



► Switzerland rejected Universal Basic Income during a referendum in June of 2016. *Courtesy of REUTERS/Denis Balibouse.*

Universal Basic Income: Can Free Markets Make the Case? | Michael Tanner

It turns out “money for nothing” isn’t quite the political winner everyone assumed it to be. On June 5, Swiss voters overwhelmingly rejected a proposal to give every Swiss citizen a basic income of 2,500 Swiss francs (\$2,555) per month for adults and 625 francs for children, with no strings attached. But despite the crushing defeat,

debate over the idea of a universal basic income (UBI) is far from over -- in not only Europe, but the United States as well.

The Swiss proposal was poorly designed, overly generous and required tax increases equivalent to more than a quarter of the total Swiss economy. It was no surprise that nearly 80 percent of voters said no. But,

this fall, the Center-Right government of Finland will embark on an experiment with a similar, though much better designed approach to the UBI, replacing some existing welfare benefits with a guaranteed income for both national and regional sample populations.

Meanwhile, in the Netherlands, at least four cities, Utrecht, Tilberg, Groningen and Wageningen are in the process of designing their own experiments. In Canada, the latest provincial budget in Ontario promised to work with researchers this year to come up with a design for a pilot program. Great Britain is also actively debating the concept, and has already taken steps toward replacing some welfare programs with cash grants. Elsewhere, there are small-scale, largely privately-funded experiments underway in Africa and Latin America.

Here in the United States, the idea has attracted interest across the ideological spectrum. Both conservative/libertarian scholar, Charles Murray, and former Service Employees International Union head, Andy Stern, have books out touting UBI. Tech leaders, including Facebook cofounder Chris Hughes and venture capitalist Bill Gross, are pushing the idea. Voters in San Francisco and Washington, D.C. may face referendums similar to Switzerland's. Academic research is ongoing. Y Combinator, which usually funds tech startups, has decided to fund a small-scale cash grant project in Oakland.

The evidence is pretty strong; UBI is becoming a hot topic. But what should advocates of free markets and limited government think about a universal basic income? The first reaction is likely to be: Are you crazy? But on closer scrutiny, there

actually is a limited-government case for UBI. After all, free-market thinkers from F. A. Hayek and Robert Nozick to Milton Friedman have long been open to some form of UBI.

Consider: virtually everyone agrees that our current welfare system is a mess. The federal government alone, for instance, currently funds more than 100 separate anti-poverty programs, overseen by nine different cabinet departments and six independent agencies. We spend nearly \$1 trillion every year (all from taxpayers) to fight poverty – more than \$23 trillion since 1965 – with little evidence that we've significantly reduced poverty or increased economic mobility. If that's not the definition of failure, what is?

However, most welfare reform amounts to little more than tinkering around the edges -- trimming a billion dollars here, adding a work requirement there. This process simply attracts the opposition of special interests and welfare advocates, while doing little to fundamentally change the welfare paradigm.

Instead, why not think big? Why not simply abolish the entire thing? Get rid of welfare, food stamps, Medicaid, housing assistance, unemployment insurance and all the rest. Murray would even throw in Medicare and Social Security. Replace it all with a simple cash grant to every American whose income falls below some stipulated level, and then leave the recipients alone to manage their own lives free from government interference.

Such a program would have several advantages over the current welfare system; it would obviously be simpler and far more transparent than the hodgepodge of existing anti-poverty programs. With different,

often contradictory, eligibility levels, work requirements and other restrictions, our current welfare system is a nightmare of unaccountability that fails to effectively help people transition out of these programs and escape poverty.

For those who believe in getting government out of people's lives, a UBI would also be far less paternalistic; treating the poor like adults, instead of 3-year olds receiving an allowance. The flip side would be responsibility, expecting the poor to budget and manage their money like everyone else. Currently, most welfare programs parcel out payments, not to the poor themselves, but to those who provide services to the poor, such as landlords or healthcare providers. But shouldn't individuals (even those we would call 'the poor') decide for themselves how much of their income should be allocated to rent or food or education or transportation? Perhaps they may even choose to save more or invest in learning new skills that will help them earn more in the future. You can't expect the poor to behave responsibly if they are never given any responsibility.

Some have argued that the poor can't be trusted with money. They will blow it on booze, drugs or whatever, we are told. But that attitude is too often based in erroneous and often racially based stereotypes. There is little evidence to suggest the poor misuse their resources. For example, studies from

states that drug test welfare recipients, including Florida, suggest that the use of drugs is no higher among welfare recipients than among the general population. In fact, numerous studies have shown that even when welfare recipients are given totally unrestricted cash, they show no more inclination to spend their money on vices than the rest of us.

Giving the poor responsibility for managing their own lives will mean more choices and greater opportunity for increasing their economic standing. That, in turn, will break up geographic concentrations of poverty that can isolate the poor from the rest of society and reinforce the worst aspects of the poverty culture. Most poverty experts agree that the social isolation of the poor helps perpetuate poverty. The current welfare system not only stigmatizes the poor, increasing their isolation, its reliance on providers who are willing to accept government

benefits, such as landlords willing to take Section 8 vouchers, pushes the poor into narrowly concentrated neighborhoods clustered around such providers. Those neighborhoods offer poorer schools, fewer jobs, higher crime rates, and a greater lack of role models. Cash, in the form of a UBI, would allow the poor to escape those neighborhoods the same way school vouchers allow children to escape bad schools.

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And, by taking the money away from special interests that support the welfare industry, it would break up the coalitions that inevitably push for greater spending. (For example, increased food stamp spending is inevitably backed by a coalition of both liberal Democrats and farm state Republicans.)

In theory, a UBI would also provide far better incentives when it comes to work, family life and savings because current welfare benefits are phased out as income increases, they in effect create high marginal tax rates that can discourage work or marriage. Studies have shown that a person on welfare who takes a job can lose as much as 95 cents out of every dollar he earns, through taxes and forgone benefits. Poor people, by and large, are not lazy and they also aren't unwise. If they can't earn more through work than from welfare, many will choose to remain on welfare. In contrast, a universal basic income would not penalize someone who left welfare for work.

Some UBI recipients might choose to take their money and stay home rather than work, but others might be more willing to take a job, since they could now keep more of their additional income.

And a guaranteed national income

would also do away with much of the government's excuse for regulating the economy. Minimum-wage laws would instantly become obsolete, to cite just one example. Moreover, a UBI could minimize the economic disruptions that occur from automation and free trade. There would be less opportunity for demagoguery on the American political scene and less resistance to liberalizing the economy.

This is particularly relevant in the light of uncertainties over the future of work in an age of robotics and automation. Economists disagree over whether "this time is different." But if technology does mean fewer jobs – and especially fewer low skill jobs – in the future, pressure to do something will only grow. UBI may offer an alternative to the anti-growth regulatory policies that would likely come in its absence. It all adds up to a strong case. Yet there remain reasons to be skeptical.

As with most government programs, what sounds good in theory tends to break down when one looks at practical questions of implementation. There are serious trade-offs among cost, simplicity and incentive structure. Attempts to solve problems in one area would raise questions in others, erasing many of the things that make UBI look

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good.

For instance, cost. If everyone in the United States were to receive a benefit sufficient to bring him above the poverty threshold, it would cost roughly \$4 trillion, more than our entire current federal budget. Clearly, that's not affordable, so some limit would have to be put on who could receive the benefit. That's why Friedman, and now Murray, propose some form of negative income tax. Under Murray's proposal, for instance, once an individual earned \$25,000 per year, the UBI would begin to be recaptured through taxes. That would significantly reduce the net cost of the program. But it would also recreate many of the same incentive problems we see in the current welfare systems, imposing high effective marginal tax rates, which discourage work. Depending on the design, it could also result in a renewed marriage penalty.

A negative income tax would also import all the complexity, fraud, and abuse of the current U.S. tax code. For example, how would a negative income tax handle someone who had little income, but substantial assets?

Moreover, as with other government programs, there would be constant pressure to expand benefits. There would be losers as well as winners under a UBI. For example, under Murray's plan, many currently receiving Social Security and Medicare would receive less than they do now. That's a good thing from the standpoint of the federal budget, but a significant challenge politically.

Once we've established the idea that people are "entitled" to an income as a matter of right, it becomes much harder to

say "no" in the future. How long would it be before we heard that no one could live on whatever benefit the UBI provides? Those things that make the GNI/UBI look so good on the drawing board fade away when you consider how to put it into practice.

Finally, we should be careful of the illusion of bipartisan agreement on the issue, even among its advocates. Free market advocates like Murray see the UBI as a replacement for the existing welfare state. Many on the left call for a UBI as an additional benefit on top of existing programs, funded through new taxes on carbon, natural resources, businesses or "the rich." Bridging those differences are likely to be much harder than advocates on both sides may believe during this "era of good feeling."

Still, advocates of free markets and welfare reform should not dismiss the idea of a universal basic income out of hand. Rather, we should watch the experiments in Europe and Canada with a wary but open mind. In the meantime, there are small steps that can move welfare policy in the right direction. Programs should be consolidated, in-kind benefits should be de-emphasized, and outcome measures should focus more squarely on whether this system actually helps people attain some level of prosperity through hard work.

The current welfare state is a clear failure. A universal basic income may or may not provide a better alternative. But it is an alternative we can expect to hear a great deal about in the next few years, and advocates for limited government should pay careful attention.

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