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# Universal Basic Income

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*Universal basic income* (UBI) is a proposed system to replace some social welfare and social insurance programs with periodic cash payments to every citizen. Although specifics of various proposals differ, the common elements are that payments are regular, secure, direct, and without conditions on how recipients use the money. UBI programs would make payments to all citizens, regardless of income. However, some proposals for guaranteed income programs would only provide payments to people living below the poverty line. While it is not a new idea—Thomas Paine first proposed a "citizen's dividend" in the 1790s—UBI gained increased attention in the 2010s.

Main Ideas

- Universal basic income (UBI) programs would replace traditional social welfare and social insurance programs with a single program that provides a guaranteed amount of income to every person.
- Proponents believe UBI could help reduce poverty and income inequality and address the changes in the job market caused by increased automation.
- Opponents fear that UBI would increase inflation, disincentivize work and prudent fiscal management, and prove too expensive to maintain.
- An early proposal similar to UBI was developed by economist Milton Friedman in the 1960s. In Friedman's "negative income tax" program, people living below the poverty line would not pay taxes and instead get payments from the government to cover their basic needs.
- The Alaska Permanent Fund, which has paid eligible residents an annual dividend from the state's oil revenues since 1982, is the longest-running universal government payment program in the United States.
- Technology entrepreneur Andrew Yang, a 2020 candidate for the presidential nomination, is among several technology and business leaders who have expressed support for UBI. Yang's Freedom Dividend program proposed to give each American \$1,000 a month.
- An ambitious, eighteen-month UBI experiment began in Stockton, California, in early 2019.

## A Response to the Changing Economy

Following an approach to government called the *welfare state*, in which the state takes responsibility for the overall well-being of its citizens, the United States provides social welfare and social insurance programs. Social welfare, or government assistance, supports low-income persons and families through programs that subsidize basic needs like food, housing, and health care. Medicaid and Supplemental Nutrition Assistance Program (SNAP) are examples of social welfare. Social insurance, also called entitlements, includes programs that all workers pay into in order to eventually draw benefits. Social Security and Medicare are forms of social insurance.

Though most of the major federal social welfare programs date back to the 1960s, poverty has remained entrenched in some areas and populations within the United States. In 2018 the official poverty rate was 11.8 percent. While that rate is the lowest since the 2008 recession, it still represents approximately thirty-eight million people in poverty. Politicians and economists are also concerned about rising wealth inequality in the United States. The median income for American families has remained nearly stagnant for decades in terms of actual buying power. In 1979 the median household income was \$16,530, the equivalent of \$58,210 in 2019. The actual median household income in 2018 was \$63,179. While the US economy has seen significant growth, most of the gains have concentrated at the top levels of society. In 2018 the highest-earning 20 percent of American households brought in 52 percent of all income earned that year. This means they made more money than the other 80 percent of households combined.

Technological developments threaten to further widen the wealth gap. Work automation has steadily risen in the twenty-first century, and the pace of automation is increasing as technology improves. Most of the displacement of human workers has been in the manufacturing sector, with human factory workers being replaced by robots. Estimates are that, since the year 2000, the United

States has lost approximately 260,000 manufacturing jobs to robots, about 2 percent of the manufacturing workforce. Lost jobs are expected to be concentrated in the career fields that have replaced factory jobs for many lower-middle and working-class people: warehousing and logistics, construction and maintenance, and customer service and retail jobs are at the highest risk of replacement.

Interest in replacing or supplementing welfare state programs with UBI surged in the 2010s. UBI is seen as a way to make progress against poverty, reduce current levels of inequality, and mitigate some of the economic disruption of the transition to automated labor.

## Support for UBI

Experimental programs that incorporate some aspects of UBI have been attempted since at least the mid-twentieth century. In the 1960s, Nobel Prize-winning economist Milton Friedman (1912–2006) advocated a "negative income tax," suggesting that low income citizens should receive tax payments rather than making them in order to provide an income sufficient to cover basic needs. A negative income tax model was attempted in several limited experiments, with mixed results. While some recipients reduced their participation in the workforce, the amount of time was the equivalent of only two to four work weeks per year, and some of that time was spent pursuing education or family care.

Conservative supporters of UBI plans like Friedman argue that such programs would reduce government involvement in peoples' lives by replacing multiple social welfare bureaucracies with one direct plan, and also remove the "poverty traps" that make it more economically desirable to remain unemployed and on benefits than to work for less overall pay than the benefits provide.

The Alaska Permanent Fund is the longest-running universal government payment program in the United States. The fund was established by voter referendum in 1976 to protect and invest some of the oil revenues coming into the state. Since 1982, the fund has paid an annual dividend to all eligible Alaska residents, to be used however they wish. The dividend usually ranges between \$1,000 and \$2,000; in 2019 it amounted to \$1,606 per resident.

Neither the negative income tax nor the Alaska Permanent Fund is a true UBI program, however. The negative income tax is limited to those below a certain income level. While the Alaska Permanent Fund Dividend is paid to all residents regardless of income level, the amount is not high enough to provide a true minimum income.

In 2017 entrepreneur Andrew Yang (1975–) made a UBI proposal called the Freedom Dividend a central part of his campaign for the 2020 Democratic presidential nomination. Yang is one of several technology leaders who have expressed support for UBI as a way of offsetting the negative employment impacts of automation. Other advocates include technology entrepreneur Elon Musk, Facebook cofounder and CEO Mark Zuckerberg, and Microsoft founder Bill Gates.

Supporters of Yang's Freedom Dividend and other UBI schemes argue that the benefits would extend far beyond the obvious one of providing a minimum income to keep people out of abject poverty. Yang points out the wider positive effect of more people having money available to them. Advocates point out, for example, that with a \$1,000-per-month payment, a small town of ten thousand people would see an influx of \$10 million per month, most of which would be spent locally on items like car repairs and childcare. UBI proponents suggest that it would also bring savings in areas like health care because, with an escape route from unsatisfying jobs, physical and mental health would improve. More people would be likely to start their own businesses, seek education, or take time to care for children or older family members, all of which would have long-term positive impacts on society.

One of the more ambitious UBI experiments began in Stockton, California, in early 2019 and is expected to run for eighteen months. The Stockton Economic Empowerment Demonstration (SEED) provides \$500 per month to a pool of 125 randomly chosen local citizens.

### Critical Thinking Questions

- Which arguments, if any, for or against UBI as a replacement to social welfare and insurance programs do you find more persuasive?
- Do you believe a UBI program would help provide economic stability to workers in industries affected by automation? Why or why not?
- In your opinion, would UBI have a positive or negative effect on your community? Explain your answer.

## Concerns Regarding UBI

Critics on both the political right and left remain highly skeptical of UBI proposals. They argue that such "free money" removes incentives to work and essentially gives up on large segments of the population ever finding rewarding employment. Some fear that many recipients would spend their payments unwisely, although preliminary data from the SEED program shows beneficiaries spending the money on practical items like food, clothing, and utility bills.

Progressive opponents of UBI express concern about the dangers of replacing the traditional welfare state's multiple organizations with one concentrated program. Some argue that such a program is more vulnerable to being arbitrarily reduced or eliminated by a future government that opposes it, leaving no social safety net at all. Others counter that a program that equally benefits every member of the population is less vulnerable than one where one part of the population believes that money they earned is being seized by the government to give away to the "undeserving poor" who simply refuse to work.

Some opponents of UBI assert that giving everyone money would bring on inflation, as prices will naturally rise in proportion to the extra money available to spend. They also argue that a universal program will waste resources on wealthy people who have no need

of government subsidies while potentially reducing the support available to people with significant needs such as those with physical disabilities.

The biggest obstacle to implementing a fully national universal basic income is the question of how it will be financed. Estimated costs of providing UBI payments of \$1,000 to every eligible American are between \$3 trillion and \$4 trillion per year. In contrast, the entire US federal budget proposed for fiscal year 2021 is \$4.829 trillion. UBI proponents counter that a significant portion of the funds for UBI would just be reallocated from the current budgets for welfare state programs. However, even the most optimistic projection of these savings would not come close to covering the full cost of a US UBI program.

Many supporters of UBI concede that government revenues would have to increase significantly to cover the cost. Additional revenues may need to come in the form of new types of taxes, such as a value-added tax (VAT) on goods and services; transaction fees on corporate mergers and stock trades; and a resurgence of specific taxes, including capital gains and estate taxes, that target the most wealthy individuals. However, some argue that even with such measures, the costs would still outpace the ability of the country to support it. A 2018 data modeling study by the Wharton School of the University of Pennsylvania found that a UBI plan begun that year would increase federal debt by over 63 percent by 2027 and over 81 percent by 2032.

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