

Universal Income

What Is It, and Is It Right for the U.S.?

Report by
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Introduction

Some call it a “basic income.” Others call it a “guaranteed minimum income.” Whatever you call it, the idea of providing direct cash payments to citizens has come in and out of vogue for at least 60 years in the United States.

In recent years, however, driven by declining job security and the stagnant pay of middle-class jobs, universal income proposals have gained renewed attention. They are inspired by a collection of notions that setting an income floor will reduce poverty, improve economic security, cushion job loss, increase bargaining power for low-wage workers, stimulate entrepreneurship, and decrease government wastefulness.

These notions have sparked interest worldwide: Switzerland, Finland, the Netherlands, the United Kingdom, Canada, Holland, and the U.S., among other nations, are all engaged in debates about universal income. In a June 2016 national referendum, Switzerland became the first country to vote on a basic income plan. Although the Swiss plan to provide every adult citizen a grant of 2,500 Swiss francs per month (about \$2,600 U.S.) was rejected, other countries are moving forward with pilots and experiments. In the Netherlands, the city of Utrecht is experimenting with a system of smaller payments to citizens at various income levels. In 2017, Finland will launch a multi-faceted pilot program that will provide monthly grants of 550 euros (about \$625 U.S.) to some 10,000 citizens. The Canadian government has assigned its Minister of Employment and Social Solidarity to develop a minimum income plan, while in the UK and U.S. scholars and political activists are debating different proposals. In California’s Silicon Valley, the Y-Combinator venture capital group is field-testing a universal income model.ⁱ

This paper examines the history of universal income ideas and evaluates some of the most prominent. First, we will review the economic forces that have brought us to this point.

From Steady Jobs to the Gig Economy

Many economists would agree that the American labor force entered uncharted territory during the last two decades or so. They would also agree that this territory is studded with hazards in the form of stagnant and declining wages, the off-shoring of jobs, a rise in part-time work, and the growing threat of technology-driven unemployment.ⁱⁱ One of the most visible reflections of these hazards is a new label given to the class of threatened workers: the “precariat.”ⁱⁱⁱ These are working Americans, numbering in the millions, whose grip on economic security is weakening and who face little prospect of improvement.

Many of the characteristics that define the precariat—low wages, job instability, an inability to accumulate wealth—are not new. But conditions that once affected only low-income and low-skilled workers now ensnare millions of middle-income workers as well.^{iv}

The 2008 stock market crash and subsequent Great Recession forced many employers to cut workers and hours for remaining employees. Eight years later what began as temporary measures have in many job sectors



hardened into a permanent way of doing business.^v

However, the recession in many ways simply exacerbated trends that preceded it. The model of employment around which America's social safety net was built has been disappearing for several decades. Indeed, the very institutions on which this model was founded—the large manufacturer and the empowered union—have been in decline for 40 years.^{vi} The causes of a weakened employment relationship include the transition to a service economy, increased corporate focus on short-term returns, the decline of union power, new business models of outsourcing and sub-contracting, and a turn away from full employment monetary policy. But the focus of this paper is more on the effect of that trend: increased economic insecurity for a growing share of American workers.

The post-recession years have seen a steeper rise in the number of part-time workers than ever before. Between 2006 and 2010, the number of part-timers rose from 4 million to 9 million, and today stands at 6 million. That's 6 million people who want a full-time job but cannot find one.^{vii}

Self-employment also represents an underestimated sector of the economy. While the federal government officially counts about 15 million workers as self-employed, 2013 research on self-owned businesses by the Oakland, California-based Insight Center for Community Economic Development conservatively estimated that another 4 million more workers subsist through a legal, underground cash-based economy.^{viii} This underground economy is populated by laborers, artists, mechanics, cooks, carpenters, musicians, cleaners, dog walkers, and others, all linked by their inability to find formal employment in the traditional job market. This class of workers is expected to grow.^{ix}

The trajectory of wages tells an important story. Over the last three decades, real wages (i.e., wages after adjustment for inflation) have remained stagnant while other critical costs such as education, housing, and health care have climbed, squeezing families that once had the income to save for retirement, purchase homes, and pay for children's college.^x

Further, the overall labor market remains weak. Even though the official U.S. unemployment rate has fallen to 4.9 percent, that number masks considerable hardship. Minority groups have yet to experience the recovery. African-American unemployment remains at 8.4 percent, nearly double the national level. For African-American teenagers, who make up a large part of the workforce of tomorrow, unemployment is 20.6 percent.^{xi} Mayors and governors around the country find themselves struggling to cope with large numbers of the long-term unemployed and “unattached” (defined as working-age persons who are neither in school, employed, nor looking for work). Between 2007 and 2011, the percentage of unemployed who went without jobs for six months or longer increased from 18 percent to 44 percent.^{xii} And general labor force participation (defined as the percentage of eligible workers who are actually working) is the lowest it's been since 1977.^{xiii}

This new world of workers outside traditional employer–employee relationships is spreading throughout what was once the traditional economy: into retail, academia, transportation, manufacturing, technology, professional services and all forms of manual labor. As ever-cheaper labor becomes available around the world, long-term workers are being replaced by less-expensive short-term employees.^{xiv} Where an average worker once held three or four jobs over the course of a lifetime, a high school student today is expected to



hold 14 different jobs by the time she turns 38, and not always voluntarily.^{xv}

Technological change is likely to continue to disrupt existing industries with significant consequences for the workers they employ. A recent study from Oxford University warned that 47 percent of all jobs are at risk of automation over the next 20 years.^{xvi} The successful implementation of self-driving cars, for example, could displace the nation's 3.3 million truckers in a matter of years.^{xvii} Even if sufficient numbers of new jobs are created, the pace of change is likely to require a massive transition in skills and training on the part of workers. Companies such as Uber (with an estimated valuation of \$60 billion) and AirBnB (\$25 billion) may be signs of a new software-based economy that consists of a labor force made almost entirely of part-timers.^{xviii} If this business model continues to spread throughout the economy, even to the white-collar world of medicine and law, millions more jobs will be lost or transformed.

Even college graduates will not be immune to dwindling incomes or joblessness. Speaking in Davos, Switzerland, last year, Google executive chairman Eric Schmidt warned that just as computer-driven automation wiped out many blue-collar jobs in the last decade, we can expect to see a new wave of robotics and network-inspired automation over the next decade. This time the affected population will be knowledge workers.^{xix}

Dubbed the “gig economy” or the “1099 economy,” this new economy is characterized by the disappearance not only of steady jobs but also of the stable wages and benefits that go with them.

This leaves the U.S. on the verge of a critical dilemma. If the traditional form of work—full-time employment paying middle class wages with benefits—is no longer a realistic expectation, how will we sustain a large middle class in the future? And if the spending power of millions of middle-class families is sharply reduced, what will be the effect on economic growth? These are the big questions universal income addresses.

Universal income appeals to both those on the political right and those on the political left for different reasons. Thinkers on the left envision it as a tool to eradicate poverty, expand opportunities, improve worker bargaining power, and level some of the imbalances caused by discrimination and structural inequities. Proponents on the right see it as a way to enhance individual freedom, unleash the free market, and eliminate the inefficiencies and indignities of the welfare state. Both sides of the spectrum agree it would spur economic growth and relieve poverty.^{xx}

Universal Income: Two Levels, Multiple Revenue Sources

All universal income plans involve periodic cash payments to everyone, regardless of employment or need. That's what makes them universal. A few similar plans link cash payments to income or family size; though often included in discussions of universal income, this type of plan is not technically universal.

The most significant difference between different universal income proposals is the amount of income involved. Some proposals call for distribution of an income sufficient to live on, albeit at a modest level; this is called universal basic income, or UBI. In the U.S., a basic income is generally considered to be about \$1,000–



\$1,250 per person per month, comparable to Social Security. A basic income of this size could, in theory, replace most if not all means-tested welfare programs.

Other universal income proposals call for smaller distributions, e.g., several hundred dollars per person per month. Such plans might be called universal base income. They would provide a reliable income floor but not enough money to live on; people would still need to work. Such base income plans would need to be supplemented by means-tested programs, albeit smaller than the ones we have today.

The other significant difference between universal income plans is how they propose to pay for themselves. The funding methods discussed here fall into two categories: taxes and co-ownership. Tax-funded universal income plans would be paid out of the U.S. Treasury by shifting current expenditures, adding new taxes, and/or closing tax loopholes. Co-ownership models, by contrast, rely not on taxes but on revenue generated by assets in which all citizens arguably have a stake.

The godfather of tax-based income plans is economist Milton Friedman, the libertarian University of Chicago professor and Nobel Prize winner. In his 1962 book *Capitalism and Freedom*, Friedman proposed using a “negative income tax” to give the poor directly what they need: cash. To pay for the tax rebates, he proposed eliminating all existing anti-poverty programs, including welfare, daycare, food stamps, rent subsidies, and more. For families earning below the poverty line, the tax rebates would lift them over it, but as they earned more income, their tax rebates would phase out.^{xxi}

Although Friedman’s plan was never adopted, it inspired President Richard Nixon’s Family Assistance Plan and Senator George McGovern’s subsequent “demogrant” proposal in the early 1970s. In both cases, funding would have come from general taxes. Nixon’s plan, which applied only to families with children under 18 and with a working adult in the household, established a base income of \$1,600 (about \$10,000 in 2016 dollars) that would be reduced as families earned more money from working. It passed the House of Representatives but died in the Senate.^{xxii}

McGovern’s “demogrant” was designed to give each person \$1,000 a year (about \$5,700 in 2016 dollars), which would gradually decrease as their income rose. The plan was attacked from both the left and the right—Republicans assailed it for lacking a work requirement, liberal Democrats for not providing enough income—and McGovern quickly withdrew it, sinking the idea of universal income for a generation.^{xxiii}

In the 1990s, professors Bruce Ackerman and Anne Allstot of Yale Law School revived the idea in a new format. They proposed that every American receive a grant of \$80,000 on his or her 21st birthday, or at age 18 for those enrolling in college. The ample size of the grant would enable a recipient to make a down payment on a home, pay tuition, or launch a business—in other words, to have a stake in society.^{xxiv}

The Ackerman-Allstot proposal was to be funded out of a new and dedicated tax: an annual wealth tax of 2 percent levied on the wealthiest Americans. It would not require cutting any existing programs. Even though funded by taxes, it departed from previous proposals in its embrace of the principle that all Americans have a right to a share of America’s wealth based not on need or employment but solely on citizenship.^{xxv}



Perhaps the most controversial tax-based universal income proposal was made in 2006 by Charles Murray of the American Enterprise Institute. Murray called for an annual \$10,000 cash grant (with an additional \$3,000 allocated for health care) to every American age 21 and over. The only requirements were that beneficiaries have a Social Security number and not be in prison. The grants would be paid for by completely eliminating all other welfare programs, including Social Security and Medicare.^{xxvi}

With hindsight, several difficulties are inherent in all tax-funded proposals for universal income. Friedman and Murray's libertarian versions are contingent upon eliminating all or most existing welfare programs. That frees up a sizeable sum of money without raising taxes—which libertarians are loathe to do—but it is money that comes mostly from the pockets of the poor. Spreading that money around to a larger portion of the population can't help but leave the poor worse off. Further, these plans don't adequately explain how the disabled or other people who simply cannot work can survive on \$10,000 a year.

More progressive models such as Ackerman and Allstot's avoid these problems but bump into another: the need to raise taxes by a very large amount. Politically, this is daunting.

Co-Ownership Models

Co-ownership models, of which two are examined here, bring a very different understanding of the relationship between citizens, the state, and common wealth, as well as where non-labor income can come from. Such models don't require the dismantling of existing safety nets. And by the nature of their financing they avoid several of the political obstacles that tax-based models face.

The most successful co-ownership model—indeed, the only universal income model currently implemented in the U.S.—is the Alaska Permanent Fund (APF), which was capitalized with income from Alaska's North Slope oil. Established in 1976, the APF pays equal annual dividends to all Alaska residents of one year or more, including children. As of August 2016 it had assets of \$54 billion, and in 2015 it paid dividends of \$2,072 to each Alaskan. Over the last decade average payments were \$1432 per person.^{xxvii}

Two things are noteworthy about the APF. One is that its revenue comes from a common asset rather than from taxes, and the other is that its payments are based not on need or labor but on residency alone. These two features make it enormously popular politically. No one is taxed to support the less fortunate, and all Alaskans understand that they have a right to income that flows from their shared inheritance.^{xxviii}

A second co-ownership model, proposed by entrepreneur and author Peter Barnes, builds on the Alaska model. Barnes argues in his 2014 book *With Liberty and Dividends for All* that there are a variety of co-owned assets that could generate citizenship-based income for all Americans. "This little-noticed cornucopia includes our atmosphere and ecosystems, our sciences and technologies, our legal and financial systems, and the value that arises from our economic system itself."^{xxix} With these assets as a base, an Alaska-style fund could be built by charging for permission to pollute our atmosphere, use our electromagnetic spectrum, profit from our patent protection system, or take advantage of our financial infrastructure (e.g., for securities trading). Barnes notes that these fees could be collected and distributed by a not-for-profit entity representing citizens collectively,



thereby preventing money from being siphoned off in Washington.

The size of such a co-ownership fund, Barnes says, would depend on the assets being tapped, but according to his estimates, it could generate about \$1.5 trillion annually, providing up to \$5,000 per year person, or \$20,000 for a family of four. That would not provide a full basic income to every American, but it would establish a universal income base.^{xxx}

A Blended Model

Tax-based and co-ownership models aren't mutually exclusive; a combination is also possible. For example, a revenue stream drawn from taxes could be distributed only to those below an income threshold, replacing some of the current safety net. Another stream drawn from co-owned assets could be universally distributed. This would give the poor a base even as their incomes rise above the poverty line, and at the same time protect the middle class from wage decline and technological displacement. In addition, it could appeal to conservatives who wish to shrink government bureaucracy as well as liberals who seek to lift up the poor and sustain our middle class.

Conclusions

So where does this leave us? Universal income proponents must recognize that any successful model needs to recognize both legacy problems, such as structural poverty, and new problems, such as the decline of full-time employment and strong labor unions. Each set of problems has its own demands, and the most likely way to address both is through a hybrid model. Other concerns, such as the impact on prices, savings rates, and incentives to work, must also be properly studied, framed, and addressed.

An American income security system should be both universal and targeted, with funding from both common assets and taxes. It should not reduce the amount of money allocated to the poor, which would create new hardships. And, for tactical reasons, it should probably begin as a modest base income before expanding to a higher basic income.

Universal income by itself can't cure the deep structural inequalities that have been building in the U.S. for decades if not centuries. But in a world hurtling toward massive disruption and lower wages for many, it would be a big step toward easing the volatility and uncertainty facing the workforce, as well as restoring and sustaining the broad-based growth that built the world's most productive and prosperous middle class.

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