



Universal basic income: a solution to a looming problem

Michael Munger

July 20, 2018

At a time when even the wealthiest nations face problems of poverty, many analysts are concerned about creating jobs in the “new” economy. Are traditional anti-poverty programs up to the task? I don’t think so.

Many people, from diverse viewpoints, are talking about a universal basic income (UBI) grant. UBI was recently tried in Finland, though it was discontinued. [As a recent New York Times article pointed out](#), that effort was half-hearted.

In California, [the city of Stockton is piloting a program](#) that will give 100 citizens \$500 per month for 18 months. Even a [large city \(Chicago\) is considering a version of UBI](#). Is UBI the future? To find out, let’s first look at the past.

In 1848-49, a wave of revolutions swept the capitals of Europe. Vaguely dubbed “The Peoples’ Spring,” it wasn’t clear just what the revolutionaries wanted.

Some were fed up with the desiccated royal families holding onto thrones; others were fighting a rear guard action against the Industrial Revolution, which was wiping out the ability of traditional villages from making a living.

The nations of northern Europe, finding their cities ablaze and their workers desperate for security amid chaos, began to adopt what we now call “welfare” systems.

In a German Reichstag speech in 1884, Chancellor Bismarck said, “The actual complaint of the worker is the insecurity of his existence; he is unsure if he will always have work, he is unsure if he will always be healthy and he can predict that he will reach old age and be unable to work.”

The welfare programs that achieved labor peace and frustrated the optimism of revolutionaries who expected Germany to become a communist state were not seen as solutions to poverty. Rather, they were insurance, addressing workers' insecurity.

As I have claimed in my recent book, "Tomorrow 3.0" (Cambridge Press, 2018), we stand on the verge of another wrenching economic revolution, where workers at all levels will once again feel desperately insecure. Many will likely act on that sense of insecurity in irrational and destructive ways.

The cities of the developed world may once again smell acrid smoke and see bricks flying. When workers feel they have nothing to lose and little control over their lives, the system breaks down.

That's where UBI comes in. If I'm right, and we are in the first stages of an economic revolution, things may get worse fast. There are three kinds of arguments made for a UBI, and they reinforce each other, because there is some value in each of them.

First, economic revolutions do a lot of good, overall. The "sharing" economy — Uber, but for everything — will drive down prices and the need for storage and ownership. It will be better for the environment, and we'll all have more space to live.

But it won't benefit everyone equally; people with "gigs," a good source of income from a skill they can advertise on LinkedIn, will prosper. People with no source of income will be harmed, because it doesn't matter how much prices fall if you don't have a job.

If the new economy is as great as some claim, it should be possible for the gainers to compensate the losers and still come out ahead.

Second, a UBI would be cheaper and more effective than what we do now, economically. If you take the total amount we spend on anti-poverty programs and divide by the number of poor people, there should be no poor people!

As the Cato Institute's Michael Tanner argued, we are already spending at least \$15,000 per poor person, including children. For a family of three, that's \$45,000.

But instead of just giving them the money, we have created what experts call the "benefits cliff": The first \$10,000 earned in a new job by a single mother in Section 8 housing, with food subsidies, costs her \$12,000 or more. That's a marginal tax rate of more than 100 percent.

Poor people aren't lazy; they're trapped in the current system. A UBI is not contingent on staying poor, so it would both lift people out of poverty and flatten out the benefits cliff. Of course, this means that the new UBI would be instead of existing programs, rather than a supplement, and not everyone agrees with that.

Finally, there is crude "realpolitik." Plenty of very wealthy people already live in the U.S., and the new economy is likely to create inequality on steroids. In a democracy, the poor and middle class have many tools to "negotiate" redistribution at gunpoint.

If political parties and factions get organized around class differences rather than considerations of regional or industry politics, the rich will lose. That was actually the argument that Bismarck

used to motivate German industrialists back in the 19th century: You folks can pay a little now, or a lot more later.

That last bit may seem cynical, but we're talking about politics, not high school debate. And even if this third argument offends you, it means that we may end up doing the right thing, even if it is for the wrong reasons. A UBI isn't perfect, but it's a step in the right direction.