

Inquiring Minds topic – 12 January 2018

John Moore, Moderator

A guaranteed income for every American

Questions to consider:

- What effect would a guaranteed annual income have on the incentive to work and the rate of participation in the labor force? Note that participation in the labor force is at a 40 year low, which is a drag on the economy.
- Much has been said about the impact of technology on employment. Would a guaranteed annual wage alleviate the problems this may cause?
- Is a guaranteed annual income equitable?
- Some of those advocating for a guaranteed annual wage insist that it would only be possible if all other income redistribution and supplement programs were abandoned. Is this desirable as a policy matter? Is it politically feasible?
- What about Social Security? Would it be necessary to abandon that as well if a guaranteed annual income plan were put into effect?
- Murray concedes that some people would simply quit work and accept the annual minimum income. Some critics say that work has intrinsic value for the worker, giving meaning and purpose to life. What do you think of this criticism?

This article is by Charles Murray - Wall Street Journal, June 3, 2016:

When people learn that I want to replace the welfare state with a universal basic income, or UBI, the response I almost always get goes something like this: “But people will just use it to live off the rest of us!” “People will waste their lives!” Or, as they would have put it in a bygone age, a guaranteed income will foster idleness and vice. I see it differently. I think that a UBI is our only hope to deal with a coming labor market unlike any in human history and that it represents our best hope to revitalize American civil society.

The great free-market economist Milton Friedman originated the idea of a guaranteed income just after World War II. An experiment using a bastardized version of his “negative income tax” was tried in the 1970s, with disappointing results. But as transfer payments continued to soar while the poverty rate remained stuck at more than 10% of the population, the appeal of a guaranteed income persisted: If you want to end poverty, just give people money. As of 2016, the UBI has become a live policy option. Finland is planning a pilot project for a UBI next year, and Switzerland is voting this weekend on a referendum to install a UBI.

The UBI has brought together odd bedfellows. Its advocates on the left see it as a move toward social justice; its libertarian supporters (like Friedman) see it as the least damaging way for the government to transfer wealth from some citizens to others. Either way, the UBI is an idea whose time has finally come, but it has to be done right.

First, my big caveat: A UBI will do the good things I claim only if it replaces all other transfer payments and the bureaucracies that oversee them. If the guaranteed income is an add-on to the existing system, it will be as destructive as its critics fear.

Second, the system has to be designed with certain key features. In my version, every American citizen age 21 and older would get a \$13,000 annual grant deposited electronically into a bank account in monthly installments. Three thousand dollars must be used for health insurance (a complicated provision I won’t try to explain here), leaving every adult with \$10,000 in disposable annual income for the rest of their lives.

People can make up to \$30,000 in earned income without losing a penny of the grant. After \$30,000, a graduated surtax reimburses part of the grant, which would drop to \$6,500 (but no lower) when an individual reaches \$60,000 of earned income. Why should people making good incomes retain any part of the UBI? Because they will be losing Social Security and Medicare, and they need to be compensated.

The UBI is to be financed by getting rid of Social Security, Medicare, Medicaid, food stamps, Supplemental Security Income, housing subsidies, welfare for single women and every other kind of welfare and social-services program, as well as agricultural subsidies and corporate welfare. As of 2014, the annual cost of a UBI would have been about \$200 billion cheaper than the current system. By 2020, it would be nearly a trillion dollars cheaper.

Finally, an acknowledgment: Yes, some people will idle away their lives under my UBI plan. But that is already a problem. As of 2015, the Current Population Survey tells us that 18% of unmarried males and 23% of unmarried women ages 25 through 54—people of prime working age—weren’t even in the labor force. Just about all of them were already living off other people’s money. The question isn’t whether a UBI will discourage work, but whether it will make the existing problem significantly worse.

I don't think it would. Under the current system, taking a job makes you ineligible for many welfare benefits or makes them subject to extremely high marginal tax rates. Under my version of the UBI, taking a job is pure profit with no downside until you reach \$30,000—at which point you're bringing home way too much (\$40,000 net) to be deterred from work by the imposition of a surtax.

Some people who would otherwise work will surely drop out of the labor force under the UBI, but others who are now on welfare or disability will enter the labor force. It is prudent to assume that net voluntary dropout from the labor force will increase, but there is no reason to think that it will be large enough to make the UBI unworkable.

Involuntary dropout from the labor force is another matter, which brings me to a key point: We are approaching a labor market in which entire trades and professions will be mere shadows of what they once were. I'm familiar with the retort: People have been worried about technology destroying jobs since the Luddites, and they have always been wrong. But the case for "this time is different" has a lot going for it.

When cars and trucks started to displace horse-drawn vehicles, it didn't take much imagination to see that jobs for drivers would replace jobs lost for teamsters, and that car mechanics would be in demand even as jobs for stable boys vanished. It takes a better imagination than mine to come up with new blue-collar occupations that will replace more than a fraction of the jobs (now numbering 4 million) that taxi drivers and truck drivers will lose when driverless vehicles take over. Advances in 3-D printing and "contour craft" technology will put at risk the jobs of many of the 14 million people now employed in production and construction.

The list goes on, and it also includes millions of white-collar jobs formerly thought to be safe. For decades, progress in artificial intelligence lagged behind the hype. In the past few years, AI has come of age. Last spring, for example, [a computer program defeated a grandmaster](#) in the classic Asian board game of Go a decade sooner than had been expected. It wasn't done by software written to play Go but by software that taught itself to play—a landmark advance. Future generations of college graduates should take note.

Exactly how bad is the job situation going to be? An Organization for Economic Cooperation and Development [study concluded](#) that 9% of American jobs are at risk. [Two Oxford scholars estimate](#) that as many as 47% of American jobs are at risk. Even the optimistic scenario portends a serious problem. Whatever the case, it will need to be possible, within a few decades, for a life well lived in the U.S. not to involve a job as traditionally defined. A UBI will be an essential part of the transition to that unprecedented world.

The good news is that a well-designed UBI can do much more than help us to cope with disaster. It also could provide an invaluable benefit: injecting new resources and new energy into an American civic culture that has historically been one of our greatest assets but that has deteriorated alarmingly in recent decades.

A key feature of American exceptionalism has been the propensity of Americans to create voluntary organizations for dealing with local problems. Tocqueville was just one of the early European observers who marveled at this phenomenon in the 19th and early 20th centuries. By the time the New Deal began, American associations for providing mutual assistance and aiding the poor involved broad networks, engaging people from the top to the bottom of society, spontaneously formed by ordinary citizens.

These groups provided sophisticated and effective social services and social insurance of every sort, not just in rural towns or small cities but also in the largest and most impersonal of megalopolises. To get a sense of how extensive these networks were, consider this: When one small Midwestern state, Iowa, mounted a food-conservation program during World War I, it engaged the participation of 2,873 church congregations and 9,630 chapters of 31 different secular fraternal associations.

Did these networks successfully deal with all the human needs of their day? No. But that isn't the right question. In that era, the U.S. had just a fraction of today's national wealth. The correct question is: What if the same level of activity went into civil society's efforts to deal with today's needs—and financed with today's wealth?

The advent of the New Deal and then of President Lyndon Johnson's Great Society displaced many of the most ambitious voluntary efforts to deal with the needs of the poor. It was a predictable response. Why continue to contribute to a private program to feed the hungry when the government is spending billions of dollars on food stamps and nutrition programs? Why continue the mutual insurance program of your fraternal organization once Social Security is installed? Voluntary organizations continued to thrive, but most of them turned to needs less subject to crowding out by the federal government.

This was a bad trade, in my view. Government agencies are the worst of all mechanisms for dealing with human needs. They are necessarily bound by rules applied uniformly to people who have the same problems on paper but who will respond differently to different forms of help. Whether religious or secular, nongovernmental organization are inherently better able to tailor their services to local conditions and individual cases.

Under my UBI plan, the entire bureaucratic apparatus of government social workers would disappear, but Americans would still possess their historic sympathy and social

concern. And the wealth in private hands would be greater than ever before. It is no pipe dream to imagine the restoration, on an unprecedented scale, of a great American tradition of voluntary efforts to meet human needs. It is how Americans, left to themselves, have always responded. Figuratively, and perhaps literally, it is in our DNA.

Regardless of what voluntary agencies do (or fail to do), nobody will starve in the streets. Everybody will know that, even if they can't find any job at all, they can live a decent existence if they are cooperative enough to pool their grants with one or two other people. The social isolates who don't cooperate will also be getting their own monthly deposit of \$833.

Some people will still behave irresponsibly and be in need before that deposit arrives, but the UBI will radically change the social framework within which they seek help: Everybody will know that everybody else has an income stream. It will be possible to say to the irresponsible what can't be said now: "We won't let you starve before you get your next deposit, but it's time for you to get your act together. Don't try to tell us you're helpless, because we know you aren't."

The known presence of an income stream would transform a wide range of social and personal interactions. The unemployed guy living with his girlfriend will be told that he has to start paying part of the rent or move out, changing the dynamics of their relationship for the better. The guy who does have a low-income job can think about marriage differently if his new family's income will be at least \$35,000 a year instead of just his own earned \$15,000.

Or consider the unemployed young man who fathers a child. Today, society is unable to make him shoulder responsibility. Under a UBI, a judge could order part of his monthly grant to be extracted for child support before he ever sees it. The lesson wouldn't be lost on his male friends.

Or consider teenage girls from poor neighborhoods who have friends turning 21. They watch—and learn—as some of their older friends use their new monthly income to rent their own apartments, buy nice clothes or pay for tuition, while others have to use the money to pay for diapers and baby food, still living with their mothers because they need help with day care.

These are just a few possible scenarios, but multiply the effects of such interactions by the millions of times they would occur throughout the nation every day. The availability of a guaranteed income wouldn't relieve individuals of responsibility for the consequences of their actions. It would instead, paradoxically, impose responsibilities that didn't exist before, which would be a good thing.

Emphasizing the ways in which a UBI would encourage people to make better life choices still doesn't do justice to its wider likely benefits. A powerful critique of the current system is that the most disadvantaged people in America have no reason to think that they can be anything else. They are poorly educated, without job skills, and live in neighborhoods where prospects are bleak. Their quest for dignity and self-respect often takes the form of trying to beat the system.

The more fortunate members of society may see such people as obstinately refusing to take advantage of the opportunities that exist. But when seen from the perspective of the man who has never held a job or the woman who wants a stable family life, those opportunities look fraudulent.

My version of a UBI would do nothing to stage-manage their lives. In place of little bundles of benefits to be used as a bureaucracy specifies, they would get \$10,000 a year to use as they wish. It wouldn't be charity—every citizen who has turned 21 gets the same thing, deposited monthly into that most respectable of possessions, a bank account.

A UBI would present the most disadvantaged among us with an open road to the middle class if they put their minds to it. It would say to people who have never had reason to believe it before: "Your future is in your hands." And that would be the truth.

Mr. Murray is the W.H. Brady Scholar at the American Enterprise Institute. His book advocating a universal basic income, "In Our Hands: A Plan to Replace the Welfare State," was first published by AEI in 2006. A revised edition will be out later this month.

FOR	AGAINST
<ul style="list-style-type: none">■ Poverty and vulnerability reduction■ More choice to citizens on spending■ Better targeting of aid■ Insurance against shocks■ Boost to financial inclusion■ Psychological aid to people■ More administrative efficiency	<ul style="list-style-type: none">■ Gender disparity induced by cash■ Fiscal cost given political economy of exit■ Conspicuous spending■ Could put stress on banking system■ Political opposition to transfers to rich people■ Exposure to market risks (cash vs food)■ Reduction in labour supply

Source: Economic Survey Of India

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