

# B★SCHOOL for PUBLIC POLICY

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## Summary: Universal Basic Income Seminar by Ioana Marinescu

Concern over massive structural unemployment, due to technological automation and globalization, is on the rise. Universal Basic Income (UBI) has attracted attention from both sides of the aisle as one potential solution to a scenario where a large number of people are not able to earn a livable wage. In order to understand the economic implications of UBI, economists have studied previous and current examples of UBI-type programs, analyzing their impact on consumption, labor force participation, education, health, and other key metrics.

### UNIVERSAL BASIC INCOME: BACKGROUND

At its core, UBI is a regular transfer of cash to all residents within a specific geographic region, for the long-term, without any conditions. UBI differs from current welfare programs in the U.S. because it does not set an income threshold, nor does it stipulate how the money must be spent. In his 1962 book *Capitalism and Freedom*, Nobel Prize-winning economist Milton Friedman argued in favor of UBI to replace welfare programs which, he argued, disincentivized work and created welfare dependency. President Nixon was receptive to Friedman's ideas about welfare reform and, in 1971, proposed a negative income tax (NIT) transfer, a type of UBI, as the centerpiece of his welfare reform program. Nixon's reform bill was not passed by Congress and political support for UBI waned. As proposals for UBI have regained traction, a lot can be learned from earlier policy experiments during and since the Nixon administration.

### NEGATIVE INCOME TAX (NIT) EXPERIMENTS

From 1968 to 1982, the U.S. and Canadian governments conducted five NIT experiments. Each experiment had a different guaranteed income, several with transfers of large sums of money equal to the poverty line, as well as different withdrawal rates. The effects of NIT on work showed that with a 10% increase in unearned income, the number of hours worked dropped 1%, or about 2-4 weeks over a year. The effect was not always statistically significant, however, and there were selective attrition and misreporting problems with the study's design.

Still, NIT was found to have positive effects on health and on educational metrics such as school attendance, grades, and test scores, especially amongst the most economically disadvantaged. But the implied negative impact on the overall labor force was enough leverage for opponents of UBI to diminish political interest, effectively halting the progress of UBI legislation in Congress.

### EASTERN BAND OF CHEROKEE INDIANS CASINO DIVIDEND

In 1997, the Eastern Band of Cherokees in North Carolina opened a casino on tribal land. Since then, the revenue from the casino has been given back to every tribal member, without condition, as a form of UBI. The amount of money each member receives per year averages between \$4,000 and \$6,000. By comparing tribal members with non-tribal members in the same area before and after 1997, economists have been able to assess the effect of the cash transfer. The data show members who receive the casino dividend work the same number of hours as those who do not, have improved education (as much as one extra year for the poorest Cherokee households), commit less crime, and have improved mental health and decreased addiction.

“We know that giving people cash with no strings attached has small effects on work.”



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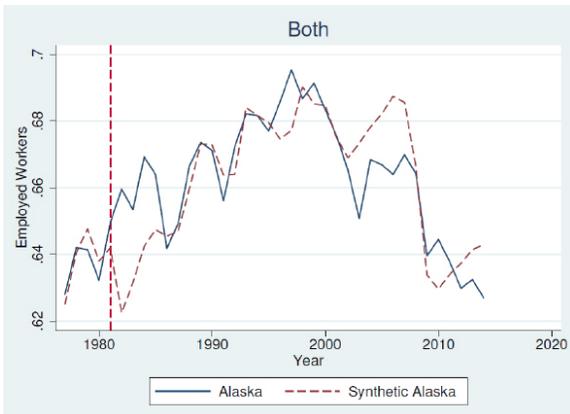


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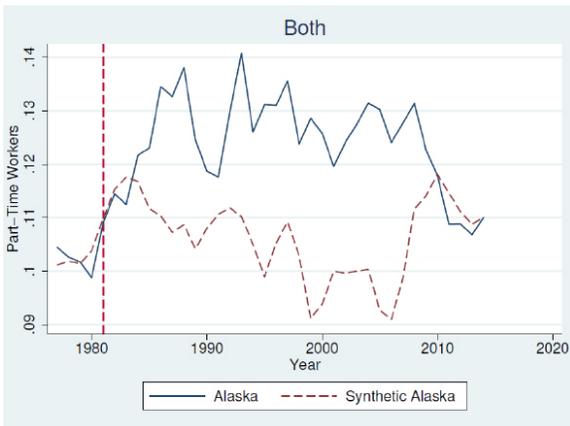
**ALASKA PERMANENT FUND**

The Alaska Permanent Fund was created in 1976 with the stipulation that at least 25% of all revenue from the oil industry be invested and the dividends on the investment be paid out to all Alaskans, with no strings attached. Since June 1982, every Alaskan has received anywhere from \$331 to \$2,072 per year, depending on the performance of the investment.

The Alaska Permanent Fund provides a particularly good opportunity to study the behavioral economic impacts of UBI. The program applies to all Alaskans, whereas the other studies were not universal, and the Alaska Permanent Fund provides 30 years worth of data, making it possible to study the long-term effects. By using the synthetic control method and comparing Alaska with a composit of similar states, Professor Marienescu and co-author Damon Jones studied the causal impact of the Alaska Permanent Fund.



**Figure 1: Employment Synthetic Control (the effect on full-time employment was not statistically significant)**



**Figure 2: Part-Time Workers Synthetic Control (the effect on part-time employment was positive)**

Evidence from the study suggests that the cash transfer Alaskans receive stimulates the local economy, with greater spending towards local businesses. The income effect, which typically leads people to work less as they receive more income, is counteracted by the increase in labor demand from industries serving the local consumers. The overall employment effect is null or slightly positive.

**LOTTERY WINNERS**

Winning the lottery is similar to receiving a UBI. The money is often given to the winner in installments, with no conditions, over a long duration. Furthermore, the sample is random, creating an ideal economic case study. Two such studies in the U.S. and Sweden show consistent results: the effect of winning the lottery is similar to the effect of NIT. A 10% increase in unearned income leads to a 1% decrease in earned income. Very few people stopped working. Winning \$140,000 decreases the probability of working by about 2 percentage points, with the effect being zero after 10 years. Lottery winners instead worked fewer hours but remained employed, took more vacations, and consumed more.

**FINANCING UNIVERSAL BASIC INCOME**

Is UBI financially feasible, though? There are two financing options for UBI: (1) spending cuts to other programs, and (2) raising additional revenue. Financing will depend on the amount of the basic income. In 2017 the Organization for Economic Co-operation and Development ran a simulation of basic income for all those under 65 years of age, financed by cutting most existing types of cash benefits and tax-free allowances. The result showed that at current spending levels in the U.S., the non-elderly benefit per capita would fall well below the poverty line. Clearly, spending cuts would not be sufficient to fund UBI. However, if combined with additional revenue, UBI becomes more feasible in the U.S.

A carbon fee would be one possible source of new revenue. A recent poll showed 67% of adults in the U.S. approved of the idea as long as it was revenue-neutral (revenue raised by the fee would not be spent by the government). The money generated by the carbon fee could finance a small UBI. This plan would incentivize a reduction in carbon pollution, help reduce negative effects on the climate, and create revenue to give a cash transfer of approximately \$583 per person per year, no strings attached.

Adjusted Family Cash Income Decile	Number of Families (millions)	Distribution of Cash Income (%)	Current Law Federal Tax Burden as a % of Cash Income (%)	Change in After-Tax Income				
				No Revenue Recycling (%)	\$583 Per Person Rebate (%)	Reduce OASDI Payroll Tax Rate (%)	Reduce Corporate Tax Rate (%)	1/3 Rebate, 1/3 Payroll 1/3, Corp Tax Cut (%)
0 to 10	16.4	1.0	-10.3	-0.8	8.9	0.0	-0.5	2.8
10 to 20	17.2	2.1	-4.4	-1.2	4.7	0.0	-1.0	1.3
20 to 30	17.2	2.8	1.4	-1.4	3.1	0.1	-1.1	0.7
30 to 40	17.2	3.7	5.6	-1.5	2.0	0.0	-1.1	0.3
40 to 50	17.2	5.0	9.2	-1.6	1.2	0.1	-1.1	0.1
50 to 60	17.2	6.6	12.3	-1.7	0.6	0.1	-1.1	-0.1
60 to 70	17.2	8.5	15.0	-1.8	0.1	0.2	-1.0	-0.3
70 to 80	17.2	11.2	17.6	-1.8	-0.3	0.3	-1.0	-0.3
80 to 90	17.2	15.5	20.9	-1.8	-0.7	0.4	-0.8	-0.4
90 to 100	17.2	45.1	29.0	-1.5	-1.0	-0.3	1.5	0.0
<b>Total</b>	<b>172.1</b>	<b>100.0</b>	<b>21.0</b>	<b>-1.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
90 to 95	8.6	11.2	23.3	-1.8	-1.0	0.3	-0.6	-0.4
95 to 99	6.9	15.2	25.5	-1.6	-1.1	-0.2	0.1	-0.4
99 to 99.9	1.5	9.4	32.7	-1.4	-1.2	-0.9	2.1	0.0
Top.1	0.2	9.4	37.7	-0.7	-0.7	-0.6	6.3	1.7

**Figure 3: The Distribution of \$49/mt Carbon Tax and Revenue Recycling Options**

**CONCLUSION**

Based on evidence from existing studies, economists have shown giving people cash with no strings attached has only a small negative effect on work, and can improve educational and health outcomes, especially among the most disadvantaged. Paying for such a program, however, is not a trivial matter. As political appetite for UBI is growing, a new UBI program is more likely to be implemented at the state level than at the federal level.