THE TRIANGLE

The pros and cons of Universal Basic Income

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One of the most bothersome parts of election time is sorting through the different ideas and their relation to your life as an American citizen.

Democrat presidential candidates have proposed many alternatives to President Donald Trump's economic policies. Several have drafted a universal income plan in years past, but Andrew Yang's proposal for the "Freedom Dividend" Universal Basic Income (UBI) is an interesting discussion topic in the upcoming elections.

Yang's plan proposes that "a set of guaranteed payments [be made] of $1,000 per month, or $12,000 per year, to all U.S. citizens over the age of 18. Yes, that means you and everyone you know would get $1,000/month every month from the U.S. government, no questions asked."

Yang would implement his UBI as a type of welfare without work requirements, quotas or testing. He plans to consolidate a few welfare systems and offer his UBI as an alternative to other welfare systems. His plan would stack with Social Security and Veteran's Disabilities, but would not stack with other welfare programs.

He plans on drawing funding from four places.

First, his plan will decrease the amount of money spent on welfare programs by giving citizens a choice between the medley of various programs or the alternative flat rate of $1,000/month. Recipients cannot use both the Freedom Dividend and the other welfare programs.

Second, he will implement a Value Added Tax (VAT) on business goods and services, 10% on most goods, excluding food and clothing.

His policy states that "While prices will likely increase on many goods, the increase will, for the most part, be smaller than the VAT as producers find more efficient ways to produce goods and adjust prices to maximize profitability."

The first issue that arises from Yang's VAT is the unstated burden on the consumer. In his rhetoric, the indefinite writing says that prices will increase on products but that he cannot give a solid indication of how much that will be.

When VATs are implemented, the burden of the tax is placed on the business level. Individual consumers are not noticeably affected by the tax because it is applied before the item is listed on the shelf. Where a candy bar might cost $1.99 plus $0.25 sales tax at the checkout, a VAT is applied differently because the business pays them.

Instead of adding that 25 cents at the end, it will end up being incorporated into the original $1.99. Thus, a customer will pay $2.24 for the candy bar instead.

This is explained by the CATO Institute: “It is known as a consumption tax, but money is collected at the business level rather than at the cash register. This means the tax is built into the price of affected goods and services and largely hidden from taxpayers.”

Furthermore, a VAT would significantly hurt the economy.

The Heritage Foundation reported on VATs, saying: “By taking resources out of the productive sector of the economy and transferring them to the government, a VAT would slow economic growth and slow job creation. According to a study by Stotler Economics, a Chicago-based economic research firm, a VAT of only 3 percent would, by just the fifth year, reduce the typical family’s income by $1,000 and destroy 2.1 million jobs.”

Yang often cites a proposed case study in Newark, New Jersey. Mayor Ras Baraka proposed a small scale trial run. The math, however is not in his favor.

The Cato Institute reasons that “Newark is almost certainly not going to provide the city’s residents with a true UBI. The city’s population tops 285,000. If every adult were to receive a UBI of $12,000 per year (as proposed by Democratic presidential hopeful Andrew Yang), and children received half that amount, it would cost nearly $2.5 billion. The taxes necessary to fund such a program would crush any hope for Newark’s economic revitalization. And, as businesses and wealthier residents fled the city in droves, the program’s funding would collapse. You can’t redistribute wealth that doesn’t exist.”

However, there is something to be said for leaving solutions up to chance. Much of the Freedom Dividend is works based on recipient’s choice.

The citizens are given the option to choose between normal welfare programs and the Freedom Dividend, meaning that the original policies are not going to be shut down, and that they will continue to serve as a broken safety net.

Yang does not account for the tolls on business when trying to remain compliant with the new tax laws.

The Heritage Foundation continues, “A VAT conscripts businesses to serve as tax collectors for the government. Every company and entrepreneur would be forced to keep records on every purchase and submit detailed forms to the IRS. The administrative burden of the VAT would be especially severe if policy makers chose, as most proponents of the new tax advocate, to exempt certain goods and services. The reason for this is that firms would have to segregate records according tax status and submit numerous separate forms to the tax authorities. The Congressional Budget Office notes that allowing exemptions would ‘substantially increase costs of enforcement and compliance.’”

In addition to the incredible weight suddenly placed on small businesses, Yang’s Freedom Dividend is financially irresponsible. While the current medley of living assistance programs is undoubtedly a mess, Yang’s solution is not a viable one.

In trying to streamline the welfare system, Yang would drown small businesses in IRS red tape and force consumers to pay moderately higher prices to account for both the taxes, and the company’s expenses in staying tax compliant.

Without a doubt, the current system is broken beyond repair, but the Freedom Dividend will not fix it without taking a massive toll on small business and consumer welfare.