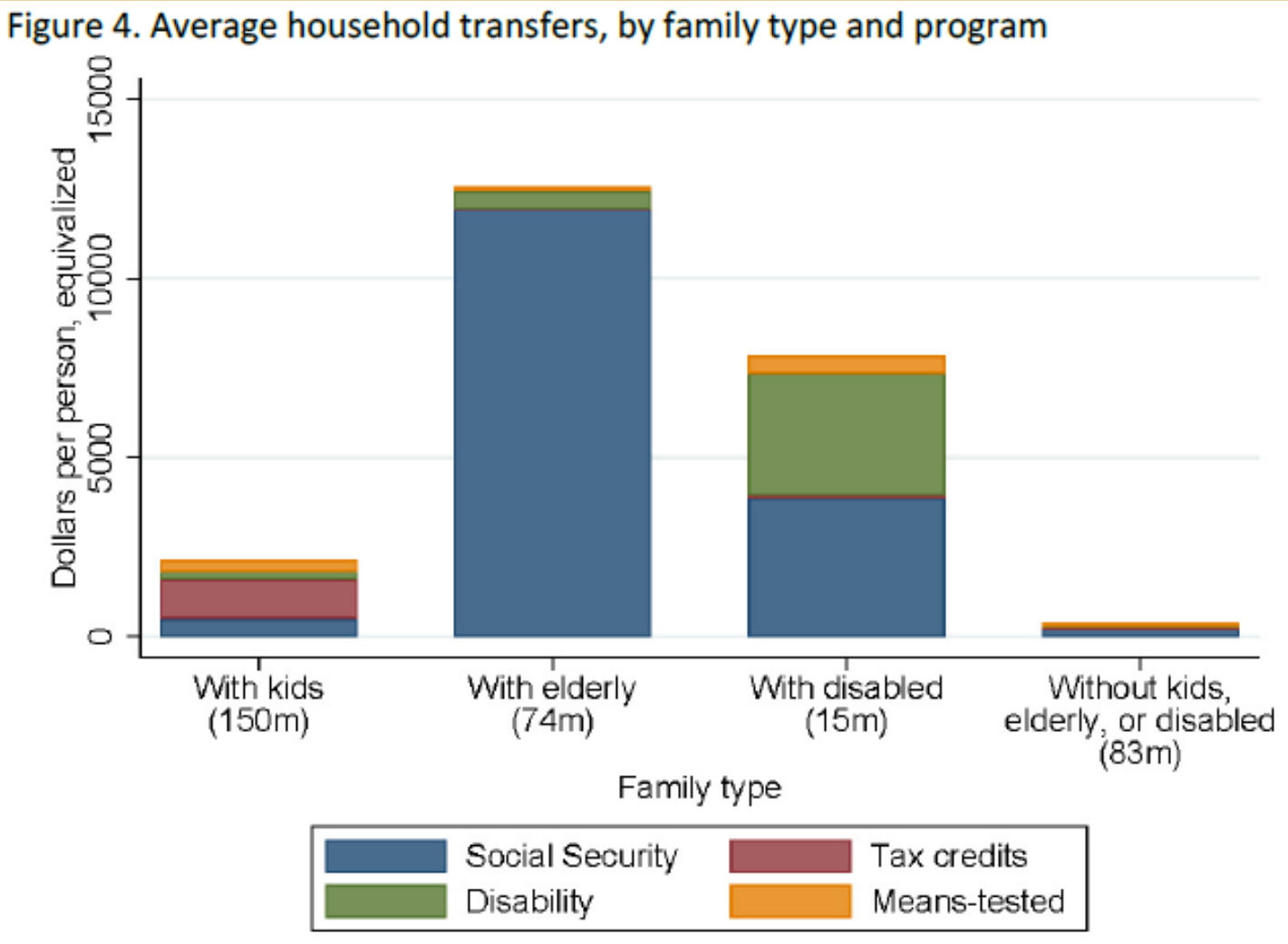
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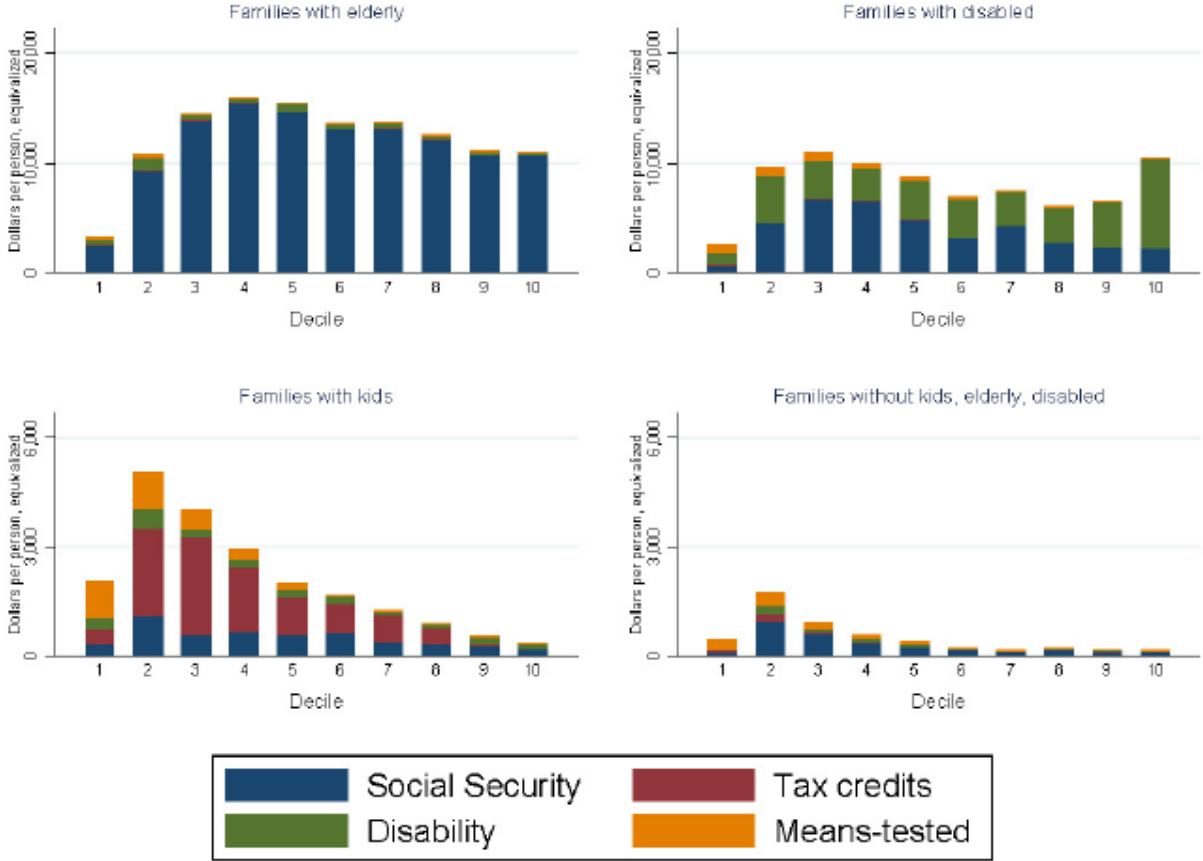
| | | | | | | |
|---|-----|-----|-----|-----|-----|-----|
| Income Before Transfers and Taxes | 21 | 45 | 72 | 110 | 291 | |
| UBI | 17 | 17 | 18 | 19 | 20 | |
| Federal Taxes (OLD) | 0 | 4 | 10 | 20 | 77 | |
| Federal Tax Cut (no Means-Tested Transfers) | 0 | -1 | -3 | -5 | -19 | |
| Federal Tax Increase (Cover UBI) | 0 | 3 | 8 | 16 | 63 | |
| Income After Transfers and Taxes | 38 | 56 | 74 | 98 | 190 | |
| Income After Transfers and Taxes Per Adult | 27 | 40 | 49 | 62 | 115 | 60 |
| In (Income After Transfers and Taxes Per Adult) | 3.3 | 3.7 | 3.9 | 4.1 | 4.7 | 4.0 |

UBI's Likely Effects: Hoynes and Rothstein's Distributional Analysis



UBI's Likely Effects: Hoynes and Rothstein's Distributional Analysis

Figure 5. Average household transfers, by family type, and decile of after-tax and transfer income



UBI's Likely Effects: Evidence from Existing Policies

- "Alaska Permanent Fund ...[provides]... (p)ayments ... from \$1,000 to \$2,000 per year. Jones and Marinescu (2018) ... find that the dividend had no effect on employment. They attribute this to a positive general equilibrium effect - the additional income leads to higher consumption, boosting labor demand – that offsets the negative income effect.
- The Eastern Cherokee Native American tribe provides ... (p)ayments, around \$4,000 per person per year... The payments had positive impacts on children's educational attainment and criminal arrests (Akee et al, 2010) and on children's emotional and behavioral health (Akee et al. 2018), though they increased children's body mass indices (Akee et al. 2013). Akee et al. (2010) find no impact on labor force participation...." (Hoynes and Rothstein, 2019, p. 18).

Implementation and Other Considerations

How do individuals receive the money?

How do we identify and locate the eligible?

Labor supply response:

- Large income effect – should lead to reduction in labor supply.
- If canonical UBI (with no phase-out) displaces means-tested programs, would eliminate the substitution effect in the phase-out region where the transfer program causes the effective wage to be lower.
- “Blundell and MaCurdy (1999) provide a comprehensive review of the literature and conclude the income elasticity of labor supply averages about -0.05 for men and -0.20 for married women. ... A \$12,000 per adult UBI, without a phase-out, would lead to a 33% increase in income at the mean among single adult families or a 25% increase among married couple families. Income elasticities in the range of -0.05 to -0.10 would lead to 1.6% - 3.3% reductions in hours worked.” (Hoynes and Rothstein, 2019, p. 20).

Political Feasibility

Tailwinds:

Broad-based political support:

- “A wide range of proponents, from Charles Murray, a political scientist and scholar at the American Enterprise Institute, to Andy Stern, former president of the Service Employees International Union” (Hoynes and Rothstein, 2019, p. 1).
- Nobel Prize winning economists such as Milton Friedman and F.A. Hayek.
- Martin Luther King Jr.
- Richard Nixon
- Mark Zuckerberg, Robert Reich, Elon Musk, Bill Gross, Richard Branson, Ta-Nehisi Coates, Noam Chomsky, Bernie Sanders, Andrew Yang

Political Feasibility

Tailwinds:

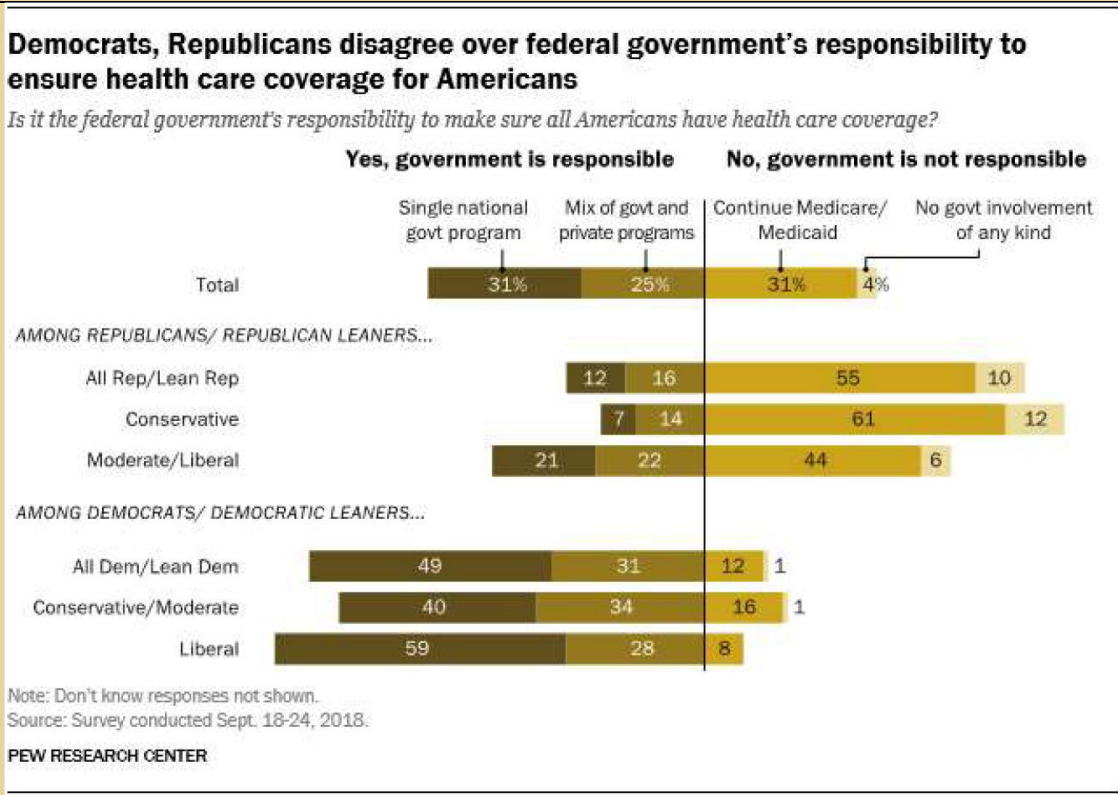
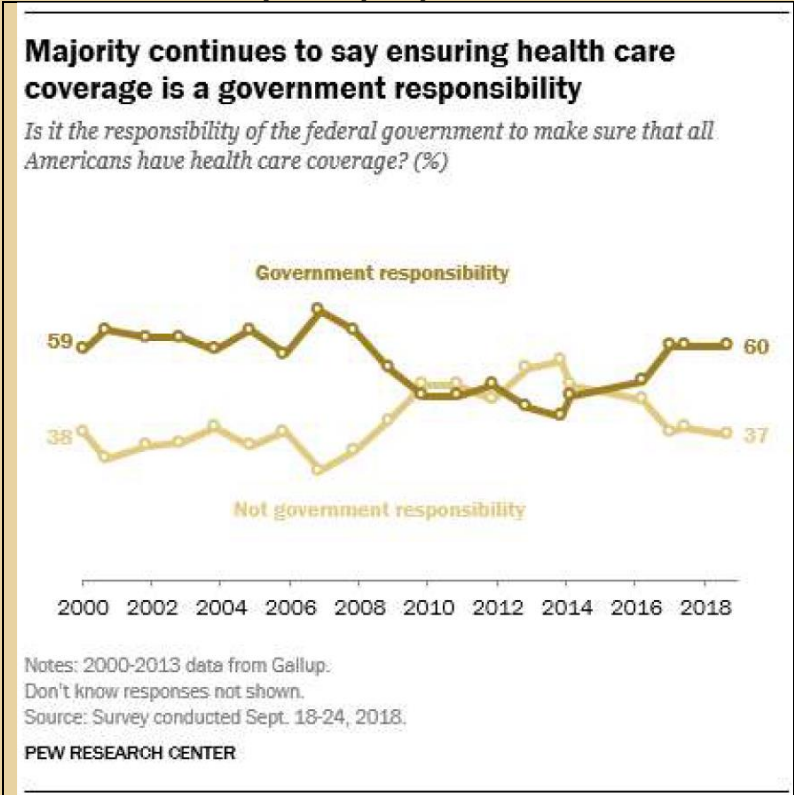
Passed before:

- “In 1970, the universal income passed the House of Representatives by a 243-to-154 margin as part of Nixon's Family Assistant Plan, but was killed by a progressive Senate in part because Democrats didn't think it went far enough. A 1971 plan sailed through the house by an even wider margin (288 to 132) before hitting a road block in the Senate.” (Cohen, 2017)

Political Feasibility

Tailwinds:

Universality is popular:



(Kiley, 2008)

Political Feasibility

Headwinds:

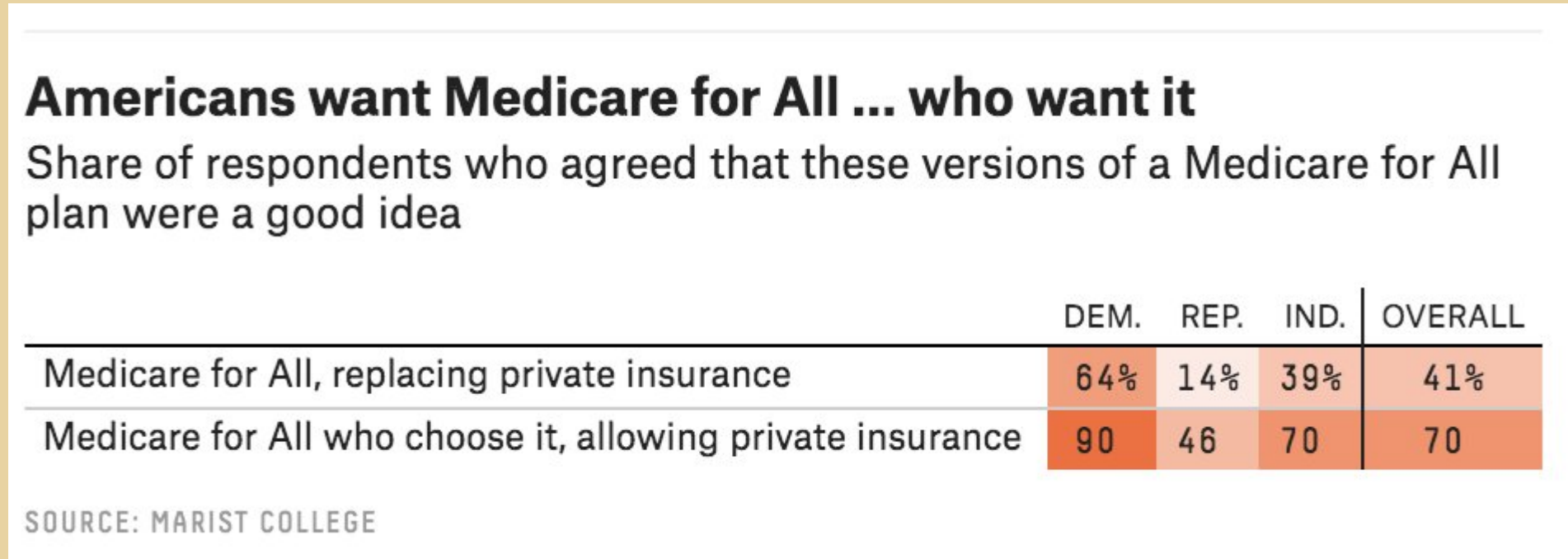
Super expensive:

- “A fully implemented program with these universal and basic income elements would be extremely expensive. A universal payment of \$12,000 per year to each adult U.S. resident over age 18 would cost roughly \$3 trillion per year. This is about 75 percent of current total federal expenditures, including all on- and off-budget items, in 2017. (If those over 65 were excluded, the cost would fall by about one-fifth.) Thus, implementing this UBI without cuts to other programs would require nearly doubling federal tax revenue; even eliminating all existing transfer programs ... would make only a dent in the cost.” (Hoynes and Rothstein, 2019, p. 6).

Political Feasibility

Headwinds:

Complex policies create confusion and paralysis:



(Silver, 2019)

Political Feasibility

Headwinds:

Fear of immigrants benefitting

- Bay and Peterson (2006): “... find that a comfortable majority [in a survey of the Norwegian electorate] express sympathy with the idea of a basic income... However, by applying a persuasion experiment, we show that negative attitudes towards immigration can be mobilized to significantly reduce the scope of support for a basic income proposal ...”

Political Feasibility

Headwinds:

Attempts have largely failed to date:

Ontario – “Under the pilot program, individuals received \$13,000 per year and couples got \$19,000. If recipients worked while receiving the benefit, they agreed to give the government 50 cents for every dollar they earned. They were also required to opt out of some government social services... The center-right Progressive Conservatives Party, led by Ontario Premier Doug Ford, took over the province’s government in June after 15 years of rule by the liberal party. The government said ... that instead of putting money into the experiment... it would ‘focus resources on more proven approaches.’” (PBS, 2018)

Finland – “Participants in the trial would receive €560 (about \$645) a month from January 2017 to December 2018, whether or not they came to earn any additional income. The trial size was cut to one-fifth of what had originally been proposed, and is now too small to be scientifically viable. Instead of giving free money to everyone, the experiment is handing out, in effect, a form of unconditional unemployment benefits. In other words, there is nothing universal about this version of universal basic income.” “Targeting just 2,000 randomly selected unemployed Finns to receive 560 euros a month (about \$675) for only two years, it was too limited in both scale and duration.” (Jauhiainen and Mäkinen, 2017, 2018)

Switzerland – “Final results from Sunday's referendum showed that nearly 77% opposed the plan, with only 23% backing it. The proposal had called for adults to be paid an unconditional monthly income, whether they worked or not. The supporters camp had suggested a monthly income of 2,500 Swiss francs (£1,755; \$2,555) for adults and also SFr625 for each child.” (BBC, 2016)

Political Feasibility

John Kingdon, *Agendas, Alternatives, and Public Policies*, 1984.

"...policy formation [is] the result of three kinds of processes, or the flow of three 'streams', the problem stream, the policy stream and the politics stream.

The problem stream regards public matters requiring attention. ... Far from all problems are ... given attention to by the decision makers. Some conditions are not even defined as problems until there is something to do about it, i.e. there is a solution (a policy) available and recognized by the politicians.

The policy stream regards proposals for change. Before a problem can reach the decision agenda, decision makers must be given at least one alternative solution, worked out and ready to put in place. Politicians concerned with an array of problems will prioritize to act on the ones where the administration, the scientific community, or somebody else, could provide a constructive solution, often worked out in advance.

... the politics stream is composed of political issues, e.g. election results, changes of administration, interest group campaigns or changes in public opinions.

... when simultaneously a problem is recognized, a solution is available, and the political climate is positive for change, a window of opportunity, a policy window, opens which facilitate policy change." (Gulbrandsen and Fossum, 2009, p. 434.)

Political Feasibility

Bryan Jones and Frank Baumgartner, *The Politics of Attention: How Government Prioritizes Problems*, 2005.

“Policy actors and institutions generally maintain a status quo in policy because institutional processes ... combine with the individual cognitive factors ... to act as filters and controls.

Some information is ignored while other information receives a great deal of attention. ...

the insertion of new signals or new framings of old issues has the ability to disrupt this stability. A disproportionate response then occurs because after we decide to focus on an issue, we not only reevaluate our prior policy choice but also our understanding of the problem, our weighting of the relevant dimensions of the issue, the consideration of possible solutions, and our goals in addressing the issue in the first place.” (review by Scott, 2006, p. 1042).

Federal Jobs Guarantee as Alternative

Paul, Darity, Hamilton and Zaw (2018)

“We argue in favor of FJG over the UBI on the following grounds:

- the FJG provides the dignity of nonpoverty employment for all who seek it;
- the FJG enables the nation to fulfill a host of socially useful tasks that are not currently provided, or are underprovided, by the public sector;
- the FJG carries a lower inflation risk than the UBI; the FJG contributes directly to macroeconomic stabilization; and,
- perhaps surprisingly, the FJG will cost considerably less.” (p. 56)

Key Sources

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Thank You!

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