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## Free Money: The Surprising Effects of a Basic Income Supplied by Government

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Skooter McCoy was 20 years old when his wife, Michelle, gave birth to their first child, a son named Spencer. It was 1996, and McCoy was living in the tiny town of Cherokee, North Carolina, attending Western Carolina University on a football scholarship. He was the first member of his family to go to college.

McCoy's father had ruined his body as a miner, digging tunnels underneath lakes and riverbeds, and his son had developed a faith that college would lead him in a better direction. So McCoy was determined to stay in school when Spencer came along. Between fatherhood, football practice, and classes, though, he couldn't squeeze in much part-time work. Michelle had taken an entry-level job as a teacher's aide at a local childcare center right out of high school, but her salary wasn't enough to support the three of them.

Then the casino money came.

Just months before Spencer was born, the Eastern Band of Cherokee Indians opened a casino near McCoy's home, and promised every one of its roughly 15,000 tribal members—among them Skooter and Michelle—an equal cut of the profits. The first payouts came to \$595 each—a nice little bonus, McCoy says, just for being. “That was the first time we ever took a vacation,” McCoy remembers. “We went to Myrtle Beach.”

Once Spencer arrived, the checks covered the family's car payments and other bills. “It was huge,” McCoy says. He graduated college and went on to coach football at the local high school for 11 years. Two decades later, McCoy still sets aside some of the money the tribe gives out twice a year to take his children—three of them, now—on vacation. (He and Michelle are separated.) And as the casino revenue has grown, so have the checks. In 2016, every tribal member received roughly \$12,000. McCoy's kids, and all children in the community, have been accruing payments since the day they were born. The tribe sets the money aside and invests it, so the children cash out a substantial nest egg when they're 18. When Spencer's 18th birthday came three years ago, his so-called “minor's fund” amounted to \$105,000 after taxes. His 12-year-old sister is projected to receive roughly twice that.

McCoy is now general manager of the Cherokee Boys Club, a nonprofit that provides day care, foster care, and other services to the tribe. At 41, he has a shaved head and wears a gray Under

Armour T-shirt over his sturdy frame, along with a rubber bracelet around his wrist that reads, “I can do all things through Christ who strengthens me.”

The casino money made it possible for him to support his young family, but the money his children will receive is potentially life-altering on a different scale. “If you’ve lived in a small rural community and never saw anybody leave, never saw anyone with a white-collar job or leading any organization, you always kind of keep your mindset right here,” he says, forming a little circle with his hands in front of his face. “Our kids today? The kids at the high school?” He throws his arms out wide. “They believe the sky’s the limit. It’s really changed the entire mindset of the community these past 20 years.”

These biannual, unconditional cash disbursements go by different names among the members of the tribe. Officially, they’re called “per capita payments.” McCoy’s kids call it their “big money.” But a certain kind of Silicon Valley idealist might call it something else: a universal basic income.

The idea is not exactly new—Thomas Paine proposed a form of basic income back in 1797—but in this country, aside from Social Security and Medicare, most government payouts are based on individual need rather than simply citizenship. Lately, however, tech leaders, including Facebook founders Mark Zuckerberg and Chris Hughes, Tesla’s Elon Musk, and Y Combinator president Sam Altman, have begun pushing the concept as a potential solution to the economic anxiety brought on by automation and globalization—anxiety the tech industry has played its own role in creating.

If robots and offshoring take all the jobs, or at the very least displace the low-skilled ones, the thinking goes, there may come a time when there simply aren’t enough jobs to go around. What then? In the aftermath of Donald Trump’s election, which some have attributed to this very tension, questions about how to support the so-called working class have only grown. Politicians have latched on too. In her new book, *What Happened*, Hillary Clinton writes that she considered rolling out a basic income policy during her 2016 campaign. In September, Silicon Valley congressperson Ro Khanna introduced a bill calling for a \$1.4 trillion expansion of the earned income tax credit, which would effectively create a small basic income for low-income working people via tax credits. And the mayor of Stockton, California, recently announced that beginning in August 2018, the city plans to give all 300,000 of its citizens, regardless of their income, \$500 a month, an experiment being funded by Hughes’s organization, the Economic Security Project. The Eastern Band of Cherokee isn’t the only group whose members get unconditional cash: The Alaska Permanent Fund has been giving \$1,000 to \$2,000 a year to its citizens for decades, and other Native American tribes have also divided up casino revenues. But the Cherokee example is among the most researched. Back in the 1990s, scholars at Duke were studying the mental health of Cherokee children in the region; then the casino was built, creating the conditions for a natural experiment. Three decades of longitudinal research backs up McCoy’s anecdotal evidence that the money has had profound positive effects.

As the richest people in America fixate on how to give money to the poorest, the Cherokee program is a case study of whether a basic income is in fact a practical proposal for alleviating

economic inequality or just another oversimplified, undercooked Silicon Valley fix to one of the most intractable problems our society faces. Or maybe it's both.

The Qualla Boundary, a 56,000-acre tract in western North Carolina, is the designated home of the Eastern Band of Cherokee, who have lived in the region for hundreds of years. The landscape is beautiful but dotted with signs of neglect. Along the stretch of road that spirals its way through the majestic, fog-capped Blue Ridge Mountains, each hairpin curve reveals a single-story motel, ramshackle gas station, or abandoned barbecue stand. Mobile homes sit idly along the roadside accumulating rust. Although the land is held in trust for the Cherokee, many white people, especially poor whites, live there too. The median household incomes in the counties of the Qualla fall well below the national figure. In Swain County, where the Boys' Club is based, 24 percent of people live below the poverty line, about 12 percent higher than the national median.

Asheville, with its craft breweries and art galleries, is about an hour's drive east of the town of Cherokee. "Downtown" in Cherokee refers to a mile-long section of Tsali Boulevard lined with log cabin souvenir shops that hawk handwoven baskets and black bear figurines made in China. It was here, in the quiet shadow of the mountain range, that a team of researchers including Jane Costello, a professor of psychiatry and behavioral sciences at the Duke Institute for Brain Sciences, decided to ground the Great Smoky Mountains Study of Youth. Costello wanted to find out about the need for mental health and psychiatric services for children in rural America, and in 1993 the researchers began studying 1,420 children, 350 of whom were members of the Eastern Band of Cherokee Indians. They divided the group into three age cohorts—9-year-olds, 11-year-olds, and 13-year-olds—and gave their parents thick, detailed personality surveys called the Child and Adolescent Psychiatric Assessment, which were completed every year until the kids turned 16 and then again every few years until they turned 30. Looking for indicators of behavioral or emotional troubles, the researchers asked questions about whether the children ever engaged in physical fights and whether they had trouble being away from home.

Costello and her team also recorded household data like parents' occupations, history of domestic violence, and, crucially, income. When the study began, about 67 percent of the American Indian kids were living below the poverty line. It wasn't until after the casino opened that Costello began to notice that household income among the Cherokee families was going up. It was subtle at first, but the trend turned sharply upward as time went on, eventually lifting 14 percent of the Cherokee children in the study above the poverty line. Household income for those families who were not Cherokee, meanwhile, grew at a slower rate.

It was an awakening for Costello, who had accidentally stumbled onto an entirely new line of inquiry on the impact of unconditional cash transfers on the poor. "I suddenly thought, 'Oh my god,'" Costello remembers.

In 1995, the tribe opened its first casino, a controversial decision among locals, who worried that gambling might attract unsavory characters to the area. It was Joyce Dugan, the tribe's only female chief and a former teacher, who suggested that if the tribe were to benefit from its new casino, then every one of its members ought to get a cut too. The tribal council agreed. The casino started as a glorified arcade, filled with electronic poker and bingo machines, but it has now grown into the 21-story Harrah's Cherokee Casino. All glass and stone, it juts out of the

earth like one of the mountain's many towering peaks. Inside, the casino floor is dotted with thick pillars, designed to look like giant trees, a reminder that the great outdoors is just beyond the cigarette smoke and zombie-themed slot machines.

Harrah's, which operates the casino, takes 3 percent of the \$300 million annual profits. The bulk is funneled back into the community, covering infrastructure, health care for every tribal member, and the college education fund. Casino funds have paved roads and paid for a new \$26 million wastewater treatment plant. Half of the profits go toward the per capita payments. The casino has become the tribe's most precious resource.

The Eastern Band's change in fortunes also shifted the course of Costello's research. "We thought it'd be interesting to see if it made any difference" to the children's mental health, she says. They also started comparing the younger Cherokee children, whose families started accruing money earlier in their lives, to the older ones. They wanted to answer a simple question: Would the cash infusion benefit these kids in measurable ways?

The answer defied Costello's initial hypothesis. "I thought, 'There's such a pit of poverty there that this isn't going to make any difference; it's trivial,'" she remembers. "But it wasn't." Now the body of research that she and other academics have built has become a favorite point of reference for universal basic income advocates, providing some of the most compelling evidence yet of the positive effects of bestowing unconditional sums of cash on the poor.

In two studies, one published in 2003 and a follow-up in 2010, Costello compared children who were lifted out of poverty after the casino opened to those who had never been poor. She scored them based on the presence of what researchers referred to as emotional disorders, like depression and anxiety, as well as behavioral disorders, including attention deficit hyperactivity disorder (ADHD).

Before the casino opened, Costello found that poor children scored twice as high as those who were not poor for symptoms of psychiatric disorders. But after the casino opened, the children whose families' income rose above the poverty rate showed a 40 percent decrease in behavioral problems. Just four years after the casino opened, they were, behaviorally at least, no different from the kids who had never been poor at all. By the time the youngest cohort of children was at least 21, she found something else: The younger the Cherokee children were when the casino opened, the better they fared compared to the older Cherokee children and to rural whites. This was true for emotional and behavioral problems as well as drug and alcohol addiction. Other researchers have used Costello's data to look at different effects of the casino payments. One fear about basic income is that people will be content living on their subsidies and stop working. But a 2010 analysis of the data, led by Randall Akee, who researches labor economics at the University of Southern California, found no impact on overall labor participation. Of course, the casino also brought jobs to the area, and the majority of the roughly 2,500 people the casino employs are tribal members. This would seem to confound the question of whether the tribal payment or casino income made the difference in the children's lives, but Akee looked into this too. He found that, among the parents in Costello's study, employment didn't go up or down after the opening of the casino.

Akee also looked at the effects of the money on education and found that more money in the household meant children stayed in school longer. The impact on crime was just as profound: A \$4,000 increase in household income reduced the poorest kids' chances of committing a minor crime by 22 percent.

All of this amounted to substantial financial benefits for the community as a whole. "This translates to fewer kids in jail, fewer kids in in-patient care," Costello says. "Then there are the other costs you can't calculate. The cost of people not killing themselves? That's a hard one." Costello has been at the center of the research showing the effects of the casino payments, but during all the time in Qualla Boundary she says she had never even heard the term basic income. That is, until she started getting phone calls from people who were interested in the topic. People like Chris Hughes.

Hughes grew up about a three-hour drive from Cherokee, in Hickory, North Carolina, where his mother worked as a public school teacher and his father was a traveling paper salesman. But that's not what attracted Hughes to Costello's work. He was interested in basic income primarily because at just 33 years old, Facebook has made him filthy rich—he's worth roughly \$1.5 billion—and he's still grappling with how, exactly, that happened.

"I'm proud of the work we did at Facebook, but I've also been very clear that the financial rewards I got were disproportionate to the work we put in," Hughes says. He's sitting cross-legged in a leather chair inside NeueHouse, a Manhattan warehouse that's been converted into a swanky coworking space (top-tier membership costs \$3,500 a month). "In human history, you have not had self-made wealth among twentysomethings on the order of magnitude we have today," Hughes continues. "What's making that possible? Because whatever it is, is happening at the same time median household wages have barely budged."

It's true. Since 1980, average income for the top .01 percent of Americans has more than tripled. For the bottom 90 percent, it's basically flat-lined. Hughes is among those who view the disparity as a national crisis. And so he recently launched the Economic Security Project, a two-year effort to invest \$10 million from Hughes and others into research on universal basic income. This investment comes amid a sudden wave of interest in universal basic income in the tech industry. Y Combinator, the Palo Alto-based startup accelerator, announced in early 2016 that it was starting its own basic income experiment in which a small number of Oakland residents would receive a cash payment and be compared to a control group. Tesla's Elon Musk, meanwhile, has warned about the rise of the robots, arguing at the World Government Summit earlier this year that a basic income is "going to be necessary." And when Mark Zuckerberg delivered his commencement speech at Harvard in May, he advocated for a basic income, saying it would provide people with "a cushion to try new ideas."

According to Ro Khanna, who represents California's 17th congressional district in the heart of Silicon Valley, the 2016 election woke techies up to the country's glaring economic inequality. "They don't want a populist backlash," he says. "They don't want a country divided by place." Hughes called Costello while he was looking for basic income studies that the Economic Security Project might like to finance. The goal of the organization is to provide the money so that researchers can investigate the impact of a basic income on people's lives. While Hughes has not funded Costello's research, his group has contributed \$1 million to Stockton, California's

basic income experiment, as well as to GiveDirectly, a Google-backed charity that is studying the impact of unconditional cash transfers in Kenya, and other projects.

The Economic Security Project team also recently conducted its own survey of more than 1,000 Alaskans who receive roughly \$2,000 per person, per year, through the Alaska Permanent Fund, which is drawn from oil revenues. It found that when faced with a choice between lowering taxes or keeping their cash payments, 71 percent of Alaskans say they want to keep the payments. “It feels like security,” Hughes says, “and in an economy that zigs and zags and has more part-time jobs, security is hard to come by.”

Hughes is no basic income purist. He believes, for instance, that for this economic moonshot to be politically palatable, it would have to be tied to work. “Not just because it seems more intuitive for people,” he says, “but because work is a key source of purpose in our lives.” But the changing nature of work, particularly among top tech employers, is still a critical problem for the American workforce. One illuminating New York Times article illustrated how the men and women who scrub toilets and do other low-skilled work for companies like Apple are hired from contracting companies which set the terms of their employment. Those workers are cut off from the benefits and upward mobility that the company’s engineers and marketers enjoy. Because the workers are contractors, the big tech companies feel no pressure to raise their wages, and aren’t responsible for offering health-care coverage. In 2015, Facebook’s bus drivers voted to unionize in order to secure themselves the kind of worker protections that the social networking giant refused to provide.

Looked at in this light, the tech-led efforts to push a basic income can appear hypocritical. In a new economy that mints billionaires overnight, giving millions of dollars away for experimentation is the easy part. It’s taxpayers, after all, not individual tech companies, who would have to pay for a basic income should one ever come to pass.

A legislated basic income is in the realm of fantasy at the moment. Even among its proponents there is almost no agreement about the fundamentals, starting with how much money would be an optimal basic income. Ioana Marinescu, a professor at the University of Pennsylvania’s School of Social Policy and Practice, who researches basic income, says that research on the Alaska fund is enlightening, but not dispositive. “We know \$2,000 a year makes a real difference to many people,” Marinescu says. “But would something lower still make a difference? We don’t know.”

Others argue that the problem with a universal basic income is the “universal” part. In a world in which every American gets a check, some of that money would necessarily be squandered on rich people. Some libertarian groups like the Cato Institute support the idea, seeing it as a way to replace the country’s existing social safety net programs like Medicare, Medicaid, and food stamps, an idea liberals deplore. “When resources for antipoverty policies are scarce and dwindling, especially in this Congress, we need to be careful about our targeting,” says Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities and the former chief economist and economic adviser to Vice President Joe Biden.

Bernstein prefers something like an expansion of the earned-income tax credit, such as the one Silicon Valley's Khanna has introduced, which he says would put extra money where it is needed—in the pockets of working people. He concedes, however, that Khanna's bill, the Grow American Incomes Now Act, is essentially on a hopeless path in the current Congress. "An idea like Ro's is going to take a long runway," Bernstein says. "It ain't going to happen soon, but that doesn't mean that if we were strategic it won't happen later."

Even in a fever dream scenario in which a basic income could pass in Congress, there is so far little evidence that it would help the "forgotten men and women" whom Trump described in his campaign—the people whose plight supposedly woke Silicon Valley up to this problem to begin with. After all, \$2,000 a year hardly feels like an adequate substitute for a disappeared \$50,000 union job at the local steel mill.

Even in Cherokee country, where the additional income is quite sizable, the payments are not enough to live on. That suggests a basic income may not be the life raft for working class adults that its proponents suggest it would be. But it could be something different: It could be an investment in their children's future.

During his 11 years as a high school football coach, and now working at the Boys' Club, Skooter McCoy has seen just about every way that the casino money can be wasted. He remembers two football players who, after graduation, flew from Asheville to Key West and then road tripped their way back up the coast, stopping in beach town after beach town, and burning through tens of thousands of dollars of their newfound wealth.

"I said, 'Boys, you had an opportunity with this money to take care of yourselves for the majority of your lives. What do you have to say for yourselves?'" McCoy remembers. "They said, 'Well, it was one hell of a month, coach.'"

The money hasn't exempted the community from the drug epidemic that has swept through so much of Appalachia, either. In fact, according to McCoy, when the checks come out twice a year, there seems to be an uptick in overdoses. "There are times when some people say members don't even get a check, because they're indebted to a dealer," McCoy says. "When they get their check, they hand it right over."

As with any program, there are infinite opportunities for abuse and bad decisionmaking. But over time, the tribe has made tweaks to try to prevent recklessness. The tribal council recently passed legislation, for instance, that staggers the minor's fund payouts. Now the tribe will give members \$25,000 when they turn 18, \$25,000 when they turn 21, and the rest when they're 25.

Spencer McCoy is now 21. Like his father, he has a square jaw and deep brown eyes, and he talks readily about the importance of Christianity in his life. He followed his dad to Western Carolina University, where he played football, before transferring to Mars Hill University, where he is pursuing a marketing degree. Like Skooter, Spencer imagined a different life for himself. But there's one crucial difference between them: Unlike his father, Spencer says, he never doubted that he could have that life. "In my grandpa's time, nobody from my area was going to college. My dad accepted a football scholarship, but without it I doubt he would have been able to go," Spencer says. "Now we can go to school practically anywhere in the country, and they pay for it. That's a really big deal."

When Spencer first got his “big money,” he says, “I’d get online and I was looking for trucks and stuff, but I thought at the end of the day, it wasn’t really worth it.” Aside from a used bass boat he bought to take out fishing, Spencer has stashed most of the money away in hopes of using it to start his own business one day.

The true impact of the money on the tribe may not really be known until Spencer’s generation, the first born after the casino opened, is grown up. For the techies backing basic income as a remedy to the slow-moving national crisis that is economic inequality, that may prove a tedious wait.

Still, if anything is to be learned from the Cherokee experiment, it’s this: To imagine that a basic income, or something like it, would suddenly satisfy the disillusioned, out-of-work Rust Belt worker is as wrongheaded as imagining it would do no good at all, or drive people to stop working. There is a third possibility: that an infusion of cash into struggling households would lift up the youth in those households in all the subtle but still meaningful ways Costello has observed over the years, until finally, when they come of age, they are better prepared for the brave new world of work, whether the robots are coming or not.