Universal Basic Income in the U.S. and Advanced Countries

National Tax Association, 111th Annual Conference
New Orleans, November 15-17, 2018

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THE UNIVERSAL BASIC INCOME IS THE SAFETY NET OF THE FUTURE
STAY TUNED! THIS DEBATE WILL BEGIN AT 6:45 PM ET

UNIVERSAL BASIC INCOME AROUND THE WORLD
SIX COUNTRIES have launched basic income pilots: FOUR COUNTRIES have proposals:

WILL UNIVERSAL BASIC INCOME SAVE US FROM THE AUTOMATION APOCALYPSE?

Y Combinator
Charles Murray
Author of "Coming Apart"
In Our Hands
A Plan to Replace the Welfare State

Raising the Floor
How a Universal Basic Income Can Renew Our Economy and Rebuild the American Dream
Andy Stern
With Lee Kravitz

Andrew Yang
Founder, Venture for America
The War on Normal People
The Truth About America's Disappearing Jobs and Why Universal Basic Income Is Our Future

Give People Money
How a Universal Basic Income Would End Poverty, Revolutionize Work, and Remake the World
Annie Lowrey

Fair Shot
Rethinking Inequality and How We Earn
Chris Hughes
Co-Founder of Facebook

Basic Income
A Radical Proposal for a Free Society and a Sane Economy
Philippe Van Parijs
Yannick Vanderborght
Use of UBI and BI in the New York Times, 1945-2018

- Universal Basic Income
- Basic Income

Data points from 1945 to 2018 showing the frequency of mentions of Universal Basic Income (UBI) and Basic Income (BI) in the New York Times.
Despite all of this ...

• **Attention may be running ahead of actual policy development**
• Little agreement about what a UBI is
• What specific problem is it trying to solve?
• How does it relate to and compare to existing programs?
• What are the key research questions that need to be answered?
Outline

• What problem is the UBI trying to solve?
• What is a UBI (and how does it compare to other income support policies?)
• Distributional consequences and cost
• Economic issues and what can we learn from pilots and experiments?

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Falling Labor Force Participation

And looking to the future, concerns about “the robot apocalypse” (Lowrey) and the loss of work.
Or less futuristic ... Stagnating Wages

Cumulative percent change in inflation-adjusted median hourly wages for all workers by education level, 1979–2017

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Economic Policy Institute
And Rising Inequality


In 2014, 13% of national income was received by the Bottom 50% in the US. Pre-tax national income is measured after the operation of pension and unemployment insurance systems (which cover the majority of cash transfers), but before direct income and wealth taxes.
Other arguments for UBI

• Replace current patchwork of transfer programs (incomplete, sometimes with high cumulative marginal tax rates)

• Insufficient benefits of current policies (post welfare reform loss of out of work benefits, potential benefits of more universal programs?)

The *why* matters because it feeds into analysis of how much you care about, say, labor supply effects
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What is a UBI? (based on our reading of the work)

- **U**niversal: three dimensions come up:
  - Paid to all, no demographic targeting
  - Paid to those without earned income (and without any effort to find work)
  - Paid to “all”, even those with “high” earned income

- **B**asic: (basic income) large enough to meet basic needs

- **I**ncome: cash rather than in-kind
How does this compare to other policy instruments?

• This is a discussion about UBI in advanced economies (for developing countries see Hanna and Okun 2018, Banerjee et al 2018)

• Advanced economies have social safety net policies. This raises questions around:
  – What is the UBI providing that isn’t (or can’t) be provided by the current social safety net?
  – Is the UBI a replacement for or an addition to the existing social safety net (super relevant for distributional and cost considerations)
UBI compared to other programs: A simple framework
UBI compared to current US policies
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Cost

• Pure universal with benefit set at poverty line ($12K/yr) \(\rightarrow\) total cost = $3 trillion for covering all adults

• Cost is 1\textsuperscript{st} order issue
  – 75% of total federal expenditures
  – 2X the cost of all US non-health transfers (drop Medicare, Medicaid)
  – 6X the cost of all US non-health, non-social security transfers
Cost

• Solving cost problem by adding a phase-out → then we are moving towards canonical welfare program or NIT (more phase-out, more labor supply distortions; usual protection vs. distortion tradeoff)

• Solving cost problem by reducing the benefit (and preserving universality) → not basic income
Distributional Implications

• Useful to compare to the distributional effects of our current social safety net programs
• We analyze this using the 2017 Current Population Survey
• We measure household benefits and calculate the average per person, using OECD equivalence scale
#1: Huge differences across demographic groups

Figure 4. Average household transfers, by family type and program

- **With kids (150m)**
- **With elderly (74m)**
- **With disabled (15m)**
- **Without kids, elderly, or disabled (83m)**

- **Social Security**
- **Tax credits**
- **Disability**
- **Means-tested**
#2: Benefits to non-elderly, non-disabled are more targeted (less universal)

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

- Replacing current social safety net with UBI would lead to
  - Redistribution from low earners to higher earners
  - Transfers away from elderly and disabled
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Economic Issues and what we can learn from current pilot programs

• High profile pilots
  – Stockton California: Economic Security Project, $6K/yr for 100 families for 12-18 months
  – Y Combinator: $100 million in funding, $12K/yr for 1,000 people with income below county median, for 3 or 5 years

• What can we learn from these pilots and how does that relate to the key economic issues underlying a UBI?
1. Labor supply: Lots of evidence from the existing literature; how much we care about potential labor supply distortions depends on whether we are in wage stagnation world or robot apocalypse world ➔ little new to learn from pilots

2. Universality: Would a truly universal program lead to reductions in stigma and increases in take up that would generate welfare gains? ➔ can’t learn from a pilot
Other questions about which we have little evidence yet a short-term pilot is not well suited to answer:

- Greater human capital investment and training (and thus higher wages in the longer term)
- Greater entrepreneurial activity
- Higher wages of the next generation due to greater resources in childhood

Also, a pilot program doesn’t have to grapple with the cost and the taxes / spending cuts that are needed to support the UBI.
Concluding thoughts

• This is a good conversation to be having; attention to stagnating incomes and what is working or not working in our existing social safety net is important
• Not a lot of clarity on what makes a UBI and why our current programs can not serve the need
• A “pure” UBI would be extremely expensive (2X total existing transfers)
• Replacing the current social safety net with a UBI would be highly regressive
• The critical outstanding questions, about the economic effects of a UBI are not likely to be answered with short term small pilot programs