

A Well-Crafted Universal Basic Income Policy Deserves Your Consideration

John Merrifield, President
Institute for Objective Policy Assessment (IOPA)
July 2024

An essay asserting that the proposed (2021) Build Back Better entitlement expansions would depress labor force participation got me thinking about the Universal Basic Income (UBI) concept that Andrew Yang made a centerpiece of his campaign for the Democrat Party presidential nomination. The effort to create and expand entitlements in the barely failed Build-Back-Better proposal is the latest specific reason to reconsider a well-crafted version of a Universal Basic Income subsidy as an alternative to specific entitlements.

Because the UBI concept has also seen support from conservatives – from the likes of Milton Friedman – it is a crossover issue; a natural for IOPA. More important, a well-crafted UBI may be a good policy idea, or at least superior to the likely alternate policy landscape. The UBI concept poses many noteworthy unanswered questions.

The purposes of this essay are threefold: A) To assert possible benefits of a well-crafted UBI policy. The costs are well-known: 1) fiscal; and 2) possible increased sloth; B) launch conversations and solicit feedback on this issue; and C) Outline the research agenda required to define ‘well-crafted’ from an economic efficiency and political feasibility perspective.

A cursory UBI literature review and my interpretation of economic theory is the basis for my tentative UBI policy recommendation. The main reason for leading with a recommendation is to create a starting point for defining policy issues and research needs.

Discussion Starting Point, Very Tentative UBI Policy Recommendation:

To maximize efficiency – minimize cost (not just fiscal cost) – UBI subsidy eligibility and payment level policy should not influence behavior. The UBI payment should be \$X/month per adult U.S. citizen. Truly universal means that even Bill Gates, Warren Buffet, Jeff Bezos, and Elon Musk would receive a UBI payment. \$X should be enough for an adult and one dependent to buy necessities in U.S. places with a cost-of-living index value of 90 or less. Until social security is phased out, if it is, retirees will receive the larger of 2/3 of the UBI amount, or their earned social security payment.

The UBI should be federal; funded with general revenue, not an earmarked tax. Since the annual deficit and public debt are already much too large, funding the UBI will require sale of federal mineral rights assets, and or new tax revenues. The savings from ending entitlements, eliminating bureaus/departments, and streamlining of many functions will likely not be enough to fund the recurrent UBI payments.

Entitlement savings are a key justification for a UBI. **A well-crafted universal basic income REPLACES all forms of government-funded income supports; federal, state, and local.** State and local fiscal savings would offset some of the likely loss of federal transfers to state and local governments; driven by the dire federal fiscal circumstances and that are much needed to restore federalism.

And existence of a non-trivial UBI weakens the case for many kinds of bailout, perhaps enough to achieve the political feasibility of banning bailouts, including bailouts of governments, too-big-to-fail businesses, and use of price support/guarantee practices, which are in effect, bailouts. Certainly, government insolvency and lost welfare for the rich trickles down to regular folks that will now have a UBI to shield them from the short-term effects of their bankrupt employers or insolvent benefit funders (some governments) not being bailed out.

Since living wage need is a key alleged justification for a minimum wage above what would prevail in an unregulated labor market, UBI payments justify an end to political interference in labor markets. A living income will exist very widely through a combination of the UBI payments and earned income. *A critical UBI justification is that it eliminates the loss-of-benefits-incentive to stay out of the labor force.*

UBI payment debits should eliminate a lot of transaction costs; everything from traffic fines, alimony, child-support, and delinquent personal taxes. Research would be needed to establish which transactions would be conducted through UBI debit, and to define a reliable dispute resolution process.

The UBI policy should also re-establish a universal stake in the federal government's spending levels intended by the founders when they asserted through the constitution that taxation shall be uniform but lost through increasingly progressive taxation facilitated by a controversial Supreme Court interpretation of 'uniform.' That is, the UBI payment amount should vary inversely with (Federal Spending)/GDP.

That much of the population pays little or no federal income tax, and that federal spending plans are increasingly unaffected by expected revenue, may be a key reason for huge and growing deficits, and the unsustainable debt trajectory – basis of a declared crisis – that existed before COVID-19 became a justification to significantly further increase it. ***A well-crafted UBI is likely the only politically feasible means of reconnecting lower-income taxpayers to fiscal policymaking.***

The basis for the UBI payments would establish a secure basis for election integrity. You need an ID to be UBI eligible, and an address. Whether someone has voted must be registered separately from the secret of what he/she voted for. The Estonian process may show the way on this security issue.

The size of the UBI is a two-sided issue. It must be enough to credibly cover bare necessities, but small enough to: a) be fiscally viable in a debt crisis environment – affecting what tax hike will fund it; and b) curb the temptation to use the UBI dollars to fund withdrawal from the labor force.

Since the UBI is: a) an expensive policy; and b) the basis for eliminating a lot of other government functions, UBI policy changes should require a super-majority vote.

Probably, the most important question is whether we should do this at all given the fiscal cost, the possible increased risk of induced sloth from even a well-crafted policy, and the considerable risk that the political process will produce a UBI policy that is not well-crafted. Those questions are the basis for a significant political science research agenda.

Inferred UBI Research Agenda

UBI eligibility criteria; payment level; vary payment by any criteria; a) age; b) # of dependents; c) place of residence; d)

Which entitlement programs should be eliminated?

Needed amount of new federal revenue; appropriate funding sources.

Rate at which the UBI payment amount decreases as (Federal Spending)/GDP increases; and vice versa.

Policy specifics of UBI information use to improve election integrity.

Transactions such as fine collection to replace with UBI payment debit.

Determine the effect of UBI payment size on labor force participation.

Likely differences in the economic and political definitions of 'well-crafted.'

Should UBI policy reform require a super-majority vote, and if so, how large?