

Universal Basic Income and the Pandemic Income Crisis

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During his “barely there” 2020 presidential campaign, Andrew Yang observed that automation is and will continue to replace workers and is why we need Universal Basic Income (UBI) in America. Critics pointed out that its other purpose of reducing income inequality won’t work.

But it may soon become part of our economy.

U.S. Economy on Life Support

Now that millions or more Americans are out of work—and millions more will soon be—having any income is the compelling reason for UBI at this very difficult moment.

The invisible CCP virus is the driving force behind UBI becoming a part of our lives in the very near future. Undoubtedly, some form of UBI will be a part of the \$2 trillion-plus relief package that will eventually get passed by Congress and signed by the president in the coming days.

Specifically, let’s look at the prospects of giving every adult citizen a monthly income that they could use as they please. That’s the idea behind UBI, which is now back in vogue in a big way with thinkers on both the left and the right.

It sounds like just one more entitlement program, right? But there’s more to UBI than meets the eye.

First, whatever one thinks about UBI, it’s not as much of a far out, left-wing idea as you might think it is. It’s actually a very old idea, and a distinctly American one, too. More on that in a moment.

More to the point, however, is the fact that the economy is crashing before our very eyes. The Federal Reserve just announced that it expects unemployment to reach up to 30 percent. That would put the United States in worse shape than it was in the Great Depression. Putting cash in people’s hands right now is a necessity.

The Looming Income Gap

Second, income inequality is at its highest in 50 years, and the gap will continue to widen if the current trend becomes the new normal. Income disparity is normal; but extreme income disparity, where the middle class is becoming the lower class, has social disruption written all over it. Adding UBI would help to close that gap. Putting cash in the hands of consumers will also stimulate the economy, which is definitely what is needed right now.

Third, the advent of the artificial intelligence, machine learning, and robotics era is a very real threat to millions of jobs. In a recent study by consultants McKinsey and Company, about half of the world's jobs—amounting to about \$15 trillion worth of human-performed labor—could be replaced today by automation.

Looking forward, there's little doubt that manufacturers of all kinds and sizes will continue to seek to grow their margins by replacing human labor with cheaper, automated technologies. That means more people will be out of work from jobs that will not be coming back.

How many of those displaced workers will get the retraining necessary? Not enough of them. That means more strain on social benefits.

That said, how many workers laid off in the course of the pandemic will find that their jobs have disappeared when the virus has?

A Solution to Welfare Failure?

Thus, the idea behind UBI is that more people will be willing and able to better themselves, regardless of how the economy changes. Americans would earn more and pay more in taxes. Both individuals and society as a whole, it is believed, would benefit.

Furthermore, enthusiasts insist that UBI wouldn't be just another welfare program wrapped in clever terminology—at least that's the current narrative. To an unknown extent, a UBI program would either reduce or replace welfare transfer payments and other entitlements.

Critics, however, fear that no UBI program would end up that way. Seeing how politically manipulated, bloated, and wasteful these programs have become, the part about minimizing or even eliminating other welfare programs is, for many, a bridge too far.

An Old Idea—and an American One

Still, UBI does have its allure. As noted above, former Democratic presidential candidate Andrew Yang built his campaign around a \$1,000 per month UBI for every American adult. And on the political right, Michael Tanner, a senior fellow with the conservative CATO Institute, is also a fan of it.

In fact, you could say that UBI is a very American idea, since it was proposed by none other than Thomas Paine, one of America's leading Founding Fathers. Paine advocated for a "national fund," which would pay every adult 15 pounds upon reaching age 21, and an annual payment of 10 pounds to everyone over 50 years of age. In his book, "Agrarian Justice" (1796), Paine described these payments as "justice" and "a right."

But the idea of a UBI has been around even longer than America has. The root concept goes back to at least 16th century Europe. When hard economic times hit, the masses found themselves living on the streets. Civic leaders saw the wisdom in preventing widespread revolts by doling out a few coins to every adult.

That rings uncomfortably true today, does it not?

In more modern times in the United States, a form of UBI or benefits has been a part of the American economy. The GI Bill for veterans coming home after World War II, for instance, let U.S. veterans attend college tuition-free, letting them gain better jobs as a result.

The costs of the GI Bill were recovered many times over in income taxes and wealth produced. Later, zero-down mortgages (VA loans) were provided to U.S. veterans, enabling many to qualify for a mortgage they otherwise could not. Zero-down VA loans remain in place to this day.

Then, in the 1970s, the negative income tax was proposed by President Richard Nixon. That proposal sought to pay citizens earning below the lowest tax threshold additional money to bring them up to the minimum tax rate level. Libertarian economic luminary Milton Friedman liked the idea, as well as a thousand other economists, but the bill never made it through Congress.

The fact that some on both the left and the right regard it as a valid option means there is a certain economic logic to the idea that transcends ideology. The UBI payment could be just enough to allow displaced workers the freedom or opportunity to reeducate themselves, start a business, or engage in other productive activities.

What's more, the stigma of receiving welfare, if it indeed still exists, would be gone, since every American—even the wealthiest of citizens—would be receiving the same basic income.

Finally, it may be much more efficient than welfare.

Politics Get in the Way

But are welfare, unemployment, and other entitlement cutbacks realistic?

The short answer is “No.” Cutting the programs would mean eliminating much of the bloated bureaucracy supporting them, which would put hundreds of thousands of federal employees out of work—a political impossibility.

It would also introduce an uncertainty among those who benefit from the current system, either personally or politically. That is, the most resistance against the UBI plan may well be entrenched political interests, not the economic viability of the program per se.

Also, a UBI payment would have to be for citizens only. Enforcing that, however, would likely be next to impossible. A national UBI plan—which no one yet agrees on—would attract the entire world to our shores. We have yet to display the political will to control our borders as it is. The magnet of a UBI program would only magnify the problem.

And that's the essence of the problem with any UBI plan. The temptation for political and economic abuse is enormous, just as it has been for most other transfer plans. Welfare fraud is an industry in itself in the United States—millions of our own citizens game the system to get more than their share. Millions more of illegal immigrants do the exact same thing.

Adding a significant cash incentive without realistic safeguards just doesn't seem like the right approach. Of course, shutting down the country for weeks or months at a time doesn't seem like a good idea, either.