

Could We Afford a Universal Basic Income?

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The [first post in this series](#) looked at the economic case for a universal basic income (UBI), by which I mean an unconditional grant, paid to every individual, that would be sufficient to maintain a decent minimum standard of living. In that post, I argued that replacing the many overlapping income support policies currently used in the United States with a UBI would be more effective in raising the incomes of poor and near-poor households while strengthening work incentives and improving administrative efficiency.

The evident economic downside is that a UBI would be less narrowly targeted on the poor than existing programs. Because it would not, by its nature, be means tested, it would channel billions of dollars in grants to middle- and upper-income households. Some think that would make a UBI unaffordable without ruinous tax increases, deficits, or cuts to other government programs. This post looks at some of the fiscal realities of a UBI and concludes that such a program might not be fiscally unrealistic after all.

How to frame the question of affordability

One way to address the question of affordability would be to begin by setting an amount for the basic grant and then figuring out how to pay for it. However, it is not obvious what the appropriate amount would be. Should we use the official 2013 poverty threshold of \$11,490 for a person living alone? Would one-fourth of the official poverty threshold for a family of four, which comes to \$5,887 per person, be enough? Should the amount of the grant depend in any way on age or family structure? Should we use the traditional official approach to setting a poverty threshold, that is, three times the cost of a minimum food budget? Or should we follow the Census Bureau's more recent [supplemental poverty measure](#), which comes in about 12 percent higher than the traditional approach for a family of four? All of these are important questions, but trying to answer them would lead us far afield.

Instead, I suggest approaching the question of affordability in a different way: By asking how large a basic grant we could afford by drawing on funds now being spent on policies that could safely be cut back or eliminated once a universal basic income were in place.

Healthcare and education

Before discussing how we might fund a UBI, we need to address healthcare and education, each of which poses special problems.

In the case of healthcare, we have two choices. One is to make the UBI grant large enough to allow everyone, even those with the lowest earned incomes, to afford private health insurance and out-of-pocket healthcare expenses. The other would be to treat healthcare separately, that is, to rely on policies other than the UBI to provide medical services to low-income households. Those policies could be the current combination of Medicare, CHIP, and insurance subsidies under the Affordable Care Act (ACA), or they could be something completely different.

The first approach would require raising the UBI grant well above anything we currently define as a poverty threshold. The official per-capita poverty line ranges from \$5,587 for a person living in a family of four to \$11,490 for an individual living alone. One-third of that is supposed to go toward food, leaving from \$3,687 to \$7,583 for all other expenses. Compare that with the estimated premium for an unsubsidized “bronze” plan under the ACA, which is expected to be something like \$3,000 per person per year for a family of four and about \$4,500 for an individual living alone, with both figures varying widely according to insurance carrier, location, and age. Furthermore, a bronze plan, on average, is supposed to cover only 60 percent of medical costs, with the rest to be met by out-of-pocket. Including out-of-pocket expenses, then, makes average unsubsidized healthcare costs something like \$5,000 per person in a family and \$7,500 per person for an individual. We can see, then, that a UBI scaled to the current official poverty threshold would not even begin to cover healthcare costs.

The Census Department’s newer supplemental measure of poverty deals with healthcare differently. It sets a poverty threshold based on the 33rd percentile of expenditures on food, clothing, shelter, and utilities, leaving healthcare expenses to be covered from other resources. For purposes of this post, it will be simpler to take that approach. In the following discussion of affordability, I will neither expect the UBI grant to cover healthcare expenses, nor will I look to any reduction of existing government healthcare spending as a source for financing the UBI.

Education raises a different issue. In principle, giving children the same UBI as adults would provide families with enough funds to cover their children’s living expenses and leave enough to cover education costs that are not covered by our existing system of public schools and universities. However, that approach is open to the risk that some parents might spend the UBI benefits for their own purposes, neglecting their children. Some people worry that it might encourage irresponsible parents to bring children into the world solely to collect their benefits.

One way to avoid these difficulties would be to pay a portion of children’s UBI benefit in cash to the parents, enough to cover their basic living expenses, while putting the rest in trust. Trust administrators would have the authority to pay educational expenses of minor children from the

trust, taking due account of the religious and educational preferences of parents. As children approached a responsible age, they could receive a gradually increasing allowance to spend at their own discretion. Trustees would release any remaining funds to the beneficiaries when they reached the age of majority. (Thanks to Valerie Keefe for suggesting some of these ideas in a comment on [Part 1](#) of this series.)

In what follows, I will assume that some system like that just outlined is in place to ensure that the UBI benefits of children go, in part, for education. In that case, the UBI could replace many if not all existing means-tested education policies like head start and school lunches.

“The government already spends more than enough to end poverty”

To start our discussion of how a UBI might be funded, let’s take a look at an often made claim: That the funds the government already spends on antipoverty programs, if cashed out, would be more enough to raise everyone above the official poverty line. For example, in [recent Congressional testimony](#), Robert Rector of the Heritage Foundation presents data that suggest that the cash equivalent of total means-tested government spending is enough to raise the incomes of all low-income households to double the poverty level. A [policy analysis](#) by Michael Tanner of the Cato Institute makes a similar claim.

Rector and Tanner calculate that welfare spending in the United States comes to about a trillion dollars a year. Neither of them proposes using those funds for a UBI, but suppose that instead of taking the roughly \$1 trillion of welfare spending and giving it all to low-income families, we were to distribute it equally to all 316 million Americans. Doing so would give each person a grant of about \$3,160 a year. Although that sounds like a good start toward a livable UBI, if we look more closely, it may not be as good as it seems.

One problem is that, depending on how you figure it, about a quarter of all means-tested welfare spending comes from state and local government budgets. Federal money by itself would buy a UBI of only about \$2,400 per capita.

It is conceivable that the federal government could mobilize the state money indirectly by using some kind of fiscal end run. For example, the federal government could inject \$250 billion in new money into the income support stream and then make it up by cutting other forms of fiscal aid to state budgets by the same amount. With extra federal antipoverty measures in place, the states could cut back on their own welfare spending and move the funds over to education, environmental cleanup, infrastructure, or whatever. Instead of taking that approach, though, let’s see how far we can get toward a UBI by using federal money alone.

The next adjustment we have to make concerns healthcare. Even before the ACA came into force, about a third of federal means-tested welfare spending went to healthcare through Medicaid and the Children’s Health Insurance Program (CHIP). After deducting the money that goes to those programs, along with state funds, what remains to put toward a UBI is not a trillion dollars, but more like half a trillion. Divide \$500 billion by a population of 316 million, and we get a UBI grant of something like \$1,582 per person, far below the official poverty threshold. As

explained above, if we were to throw Medicaid and CHIP funds into the UBI pool, we would have to raise the poverty threshold, too, and we would be no closer to our goal.

Where does that leave the claim that current antipoverty spending is enough, if cashed out, to lift all low-income households well above the poverty line? It turns out to be valid only with some major reservations:

- First, the claim assumes that not just federal but also state, and local government resources are available for the cash-out pool. I leave it to the reader to judge whether that is politically realistic.
- Second, the claim that means-tested spending is enough to raise all poor households to double the poverty level assumes that each low-income family gets just enough to raise the income it already earns up to a fixed target. As explained in the [first part of this series](#), a policy of “topping up” incomes in that way would impose an effective marginal tax rates of 100 percent on beneficiaries. That would drastically undermine work incentives not only for the poor but also for the near poor.
- Third, the claim that cashing out existing welfare programs would provide everyone with an adequate standard of living does not realistically face up the cost of healthcare. Neither the current official poverty threshold nor the newer supplementary poverty measure is anywhere near enough to allow poor families access to healthcare in the absence of Medicaid, CHIP, and the ACA.

Putting middle-class entitlements on the table

Since cashing out existing means-tested welfare programs would not, by itself, yield enough to finance a livable UBI, we need to look for additional funding. So-called middle-class entitlements, such as the mortgage interest deduction and tax benefits for retirement, are another potential source. (It is worth noting that although these tax benefits are often touted as help for a struggling middle class, in practice, they provide even more help to upper-income taxpayers.)

Some people who are not themselves poor might look favorably on a UBI in the hope of double dipping. Wouldn't it be nice to get a generous monthly cash grant while continuing to benefit from all those nice tax loopholes? However, that is not what most UBI advocates have in mind. Just as a UBI would replace most means-tested welfare programs for the poor, it should replace, rather than simply supplement, many policies that aim to boost the standard of living of middle- and upper-income families.

Economists refer to policies that benefit people by lowering their taxes rather than by sending people checks in the mail as *tax expenditures*. ([See here](#) for complete data on federal tax expenditures for 2013 and 2014.) The largest tax expenditure is the deductibility of employer-paid healthcare plans. Together with some smaller, healthcare-related tax deductions, it was valued at almost \$200 billion for 2013. However, in keeping with our decision to treat healthcare policy separate from income support policy, we will not consider eliminating healthcare-related tax expenditures as a way of financing a UBI.

Even without healthcare deductions, other provisions of the personal income tax came to and estimated \$577 billion for 2013. Of these, \$174 billion, including mortgage interest deductions and other items, supported home ownership. Tax benefits for retirement savings came to another \$145 billion. Deductions for charitable contributions amounted to \$49 billion, and a number of smaller tax provisions made up the rest. (I should note, parenthetically, that tax reformers have long favored eliminating most or all of these tax expenditures for reasons having nothing to do with a UBI. See these earlier posts for detailed discussions of the [mortgage interest](#), [retirement](#), and [charitable](#) deductions.)

If we eliminate all of these tax expenditures, we can add \$1,825 to our per capita UBI grant, bringing it up to \$3,408. To put that in context, consider the case of a couple filing a joint return in the 25 percent tax bracket (taxable income of \$72,501 to \$146,400 in 2013). Such a couple would be better off with the UBI and without the middle-class tax preferences unless they had more than \$27,000 in itemized deductions in the categories that I have suggested eliminating.

We could add the personal exemption into the mix as well. The personal exemption for 2013 is \$3,900. I have not seen a good estimate of the total budgetary effect of the personal deduction, but we can make an approximation. For someone in the 15 percent tax bracket, the exemption would be worth \$585. If 100 million taxpayers get a benefit averaging that amount, the total would be \$585 billion, or enough to add another \$1,851 to the UBI grant, bringing it up to \$5,259 per capita.

What about Social Security?

Although we have advocated eliminating tax incentives for private retirement plans, we have said nothing yet about Social Security. For retired persons in the United States, the Social Security system serves two functions. In part, it is a mandatory retirement system, with benefits that increase as people pay more into the system during their working years. In part, it also serves a redistributive function, since benefits received by lower-income retirees are larger in proportion to their lifetime contributions than they are for higher-income retirees. It seems natural to rethink the redistributive function in conjunction with the introduction of a UBI.

One approach would start with a phase-in period, during which people who were already retired could opt either for the UBI or for their Social Security benefits, but not both. According to data from the Social Security Administration, about 35 million people currently receive Social Security retirement benefits. Only about 10 percent of these receive benefits of less than \$7,200 per year. It appears safe to say, then, that Social Security benefits would be more than the UBI for more than 90 percent of retirees, that is, for at least 32 million people. If so, we would have to spread the resources available for financing the UBI among just 286 million people, not the entire population of 316 million. People on the low end of the scale who opt for the UBI would give up whatever small Social Security benefits they are now receiving. If those benefits averaged \$300 per month for 3.5 million people, we could add about \$10 billion to the UBI fund. Making these adjustments would bring the UBI grant to \$5,850 per person.

Over time, new workers entering the system could become eligible both for the UBI Social Security benefits, and the latter could be scaled back. As part of the reform, it would be good to

replace at least part of today's payroll tax could be replaced with more broadly based taxes. On average, total lifetime taxes and total benefits during retirement years would be unchanged. It is possible that future reformers might decide that once the UBI were in place as a minimum safety net for retirees, the Social Security retirement system as we know it could be phased out altogether.

The Bottom Line

To summarize, our proposed funding for the UBI comes from these three sources:

- Eliminating most existing means-tested welfare programs—Temporary Aid to Needy Families, SNAP (food stamps), the Earned Income Tax Credit everything else other than Medicare and CHIP would raise about \$500 billion per year.
- Eliminating middle-class tax expenditures and the personal exemption would add another \$1,162 billion in funding
- Giving Social Security retirees the choice between the benefits to which they are presently entitled, or the UBI, but not both, would add about \$11 billion in funding and reduce the number of UBI claimants by about 32 million.

Those three sources of funding would be sufficient to provide a UBI grant of about \$5,850 per person, which happens to be very close to one-quarter of the official poverty income for a family of four. Who would win, and who would lose from this proposal?

- The number of families and individuals who fell below today's official poverty guidelines would decrease greatly. For many, the UBI alone would be enough to bring them up to the poverty line. Healthcare programs for low-income families would be unaffected.
- Replacing today's jumble of means-tested programs with a UBI would sharply decrease marginal effective tax rates for poor and near-poor families, thereby providing enhanced work incentives. The ranks of the working poor would fall effectively to zero.
- Most middle-class households would receive more from the UBI than they lose in tax benefits. No Social Security retirees would suffer a loss. Those currently receiving the smallest Social Security benefits would be able to increase their incomes by opting for the UBI.
- Financing the UBI would not require raising anyone's marginal tax rates. Some middle- and upper-income households that currently have large itemized deductions could experience an increase in their average tax rates.

Let me emphasize that this is not a research paper. The numbers in this post come from official sources wherever possible, but I have not crosschecked them thoroughly for internal consistency, and in some cases, I have filled in the gaps with back-of-the-envelope estimates. Furthermore, all of the tax and expenditure estimates are static, that is, they assume no changes in earned income as a result of introducing a UBI.

Tweak these proposals any way you like. Cut here, add there. Find better numbers. Replace static estimates with dynamic ones. Find ways to integrate healthcare, unemployment benefits,

disability benefits, and retirement into the UBI. It seems likely that better design and integration of those programs, including reform of the special taxes that now fund them, could make it possible to increase UBI benefits without increasing total taxes.

My purpose here has simply been to show that a UBI at or close to the poverty level, as commonly understood, would, conceptually, be affordable without aggressively attacking the fortunes of upper income Americans and without raising anyone's effective marginal tax rates. The third part in this series, coming soon, will deal with various political and ideological issues raised by a universal basic income.