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**Universal Basic Income (UBI) as a Policy Response to Current Challenges**

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**Abstract:** We briefly review the main motivations behind recent calls for a Universal Basic Income (UBI) in the United States and the main features of some current UBI proposals. We then argue that a UBI would be extremely expensive and yet do very little to reduce inequality or advance opportunity and social mobility. We argue that instead of a UBI, the federal government should pursue a pro-work strategy of income support, paying wage subsidies to low-wage workers along with targeted transfer benefits consisting of both cash and near-cash types of support paid to the most needy individuals and households.

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## 1. Introduction

In recent years there has been renewed interest in the concept of a Universal Basic Income (UBI) provision. In its most basic form, a UBI is a guaranteed cash benefit that the government provides to all citizens. This is not a new idea, but one that has historically resurfaced from time to time. In the 1960s the economist Milton Friedman suggested and the Nixon administration considered a Negative Income Tax (NIT), which is a related policy idea that would give everyone some guaranteed level of income that would gradually be taxed away as own income increases. The longevity of such proposals can be attributed to the fact that various elements of UBI proposals appeal to both conservative and liberal political thinkers.

Three trends appear to be driving a renewed interest in UBI. First, some view a UBI as a reasonable response to growing inequality, to stem both economic and political unease. The American entrepreneur Andrew Yang claims the ratio of CEO pay to worker pay has risen from 20 to 1 in 1965 to 271 to 1 in 2016 ([Yang, 2018](#)). He notes that current levels of wealth and income inequality can be economically and politically destabilizing, and a UBI would provide a boost to the lowest-earners that could mitigate the effects of this inequality.

Second, some worry about the widespread elimination of well-paying jobs for many workers in the U.S. due to robots and other technological advancements. For this reason, the idea seems to have caught on among a number of tech futurist personalities. This also seems to be a main motivation behind the call for a UBI in the book *Give People Money* by American journalist Annie Lowrey. She writes that it was not a question of “whether self-driving cars and other automated technology would start putting people out of work. It was when – and what would come next” ([Lowrey, 2018](#)). A universal basic income, Lowrey concludes, will provide a minimum standard of living for those shut out by automation and other forces, such as international trade.

A third, very distinct motivation for a UBI scheme is to streamline the current complicated and sometimes counterproductive system of U.S. transfer programs. American Enterprise Institute scholar Charles Murray is a prominent proponent of a UBI system for this reason. Murray proposes to convert all federal dollars currently spent on Social Security, Medicare, Medicaid, welfare, social services, and other programs into payments of \$13,000 per year to every American age 21 or older, which would be scaled back for higher earning individuals such that someone making \$50,000 or more would receive a capped amount of \$6500 per year. In his 2016 book, Murray stipulates that under his proposal individuals would be required to use \$3,000 of their UBI to purchase health insurance. He views the current system of programs as ineffective, and argues that instead, the government should simply give the money directly to people. Murray claims that savings from existing transfer program benefits and their administrative costs can be used to fund a UBI that provides for the poorest and in his view, is less likely to discourage work compared to some existing programs ([Murray, 2016](#)).

We view a UBI to be a sub-optimal, and possibly harmful, policy response to all three of these challenges. A UBI in its most basic form would be massively expensive yet do little to reduce inequality or advance opportunity. Devoting that level of spending to targeted benefits, focusing on the poorest and those hardest hit by ongoing economic forces, and policies dedicated to human capital development instead of mere redistribution would produce a much greater social return than a UBI.

First, on inequality and redistribution, a UBI is by design not ideal for redistributive purposes. For example, a UBI that paid \$10,000 to every U.S. adult would cost about \$2.5 trillion per year, well more than half the current federal annual budget. Furthermore, by giving money to everyone, there would be far fewer resources available to redistribute money and/or invest in the human capital of those with the most need. In calculations presented below, we show the practical trade-off between giving more money to a more targeted group of low-income individuals and less money to a more diffuse group including less needy individuals. We cite work by Hoynes and Rothstein ([2019](#)) documenting the loss of progressivity that would come from replacing our current system of transfer programs with a UBI. We further argue that programs that are universal do not accomplish as much in terms of generating social benefits as those that are targeted, citing evidence from examples such as child care and early childhood education programs.

Second, on labor market trends and limited skills, the best long-term policy response is for the government to pursue a pro-work, pro-skills agenda, and devote resources to investing in the human capital development of children and economically disadvantaged groups of individuals. Such a policy emphasis would advance both individual economic security and aggregate productivity. However, it is critical that this long-term investment strategy be coupled with income support programs that provide wage subsidies for low-wage workers and limited cash and near-cash benefits for individuals who can't work or who are temporarily out of work. This implies a pro-work agenda and targeted redistribution. UBI is neither.

Third, the safety net should not just be about redistribution, but also about investment in human capital and in the next generation. Programs should advance opportunity and economic mobility. Targeted in-kind programs and benefits have been shown to do that, especially when targeted to children. We are sympathetic to the argument that the existing safety net consists of a complicated array of different programs. To some extent, however, this complexity is a consequence of having different programs deliberately designed to serve different purposes and/or different needs. Even so, we are in favor of taking a holistic view of the panoply of safety net programs and reforming the entire system to work better in terms of both efficiency (namely, incentives) and equity (specifically, redistribution). Simplifying and improving the system does not, however, imply a UBI. It would be wholly counterproductive to address the complexity of the current system by replacing targeted programs that function as investments in human capital – thereby advancing the productivity of future workers – with an income guarantee that would

fail to advance opportunity and upward mobility. Instead, we should reform current programs to better serve their desired goals.

In summary, for fiscal, efficiency, and equity reasons, the U.S. government should provide targeted benefits instead of universal benefits. And, it should not just provide cash, but rather invest in human capital and pursue redistribution through targeted spending on education, child care, health insurance, food vouchers, and housing assistance programs.

## **2. What Is Universal Basic Income (UBI)**

A UBI true to its name would be unconditional and have no means test for eligibility. It would be given to every individual, regardless of their own or their family income. A related, but quite distinct, policy would be a conditional basic income program, or a Negative Income Tax (NIT), as it was named by University of Chicago economist Milton Friedman in his 1962 book *Capitalism and Freedom*. Under a conditional basic income scheme, the government would provide every individual a guaranteed income level, or a stipend, which would gradually be reduced as their earned income increased. This type of scheme was considered by the Nixon administration and evaluated in randomized controlled trial (RCT) social experiments in the 1960s and 1970s (discussed below).

We view a UBI to be related to a negative income tax, albeit much more expensive and with a very “leaky bucket,” to use the metaphor coined by Brookings scholar Arthur Okun ([1975](#)). to describe the “socio-economic leakages” of redistributive policy that arise from administrative costs, reduced savings or investment, or work disincentives. One of our main objections to a UBI is that by making the payment universal and unconditional, the government would be paying a lot of money to well off families, which would not serve any useful redistributive purpose but would divert public funds away from programs that could usefully advance human capital development and economic opportunity for truly needy Americans.

Here we outline key elements of some specific UBI proposals that have been put forward by UBI advocates in the past few years. As this discussion makes clear, many people who support UBI are actually arguing for a *conditional* basic income, not a universal basic income. We also offer some calculations showing how much it would cost the government to provide conditional basic income payments. These calculations highlight both the large expense of such schemes and the trade-off implicit in a conditional basic income scheme in terms of giving more money to fewer, lower income people or less money to more people, including those with fairly high levels of income. For simplicity, the calculations assume no behavioral response. That said, incorporating behavioral responses is likely to make the UBI proposals even more expensive, both directly through negative income effects on labor supply and indirectly through the distortionary costs of the additional taxes necessary to pay for the program.

Table 1 outlines key elements of six UBI proposals, a number of which actually provide important restrictions on the “universal” aspect of the UBI. These proposals differ in the size of the payment, as well as age and income eligibility requirements. For instance, a common version offered by the labor leader Andy Stern, journalist Annie Lowrey, and entrepreneur Andrew Yang would send a \$1,000 check to every adult (or deposit the money in their personal account) every month. By not phasing out benefits with earned income, these programs trade off targeting efficiency with productive efficiency: more people get the benefit (making it more expensive and less targeted on the needy), but the program only discourages work insofar as income discourages work. The program does not additionally discourage marginal work by taxing away benefits as earnings increase. Yang proposes funding a UBI by consolidating some welfare programs and implementing a Value-Added Tax (VAT) of 10 percent. He would allow current welfare and social program beneficiaries to be given a choice between their current benefits or \$1,000 cash unconditionally. Even these simple plans violate the universal aspect of the UBI, strictly speaking. Philosophers Philippe Van Parijs and Yannick Vanderborght offer one of the only truly *universal* basic income proposals, in which all citizens, regardless of age, income, and working status receive monthly installments of an annual income equal to one-quarter of the country’s GDP per capita (roughly \$15,000 per year in the USA in 2017).

Proposals by Charles Murray and entrepreneur Chris Hughes include further restrictions on eligibility and thus more closely resemble a Negative Income Tax than a UBI. Under Murray’s plan, individuals would receive an annual transfer of \$10,000 (\$13,000 inclusive of the requirement to pay \$3,000 for health insurance), paid out in monthly payments, until that person’s annual income exceeds \$30,000. Each additional dollar earned after that threshold reduces the payment by 30 cents, although all who make more than \$60,000 receive the minimum of \$6,500. Hughes’ proposal is more restrictive, offering a monthly payment of \$500 to working adults in households that make less than \$50,000 per year, with a few exceptions for adults with young children, older dependents, or those enrolled in college.

**Table 1:** Proposals for a Universal Basic Income or Conditional Basic Income

	Murray (2016)	Stern (2016)	Lowrey (2018)	Yang (2019)	Hughes (2018)	Van Parijs and Vanderborght (2017)
Annual Transfer	\$10,000	\$12,000	\$12,000	\$12,000	\$6,000	Approx. \$15,000*
Phase-out begins	\$30,000	n/a	n/a	n/a	\$50,000	n/a
Phase-out rate	11%*	n/a	n/a	n/a	100%	n/a
Age restrictions	21+	18+	18+	18+	18+	“All citizens”
Additional notes	*Phase out UBI to \$6,500				Restricted to “working adults”	*Transfer set to one-quarter of GDP per capita

Table 2 provides key elements of five pilot studies that are currently under way in various locations. These pilot programs are being conducted to test the feasibility and effectiveness of unconditional cash transfers in advanced economies. There are two ongoing experiments in the U.S. In February 2019, a study funded by the Economic Security Project, co-chaired by Chris Hughes, began distributing \$500 per month to around 100 randomly selected program applicants in Stockton, California ([Yoon-Hendricks, 2019](#)). Eligible recipients needed only to be adults living in one of Stockton's lower-income Census tracts. The income disbursements are scheduled to last 18 months. A much larger initiative, directed by Silicon Valley start-up incubator Y Combinator, plans to provide \$1,000 per month to 1,000 adults aged 21-40 across two states, lasting either 3 to 5 years ([YC Research, 2018](#)). Importantly, planners of this study aim to obtain waivers from welfare administrators to exclude this income from determining eligibility in targeted transfer programs. As Hoynes and Rothstein (2018) note, given that most UBI plans are partially funded through the elimination of other transfer programs, these results will reflect the effects of an income supplement rather than a true UBI.

Internationally, two government-run pilot programs have concluded, both ending earlier than initially planned due to political or financial difficulties. Beginning in early 2017, Finland offered monthly checks of 560 euros (around \$650) to 2,000 randomly-selected unemployed persons between the ages of 25 and 58. However, the government opted to end the program at the end of 2018, a reflection, as New York Times reporter Peter Goodman put it, "of public discomfort with the idea of dispensing government largess free of requirements that its recipients seek work" ([Goodman, 2018](#)). Researchers released initial findings that recipients of this income were less likely to be employed, but did self-report higher levels of psychological well-being, although researchers did note concerns about low survey response rates among recipients ([Bershidsky, 2019](#)). Furthermore, this program also served as a supplement to Finland's welfare benefits, such that recipients who were eligible for additional unemployment benefits received them along with the cash supplement. Ontario's plan to test a UBI among 4,000 low-income participants was also cancelled two years early, at the end of 2018 ([Frazee, 2018](#)).

**Table 2: Completed, Ongoing, and Planned UBI Pilot Programs**

	Finland	Stockton, CA	Ontario	Switzerland	2 US States (Y Combinator)
Annual Transfer	6,720€ (\$7620)	\$6,000	\$16,989 CAN individuals \$24,027 CAN couples	26,280€	\$12,000
Phase-out begins	n/a	n/a	\$0	n/a	County median income
Phase-out rate	n/a	n/a	50%	n/a	100%
Age restrictions	25-58	n/a	18+	n/a	21-40
Treatment group size	2,000 individuals	100 families	2,000 individuals	TBD	1,000 individuals
Dates	2017-2018	2019-2020	2017-2018	TBD	2020-2023 or 2025
Interaction with Welfare Payments	Basic income deducted from transfer payments	UBI supplements transfer income	Replaces most transfer programs	Basic income deducted from transfer payments	Seeking waivers for UBI to supplement transfer income
Additional Notes	Government declined to extend trial in 2018		Trial ended 2 years early	Smaller transfers for younger age brackets	

### 3. UBI is not an ideal tool for redistributive goals

UBI is by design not ideal for redistributive purposes. 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. But even before we dissect that point, we note that the cost of any UBI program that would make a material difference for household income would be massive. For example, a UBI that paid \$10,000 to every person (adults and children alike) in the United States would pay over \$3 trillion in benefits per year, or more than three-quarters the current federal annual budget. This is more than the sum of costs for all current federal income support programs *plus* Medicare and Medicaid. Thus, a UBI of this magnitude could not be paid for by replacing all existing social safety net programs.

Using the 2018 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC), we calculate annual payments across four hypothetical UBI-style programs: (A) \$10,000 to all adults age 18 or older; (B) \$10,000 to all adults with earned income of less than \$10,000 and then phased out at 30%; (C) \$10,000 to all adults with earned income of less than \$20,000 and then phased out at 30%; (D) \$10,000 to all adults with earned income of less than \$20,000 for individuals or family earned income less than \$40,000 for marrieds and then phased out at 30%.

The total payment costs for each plan are presented in Table 3, with rows reporting the amount of payments that would be given to people in each income quintile based on family income. Figure 1 plots the share of transfer payments distributed to each quintile of family income for these four hypothetical UBI-style programs. For comparison, we include in the table and figure estimates of existing transfer program income, as reported in the CPS. Plan A – a true universal basic income with no phase out – is obviously the most expensive, coming in at \$2.49 trillion and the least progressive, as there is no targeted or conditional element. Plan B, which would give \$10,000 to all adults with earned income under \$10,000 and then phased out at a 30 percent benefit reduction rate. This is much more targeted than the universal plan and consequently, much less costly, though still \$1.4 trillion. About 40 percent of benefit payments would go to individuals in the lowest income quintile and less than 10 percent would go to individuals in the highest income quintile. Plan C is less targeted, paying \$10,000 annually to individuals with less than \$20,000 in earned income, and phased out at a 30 percent benefit reduction rate. That leads to higher costs of \$1.6 trillion, coming from higher payments to individuals closer to the middle and upper end of the income distribution. Plan D has separate thresholds for single and married individuals, which is more in line with the way most current transfer program eligibility and benefit amounts are calculated based on family income. This plan is roughly comparable in payment amounts and distribution to Plan B, but it allocates less transfer income to higher-income families and is less costly overall.

**Table 3:** Cost of payments for four hypothetical UBI-style programs, in trillions of dollars

<i>Family Income Quintile</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Plan D</b>	<b>Existing Transfers</b>
<i>1. less than 13,520</i>	0.56	0.56	0.56	0.56	0.60
<i>2. 13,520-43,330</i>	0.48	0.33	0.41	0.43	0.19
<i>3. 43,330-77,401</i>	0.48	0.22	0.28	0.15	0.10
<i>4. 77,401-130,096</i>	0.49	0.16	0.21	0.04	0.07
<i>5. greater than 130,096</i>	0.48	0.12	0.14	0.02	0.05
<b>Total (\$trillions)</b>	2.49	1.38	1.60	1.20	1.00 <sup>1</sup>
<b>Share of GDP (\$20.5T)</b>	12.15	6.73	7.80	5.85	4.88

<sup>1</sup> Estimated transfer payments reported in this table come from reported benefits in the CPS received through Supplemental Security Income (SSI), Social Security Old Age and Survivors (SSOAS), Social Security Disability Insurance (SSDI) cash welfare, food stamps, and housing assistance, as well as the estimated EITC payment calculated in the census tax module. Estimated transfer payments using the CPS data total \$1.004 trillion, which is lower than the figure based on administrative data reported in Table 4. This discrepancy is likely due to the under-reporting of benefits in survey data, as documented by Meyer, Mok, and Sullivan (2009).

**Figure 1:** Distribution of transfer payments under four hypothetical UBI-style programs and current set of programs, by Family Income Quintile

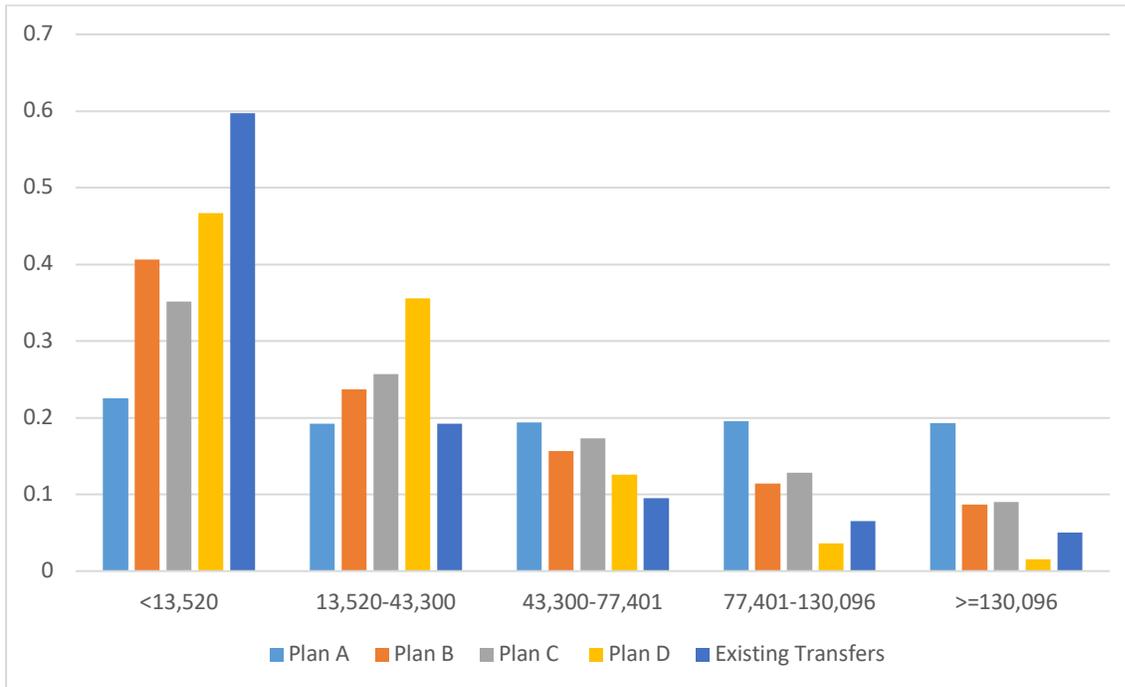


Table 4 reports annual expenditures on existing transfer programs. The Earned Income Tax Credit (EITC) disbursed \$67 billion in 2016, from the most recent estimates. The Supplementary Security Income Program (SSI) transferred roughly \$160 billion in 2018, primarily to disabled adults, with smaller sums to elderly individuals and disabled children, while Social Security (SS) expenditures totaled over \$940 billion that same year. Temporary Assistance for Needy Families (TANF), Supplemental Nutritional Assistance Program (SNAP), and Section 8 and Public Housing Assistance spending on benefit payments reached \$7.1, \$60.4, and \$27.7 billion in 2018, respectively.

**Table 4:** Annual Expenditures on Existing Transfer Programs

Program	Expenditures (\$Billions)
Earned Income Tax Credit (EITC)	66.7
Supplemental Security Income Program (SSI)	
SSI-Aged	5.5
SSI-Children	9.4
SSI-Disability	142.8
Social Security	

SS-Old Age and Survivors (SSOAS)	798.7
SS-Disability Insurance (SSDI)	142.8
Temporary Assistance for Needy Families (TANF)	7.1
Supplemental Nutritional Assistance Program (SNAP)	60.4
Section 8 and Public Housing Assistance	27.7
<b>Total</b>	<b>1,261.1</b>
<b>Total without SS-Old Age and Survivors</b>	<b>462.4</b>
<b>Sources:</b> EITC: <a href="#">IRS, 2018</a> ; SSI: <a href="#">Social Security Administration, 2018a</a> ; SS: <a href="#">Social Security Administration, 2018b</a> ; TANF: <a href="#">Administration for Children &amp; Families, 2017</a> ; SNAP: <a href="#">USDA, 2019</a> ; Section 8 and Public Housing Assistance: Department of Housing and Urban Development 2018 Budget Outlays.	

Many existing programs in the U.S. have categorical eligibility requirements. This means that characteristics of individuals or families are used to determine “need,” beyond just income. The theoretical work by Nobel Prize-winning economist George Akerlof demonstrated that using markers of need beyond income allows for enhanced efficiency because the government can then more readily avoid giving transfer payments to individuals who are able to work but choose not to. Using what he referred to as “tagging” mechanisms helps the government distinguish between those who need assistance and those who instead choose not to exert effort. The presence of children in a family and a medically verified disability condition are two such tags that are currently used to identify individuals and families in need. Using language more common to political discourse than theoretical considerations of program design, we might refer to these classes of individuals as the “deserving poor”. A UBI would move away from this type of categorization, to paying income benefits universally or based solely on income. Some would consider this a pro because then the government wouldn’t be in the business of trying to determine who was “deserving”, others would consider it a con because it 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 and the disabled and elderly, to able-bodied individuals without children (who currently receive very little by way of income support). Hoynes and Rothstein (2019) compare the distributional effects of a UBI and the current system of U.S. income support programs. They consider the existing safety net as consisting of means tested welfare programs (Temporary Assistance to Needy Families (TANF) and Supplemental Nutritional Assistance Program (SNAP)); disability programs (Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)); Social Security Old Age and Survivors (SSOAS); and in-work tax credits (Earned Income Tax Credit (EITC) and Child Tax Credit (CTC)). They exclude all in-kind programs other than SNAP, most notably public health insurance and also housing support. They document that the current social safety net gives higher

transfers to the elderly and disabled, higher transfers to those with children compared to those without, and higher transfers to those with low earnings. Consequently, replacing current income support programs with a UBI would result in a relative redistribution from low-earners to zero earners, but, as they write, the “first-order effects would be a massive redistribution up the earnings distribution, along with a redistribution from the elderly and disabled towards those who are neither, primarily but not exclusively those without children.”

Another scenario for converting current programs to a UBI would be to preserve Social Security, Medicare, and Medicaid, and instead eliminate only the EITC, CTC, TANF, SNAP, and disability insurance (SSDI) and unemployment insurance (UI). As Hoynes and Rothstein (2019) point out, these six programs combined would only cover about *one-fifth* of the cost of a UBI. The remainder would need to be funded through cuts to non-transfer government expenditures or through tax increases. If instead, we were to implement a non-universal conditional basic income program and eliminate just the six programs—EITC, CTC, TANF, SNAP, SSDI, and UI—the budget implications could be minimal, but there would be a tremendous loss of existing transfers to disabled individuals and families with children.

Robert Greenstein of the Center for Budget and Policy Priorities (CBPP) has also made this point. He argues that political passage of UBI would require scrapping existing safety net programs such that the likely result would be to *increase* poverty. The CBPP calculates that a program that eliminates *all* means-tested transfer programs outside of health care would only fund \$1,582 per person, well below the income needed to keep a family out of poverty. Greenstein instead proposes to shore up income support for the most needy individuals and families with an expansion of existing targeted programs. He rejects the claim that is sometimes made that a universal program would be more politically feasible than expanding means-tested transfer programs, noting that restrictions on Social Security benefits have been passed in recent decades (for example, increasing the retirement age), while programs such as the EITC have been expanded. He writes that “instead of aiming for an expensive universal income provision that may end up transferring money from the poor to wealthier families, we should take advantage of the relatively low cost of expanding targeted programs – and their proven record of lifting families out of poverty – as a method of raising and broadening existing income floors” ([Greenstein, 2019](#)).

#### **4. UBI is not the ideal response to employment and wage trends**

There is no denying that economic trends over the past few decades have disproportionately benefited highly educated, high skill workers and that some distinct groups of Americans, most notably those without a college level of education, have seen their wages and employment prospects weakened. Among high school dropouts, high school graduates, and those with some college but no degree, real weekly earnings among full-time male workers in 2018 were 10 to 20 log points below their real levels in 1980, while those with a bachelor degree experienced wage

increases of about 10 log points ([Autor, 2019](#)). In terms of job polarization, there has been an overall shift from middle-wage jobs to higher-wage jobs. But, as David Autor has shown, the shift upward from middle to high paying jobs is driven by workers with college degrees. Among workers without a college degree, almost all of the decline in middle-wage employment reflects a shift to lower paid work. These wage trends reflect both market forces, including technological advancements and globalization, as well as institutional changes, including a decline in union representation and a rise in outsourcing.

Employment rates among prime-age men and women have been falling steadily for decades, notwithstanding the growth in employment through the recent cyclical recovery. Between 1999 and 2015, for each 10-year age group between the ages of 25 and 54, the employment rate fell 3 to 4 percentage points ([Abraham and Kearney, forthcoming](#)). Employment rates have fallen the most among men and those with a high school degree but no college degree. For instance, employment rates among 25 to 34 year-old men with a high school degree fell by more than nine percentage points. These declines in employment have led many observers to question what types of policies might be implemented to increase labor force participation rates. A UBI or UBI-style proposal to give unconditional cash would achieve exactly the opposite effect, since both theory and empirical evidence demonstrate that giving unconditional cash will lead to lower rates of work, not higher.

A UBI or UBI-style proposal in response to these wage and employment trends would do nothing to address their underlying causes. Rather, it would be a band-aid solution of giving cash instead of enhancing skills or increasing bargaining power. Furthermore, a UBI's contrast with a wage subsidy, such as an Earned Income Tax Credit (EITC), is striking. A large body of evidence shows that the current EITC encourages labor force participation, especially among single women. Wage subsidies – either through the EITC or through a payroll subsidy like the kind proposed by Furman and Swagel ([2018](#)) – would increase work effort by raising the take-home pay of low-wage workers. A program of wage subsidies has better efficiency properties *and* equity properties than a UBI or even a conditional basic income program.

Some proponents argue that an award of unconditional cash will not necessarily reduce labor supply. One reason is because individuals could use the cash income from a UBI to enroll in school or engage in other skill enhancing activities to increase their future labor supply. Another more commonly offered defense appeals to research suggesting that the reduction in work owing to an increase in income tends to be small. But, the most commonly-cited research making this point is either based on decades-old data or from small guaranteed basic income and transfer programs, such as payouts from U.S. state or Native American dividend programs. Hum and Simpson ([1993](#)) review evidence from U.S. and Canadian NIT experiments from the 1960s and 1970s, finding very small, negative effects of these income maintenance programs on labor supply. Given both the continued polarization of the labor market and the significant evolution of attitudes about work since the 1970's, discussed below, it is not clear that these parameter

estimates are applicable to contemporary debates about labor market effects. It is also quite possible that the negative effects of a guaranteed income on labor supply, especially among less-educated men, would be larger today than they were 40 to 50 years ago.

There are also a number of studies examining the labor supply effects of public dividend payment programs, namely the Alaska Permanent Fund Dividend and the Eastern Band of Cherokees casinos dividend payout. Alaska's program provides on average \$1,000-\$2,000 to all residents of the state, while the Cherokee's program average \$4,000 per year. Researchers find small labor market effects of these transfers as well, with insignificant changes in labor force participation among recipients of the casino payouts and only small employment declines among some sets of workers in Alaska ([Marinescu, 2017](#); [Jones and Marinescu, 2018](#)). Although universally available, these transfers could not support even a modest standard of living – indeed, a shift into part-time work might be the only reasonable labor market adjustment from such a program – so these estimates also appear ill-equipped to address current proposals.

Studies of transfers that are more comparable in size to the types of UBI payments being proposed imply more negative labor supply effects. For example, a study of lottery winners ([Imbens, Rubin, & Sacerdote, 1999](#)) find that, with an average annual prize of \$26,000, each \$100 in additional earnings reduced labor market earning by \$11. A more recent study of lottery winners in Sweden also provides evidence of reduced earnings in response to winning a lottery prize. This study finds that winning a lottery prize leads to an immediate and persistent reduction in earnings ([Cesarini, Lindqvist, Notowidigdo, & Östling, 2017](#)). In addition, the effects of any guaranteed income program are likely to most strongly affect those marginally attached to the labor force. On this point, the lessons from expanded access to disability insurance payments is potentially instructive. Economists have found that the marginal beneficiary of a disability insurance award would have been almost 30 percentage points more likely to work had they not received benefits (for example, [Maestas, Mullen, & Strand, 2013](#)).

Not all UBI proponents try to argue that a UBI would not lead to a reduction in work effort. Some UBI proponents, including Albert Wenger, a UBI advocate and venture capitalist, explicitly promote the concept of a UBI on the grounds that it would liberate people from the need to work. This is a policy position with which we fundamentally differ in terms of the goals itself. We do not view it as a goal of public policy or government spending to subsidize the able-bodied who simply *choose* not to work. Other UBI proponents take a less radical view, aiming not to liberate people from work itself but instead from lousy jobs. But if that's the goal, then why not support wage subsidies and other regulations on workplace conditions? Such an approach would improve the work experience and increase take-home pay without discouraging work.

## **5. Universal programs are ineffective in advancing opportunity and social mobility**

The social safety net should not be just about redistribution, but also about improving human capital and fostering the skills of the next generation. Targeted cash and in-kind transfer programs have been shown to do that. A growing body of evidence suggest that economic security programs can blunt the negative effects of poverty and bring poor children closer to equal opportunity. Numerous studies document the positive effects of EITC payments on a range of outcomes, including children's academic performance, infant health, and maternal mental health. This body of evidence is reviewed in Nichols and Rothstein (2015). Crucially, these are income payments given to low-income households. We are not aware of any evidence showing that incremental income payments paid to higher income people similarly produces positive social returns. Studies of the Medicaid public health insurance program and the national food stamps program document positive long term effects both for the recipients and their children (c.f., [Brown, Kowalski, & Lurie, 2015](#); [Boudreaux, Golberstein, & McAlpine, 2016](#); [Hoynes, Schanzenbach, & Almond, 2016](#)).

Furthermore, safety net programs tend to have the highest social returns when they are targeted to children from disadvantaged families. For example, a large body of evidence supports public subsidy of high-quality child care programs targeted to disadvantaged populations. At current quality levels and costs, their social benefits greatly exceed their social costs ([Ludwig & Phillips, 2007](#)). Some proponents of universal childcare have used such estimates to make the case for expansion. But, using the evidence from targeted programs for the promotion of universal ones is problematic for a number of reasons. First, the widely cited targeted programs generally offer quality levels that are not typically found in programs that are offered to all children. Therefore, it is not clear that universal child care can deliver similar benefits to disadvantaged children. Second, even if universal programs could offer similar levels of quality in terms of care and education, it may be that the benefits for middle or upper-class children do not exceed the costs.

Indeed, a number of studies show that children from middle or upper-class families benefit little if any from subsidized child care. An important reason is that children in these families are already receiving high quality child care in the absence of government subsidies, and, thus, public subsidies do little to alter parental behavior or increase investments in children. A study by Havnes and Mogstad (2015) shows that when child care subsidies are provided universally in Norway, the observed benefits are positive for children of low and middle income families and negative for children of higher income families. Similarly, Cascio and Schanzenbach (2014) have made the point that expanding early childhood education programs to low-income children who currently do not have access to such programs will lead to improved early childhood experiences, but for higher-income children who are already likely to be participating in private early childhood programs, the effect will likely be non-existent, or potentially even negative if children are moved to lower quality/lower cost programs. Similar arguments can be made for targeted programs other than subsidized child care and early childhood education.

## **6. Conclusion**

Advocates of a UBI make three broad arguments to promote the program. First, it is argued to be a reasonable response to growing inequality, to stem both economic and political unease. Second, it is supposed to ensure a minimum standard of living for those shut out by automation and other disruptive forces, such as international trade. A third, very distinct motivation for a UBI scheme is to streamline the current complicated and sometimes counterproductive system of U.S. transfer programs.

As argued above, UBI is almost surely a sub-optimal, and likely harmful, policy response to all three of these challenges. A UBI in its most basic form would be massively expensive yet do little to reduce inequality or advance opportunity. Without major cost savings, US federal tax revenue would have to be increased radically, which would impose large distortionary costs on the economy. Sacrificing all other social programs for the sake of a UBI is also a poor idea. Such programs exist to address specific problems, such as the vulnerability of the elderly, children, and disabled people. Focusing spending on targeted benefits and policies dedicated to human capital development instead of merely on redistribution is likely to produce a much greater social return than a UBI.

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