



The Case for Free Money

Tony Mecia

February 2, 2018

At first blush, universal basic income sounds like something dreamed up on a California commune or in a late-night college bull session. The idea: Just give people money. Ask nothing in return. Impose no requirement to work or to look for work. And don't just give taxpayer money to people living in poverty, give it to everybody—from gazillionaire to gig-worker—no questions asked.

Yet universal basic income is an idea that is having its moment. Enthusiasm for a government-guaranteed income for all seems to be percolating across the country. Groups backed by Silicon Valley luminaries are forming to devise political strategies. Hillary Clinton's presidential campaign flirted with the idea. There's scholarly and popular interest in the small-scale attempts that have been made, and new experiments are being launched to try to answer some of the questions about how it could work.

Advocates are fond of noting that the idea draws support from people of all political stripes, including conservatives and libertarians. Part of the support stems from the reality that existing government antipoverty programs don't work. Both sides agree on that—though they disagree on whether the roots of the failure are insufficient funding, government mismanagement, or poor design. The proof is in the numbers: The government spends more than \$1 trillion each year helping the poor, yet one in eight Americans lives in poverty. A lot of economists and social scientists think it is time to examine other options.

One of the most vocal proponents of universal basic income is Charles Murray, who has spent the better part of the last four decades studying and writing about social policy. In 2006, he published *In Our Hands: A Plan to Replace the Welfare State*. It is less a philosophical treatise than a nuts-and-bolts blueprint, with detailed financial analysis, that specifies how a universal basic income could be implemented in the United States and what would be its positive social effects. At the time, the little attention it received came chiefly from people on the left who were already interested in the topic. But the idea gained steam in the following decade, and Murray revised the book, releasing a new edition in 2016 that updated the numbers. His plan: Give everybody over age 21 \$13,000 a year. Compel them to use \$3,000 of it on catastrophic health insurance. The payment starts to be taxed when annual income hits \$30,000. The recipient decides how to spend the rest.

Murray has long been an intellectual hero to the right, but this idea of a basic income for all would seem to ask a lot of conservatives. It sounds a lot like a big-government redistribution scheme, a fulfillment of a socialist dream to take money from those who are successful and spread it around equally. Murray argues that conservatives should support a basic income because the trend lines of the current system are financially unsustainable. The numbers would work, he estimates, if the government eliminates \$2.2 trillion worth of annual benefits—including Social Security, Medicare, Medicaid, welfare programs, and other transfer payments—and replaces them with his plan, which he estimates at \$2.6 trillion (using 2014 numbers). Entitlements are projected to grow faster than the projections of his plan, so in time it would save money. (The government currently spends about \$4 trillion a year.)

Murray tells me that many of the common objections to the idea come from a failure to understand the reality of the existing crisis. “In the case of ‘You’re just giving people money,’ well, we’re just giving people money now, for heaven’s sake,” he says. “And we have a huge problem of able-bodied young males sitting in front of video boxes stoned and unemployed. We already have a huge problem there. This will not make it worse. It will diminish it.”

Issuing all adults regular payments straight to their bank accounts would, he adds, have all kinds of positive effects conservatives find palatable. More people would get married, as it becomes possible to live a middle-class lifestyle by sharing distributions and combining them with a little bit of income. Women in bad relationships would have financial independence from ne’er-do-well boyfriends. The middle class could save for retirement. Workers wouldn’t be tied to soul-crushing jobs. Entrepreneurs would have a cushion to try something new.

Murray knows Congress won’t be acting any time soon—“the ability of Congress to kick the can down the road seems inexhaustible,” he says. And he doesn’t trust politicians to keep the government’s role limited, which is why he favors a constitutional amendment barring all transfer payments except the distribution.

As to criticism that basic income is a pipe dream that politicians could never pull off, Murray says he’s floating an idea. “Let’s be real,” he says. “It’s never going to be enacted the way I want it to be enacted. My job is to say this is a system that could actually work. It could actually accomplish good things if it were implemented. My responsibility is to make that case. The fact it’s not politically possible right now—that’s not my job.”

A New Entitlement

Big ideas have a way, over time, of growing more acceptable. They can eventually manifest themselves in government policy. Notions that at one time in our history sounded radical—racial equality, gay marriage, guaranteed health care—found increasing public acceptance, and our political system eventually enshrined them into law. It is not clear if the move toward a basic income will follow the same path. But at universities, think tanks, and in the business world, leaders are embracing it as a revolutionary idea. They’re working to fill out some of the details today, in hopes that politicians will debate them tomorrow.

Recent books arguing for a minimum basic income include *Basic Income: A Guide for the Open-Minded* by British economist Guy Standing; *Raising the Floor: How a Universal Basic Income Can Renew Our Economy and Rebuild the American Dream* by union leader Andy Stern; *Saving Capitalism: For the Many, Not the Few* by Clinton Labor secretary Robert Reich; and *Utopia for*

Realists: How We Can Build the Ideal World by Dutch journalist Rutger Bregman. There are also plenty of think tank white papers and blogs extolling the virtues of the idea.

Proponents like to say that the idea has been around for decades, if not centuries, and its champions have included such ideologically diverse figures as Thomas Paine, Huey Long, Martin Luther King, John Kenneth Galbraith, Friedrich Hayek, and Milton Friedman. The truth is a little more complicated, as some of these ventured little beyond the idea of the poor receiving stipends, while others detailed plans far different from those now under discussion. But the fact is that people with very different ideas about how society should be organized see universal basic income as a step in the right direction. Where they differ is in how they want to pay for it.

Thinkers on the left see basic income not as welfare reform but as part of their quest for “economic justice” and human rights in a time of “increasing inequality.” They oppose the wholesale elimination of transfer payments to fund the idea and mostly envision a basic income as existing in addition to Social Security and Medicare. They propose wondrous new funding sources, such as value-added taxes, taxes on carbon, taxes on robots, taxes on financial transactions, taxes on wealth, taxes on inheritance, cutting the military, eliminating corporate tax breaks, and cracking down on tax avoidance by the rich.

And they don’t share Murray’s views of the corrosive nature of entitlements. In *Raising the Floor*, for instance, Andy Stern chides Murray for believing that replacing traditional welfare with an annual payment will cause people to take responsibility for their lives. “Murray seems to want to teach poor people a lesson,” he wrote. Yet Stern, former president of the country’s second-largest labor union, the Service Employees International Union, winds up sounding like a free-market economist: “Some people will choose to take more responsibility for their lives, and some will not, which to my mind is just fine, because that’s how people behave when they are allowed to choose freely.” Stern’s proposal is a basic income of \$12,000 a year for everybody aged 18 to 64, plus seniors receiving less than \$1,000 a month in Social Security. It would be paid for by a host of new taxes and by ending many antipoverty programs, but not Social Security. He estimates his plan would cost about \$2.5 trillion a year (essentially doubling present entitlement spending).

Stern and Murray have held friendly debates on the topic, and last year they teamed up against two Obama administration economists, Jason Furman and Jared Bernstein, who oppose the idea, which shows how basic income scrambles the conventional political framework.

With such high costs associated with a basic income program, it might seem logical to limit the payouts of money to those who need it. Why give \$1,000 a month to Jeff Bezos, Warren Buffett, and millions of others who are thriving economically? Advocates insist that the idea works only if everybody receives the money. This is not charity. It is an equitable way to compensate everybody for being part of a wealthy society. And as a practical matter, it greatly simplifies the distribution of money, with no applications or income tests. It also removes any stigma attached to receiving government benefits and limits the disincentive to work that comes with benefits tied to income thresholds.

One of the problems with existing welfare programs is that they create few incentives to take a job and are “hopelessly complex and opaque,” says Michael Tanner, senior fellow at the Cato Institute. A basic income would empower individuals and remove government-knows-best paternalism, he says: “Poor people are poor because they don’t have money, but almost none of

these programs give people money. We treat people like they are 10 years old. We pay their landlord, their doctor, their grocery store.” He says he is “skeptically sympathetic” to a universal basic income—believing it would remedy some of the drawbacks of existing programs but that it is far too expensive to be practical.

The relationship between work and money is one of the perplexing questions about universal basic income, because it sounds like the government providing a financial incentive to be lazy—why work if the government will pay you for not working? Proponents reply that work comes in many forms, such as caring for a household or volunteering, and that a basic income can free people to live fulfilled lives when the fulfilling choice is not the highest-earning one. In any event, the amount is supposed to be, as its name suggests, a “basic income” to cover necessities. People are free to work for additional money—or not.

In the 1960s, economist Milton Friedman proposed a “negative income tax” based on the idea that people with income below a certain level should receive help from the government. In 1969, the Nixon administration tried to put this into law. The Family Assistance Plan, crafted in part by presidential aide Daniel Patrick Moynihan, guaranteed a minimum income to poor families with children but also included a work requirement for those who were able. The plan passed the House but Democrats blocked it in the Senate. Opposition came from both sides of the political spectrum: Conservatives, including Friedman, argued that the plan as designed provided too little incentive for people to leave welfare. Liberals liked the idea of a basic income but found the plan’s guaranteed annual minimum of \$1,600 a year (about \$10,400 today) too meager.

Democrat George McGovern floated the idea of a “Demogrant”—a \$1,000 tax credit to everybody—in the 1972 presidential primary campaign but withdrew it after criticism from rival Hubert Humphrey. At the same time, economists were setting out to test the effects of a negative income tax in a series of small-scale experiments. In one, involving 5,000 low-income families in Seattle and Denver, researchers guaranteed a minimum level of income just above the poverty line, taxing any amount earned over that level and subsidizing anything below it. A review of the data by the Department of Health and Human Services found the experiment had “a significant negative effect on hours worked per year.” Surprisingly, researchers also found that couples in the study separated at higher rates than control groups, theorizing that “a cash transfer program that provides financial alternatives to marriage for low-income women also tends to destabilize marriage.” Similar studies in the Canadian province of Manitoba were not much more encouraging.

The results disappointed proponents of a negative income tax and basic income. In 1978, Moynihan, who was by then representing New York in the Senate, said: “We must now be prepared to entertain the possibility that we were wrong.” The idea stalled for a couple of decades as social scientists reexamined the studies and discovered methodological shortcomings. For instance, the research subjects in the Seattle and Denver experiments self-reported their outside income and therefore had an incentive to under-report their earnings in order to receive more money from the researchers.

Experimenting with A Basic Income

With knowledge of the weaknesses of these earlier studies, researchers today are undertaking new efforts to understand how a basic income affects decision-making. Perhaps the best-known in the United States is the study launched last year by Y Combinator, a Silicon Valley venture

capital firm. Its president, Sam Altman, likes the idea of a basic income but wants to test how it might work. The company's research arm has already done a feasibility study in Oakland, Calif., and now plans to recruit 3,000 people from two states to participate in an experiment in which 1,000 people receive \$1,000 a month for three to five years, and the rest is a control group whose members receive \$50 a month. While researchers in the older experiments sought mainly to gauge labor participation, the Y Combinator study seeks to measure the effect on a much broader range of indicators, including health, happiness, time use, personal finances, political and social behavior, and crime.

A similar test is underway in Finland, where the government is sending 2,000 unemployed residents nearly \$700 a month for two years. It is tracking how they spend the money and whether they look for work, as a prelude to restructuring the country's social welfare system. Stockton, Calif., a city that declared bankruptcy as recently as 2012, is about to test a basic income—providing \$500 a month to a few hundred of the city's lowest-income residents. There are also experiments underway in Kenya and the Netherlands.

Researchers acknowledge the limits of such studies. They fail to gauge the true effect of a basic income because subjects know at the beginning of the studies that they will end in a few years. In some cases, the subjects collect benefits in addition to the money researchers pay them. And it is tough to discern the effects on an entire society when only a small portion of that society is the subject of social-science research.

There are some examples, though, in which every member of a society receives a payment, and those are now attracting attention. One is the Eastern Band of Cherokee Indians in rural western North Carolina. In 1997, the Cherokee opened a casino, run by Harrah's, and agreed to split half the profits equally among their members, including children. Today, the tribe has 16,000 members, and payments total \$12,000 a year per person. In addition, each child has a "minor's fund" and receives a windfall of more than \$100,000 when they come of age: \$25,000 at 18, \$25,000 at 21, and the rest at 25.

The tribe has used some of the casino money to build roads, health care facilities, schools, and more, but there have been few academic studies on the effects of the direct payments. A Duke researcher found that the money has improved health and has lifted some families from poverty. A UCLA researcher found little effect on overall employment. There is still crime, and there is still chronic poverty. But tribe members have said they enjoy having extra money to pay bills. The jury is out.

On a smaller scale, Alaska has for 35 years been returning a portion of its oil-lease revenues to state residents in the form of annual payments. Last year, the state set the amount at \$1,100, which goes to Alaskan adults and children who haven't been convicted of felonies and meet residency requirements. (The payment has ranged between \$878 and \$2,072 over the last decade.)

As with the Cherokee, there hasn't been much study of the effects of handing everybody money. "The Alaska Permanent Fund Dividend can tell us quite a bit about how we should proceed with this universal basic income conversation," says Mouhcine Guettabi, an economics professor at the University of Alaska Anchorage. "Unfortunately, as of now, I don't think there is enough work that answers some of those pressing questions about how it affects labor-force participation

or crime or any of that.” His department is starting to study the effects, but it is too early to draw any conclusions.

Another factor in the basic-income debate is the rising role of technology in the workforce. Unemployment is at its lowest level in nearly two decades, and it isn’t easy to imagine that robots are coming for American jobs. But looking ahead five or 10 years or more, we can expect that advances in machine learning and artificial intelligence will allow machines to handle a much broader array of responsibilities than they do today. Tech leaders like Facebook’s Mark Zuckerberg and Tesla’s Elon Musk favor a basic income in part because of worries about how to provide for people displaced by technology. In his commencement address at Harvard last year, Zuckerberg, 33, said his generation “will have to deal with tens of millions of jobs replaced by automation like self-driving cars and trucks.”

If that’s the lens you’re looking through, the signs are all around us: Technology companies are experimenting with driverless cars. Amazon is trying home delivery by drone. Companies are hiring robots as security guards. Patrons at Japanese restaurants order from computers with no waiters in sight.

A much-cited 2013 study by two Oxford professors (an economist and an engineer) showed that 47 percent of U.S. jobs are at high risk of being replaced by computers “over some unspecified number of years, perhaps a decade or two.” The fields most at risk are office work, sales, service, construction, and manufacturing; the jobs that seem safer are in health care, education, the arts, computers, and the sciences. A 2015 study by McKinsey & Co. found that 45 percent of work tasks could be done by existing technology, especially predictable physical work, data collection, and data processing.

Worries about machines supplanting jobs have been around since the dawn of the Industrial Revolution. The mainstream economic view is that advances in technology help society by freeing workers from drudgery and enabling the creation of new and more sophisticated fields of work. Yet the old fears are finding new currency among supporters of a basic income. They say it would help people displaced by technology navigate an uncertain future. Having the ability to fall back on a regular small payment would encourage risk-taking and entrepreneurship and provide succor to those whose jobs are taken over by robots. It’s not clear that the latest technological revolution will result in mass unemployment, but certainly the nature of work is changing. Technology is linking people together to find new sources of income, from driving cars to walking dogs to taking online surveys. But these gig-economy services tend to lack the security and benefits of full-time employment. A basic income, advocates say, can help people who choose that kind of work.

Enter the Politicians

While a basic income has been kicked around by academics for decades and tested in small ways, the idea is now entering the political sphere—especially in Europe. Swiss voters in 2016 rejected a basic-income referendum by three to one, though an organizer called the move successful for “getting a broad public debate started.” The Socialist party’s candidate for French president in 2017 ran on a platform that included a basic income. He finished fifth. A 2017 poll found that a majority of the population in eight European countries favors a universal basic income, including the United Kingdom, Finland, and Ireland.

In the United States, the idea languishes on the political fringes. Progressive standard-bearer Bernie Sanders, for instance, refuses to endorse it. Consumer advocate and perennial presidential candidate Ralph Nader supports it, though, as does Zoltan Istvan, a futurist who is running for governor of California as a Libertarian. The Black Lives Matter movement embraced a universal basic income, along with a reparations bonus payment, in its 2016 policy platform. Rep. Keith Ellison (D-Minn.), deputy chair of the Democratic National Committee, said last year on Twitter that he supports a guaranteed basic income. Yet the idea runs counter to every popular conception of welfare, which mainstream politicians say should be to encourage people to find work and become independent of government assistance.

Adopting a basic income need not be an all-or-nothing proposition. Advocates say there could be incremental measures such as consolidating some of the 80-plus federal programs that provide assistance to low-income Americans and replacing the ones that offer vouchers for food and housing with direct cash payments. House speaker Paul Ryan, for instance, has spoken favorably about allowing states to combine antipoverty payments into a single funding mechanism.

Policymakers could also lift work requirements—though polls show most Americans favor requiring welfare recipients to do something for their benefits. The federal government could modify existing programs to allow states flexibility to experiment with cash payments in lieu of traditional welfare. It could combine existing tax breaks into a single allowance or refundable tax credit, or provide a “baby bond” to children when they’re born—an idea Hillary Clinton suggested when running for president in 2008. None of these policies is the endgame for basic-income advocates, but steps in the right direction as they build support.

“It’s very grassroots right now, and it’s very much in an awareness stage,” says Scott Santens, a New Orleans writer who has raised money online to provide himself a \$1,000-a-month basic income while he advocates for a universal basic income. “It’s an idea that can have a reflexive effect on people, where if they immediately think it’s an idea from the other side, they wonder why they should support it. It’s a matter of reading more and more and discovering it’s a good idea.” He sees the movement progressing as people begin to worry about automation taking their jobs. They will read about the basic income experiments underway, he says. They will start asking candidates about it. And the political debate will begin.

“We’ll reach a point where it’s going to be a major question for politicians to have a stance on,” Santens says. “They’ll be for it or against it, and they’ll win or lose elections because of it.” Andy Stern, the former SEIU leader, would agree. In his book, he argued that raising the visibility of universal basic income is ultimately about encouraging its supporters to run for office.

In New York City, a group called Basic Income Action holds monthly “movie nights” to discuss the idea. Last month’s meeting attracted nearly 20 people, says co-founder Diane Pagen, a city social worker. She knows of other groups in Minneapolis, Seattle, and San Francisco but says the movement is only loosely organized. “The missing ingredient is people who will run for office on this platform,” she says. “It’s building. It’s growing. We are very excited.” The universal basic income discussion group on Reddit has almost 50,000 subscribers.

It can be hard to visualize such a monumental policy shift taking place. Maybe it’s absurd to believe politicians can devise the perfect plan—one that overhauls programs accounting for more than half the federal budget—when they can hardly agree to fund the government for the

following month. And maybe it's unwise to expect federal workers to implement such a plan flawlessly or for citizens to trust the government to provide for their basic needs. But with grassroots activism, dedicated believers, tech titans' enthusiasm, experiments popping up worldwide, growing fears about automation, and momentum building in Europe, how can we say with confidence that today's kooky idea won't become the next generation's reality?

"The civil rights movement is a parallel," says Charles Murray. "It's like the mid-1950s, when you started to get a really raised consciousness across the nation among whites as to how blacks had been treated. We may be in the consciousness-raising phase right now. We have to worry about an era in which jobs are not defined the same way as they are now, in which people find satisfying work that doesn't involve a nine-to-five job. As time goes on, things that are not realistic now become realistic."