

The UBI Debate: A Catalyst for Covid Entrepreneurship Or A Perpetual Free Rider Problem

The once outlandish and eccentric American businessman Andrew Yang stood out from other 2020 Democratic candidates in his plan to implement a Universal Basic Income. UBI is defined by [Stanford University's Basic Income Lab](#) as “a government program in which every adult citizen receives a set amount of money on a regular basis.” While some praised Yang's idea for its ability to stimulate the economy, most condemned UBI for being too radical and leading to possible inflation. Yang's idea of UBI far outlived his political demise and entered its way into mainstream media. Matt Stevens and Isabella Grullón Paz write in a March 2020 [New York Times Article](#), “Andrew Yang's \$1,000-a-Month Idea May Have Seemed Absurd Before. Not Now.” Therefore, *what changed?* As America became enveloped by the impending threat of COVID-19, President Donald Trump implemented economic stimulus checks for Americans whose businesses were disrupted due to lockdowns. Thus, the questions remain: does UBI do more harm than good? Has it allowed for COVID entrepreneurship, or does it exacerbate the free rider problem that critics have warned about?

Advocates for Universal Basic Income point to three main advantages: negating the impacts of automation, resilience to temporary shocks, and entrepreneurship compared to existing welfare programs. First, Mark Zuckerberg explained in a [press conference with the LA Times](#) that, “automation will take away many jobs in coming years... Concerns about automation have prompted many in the high-technology industry to argue for a basic income as being necessitated by the negative effects of their business models.” A Universal Basic Income is thought by tech-giants such as Zuckerberg, Gates, and Bezos to negate the effects of automation, while providing workers a safety net to support their families during times of temporary unemployment. Second, Universal Basic Income could prevent the separation, corruption, and inequity employed by present-day welfare plans such as social security and unemployment insurance. Instead of creating different guidelines for aid and employing endless bureaucrats, UBI offers a more simple and effective means for economic growth. Finally and perhaps most importantly, UBI could increase entrepreneurship in a post-COVID economy. UBI might provide workers the ability to make riskier decisions without fear of failure because they have an economic safety net to fall back on. These new businesses would, ideally, serve to stimulate the American economy following a period of economic recession.

However, critics for Universal Basic Income point to two arguments: inflation and free riding. First, the concept of a UBI is inherently flawed because there are no limitations on *who* can get it; both billionaires and homeless Americans would be entitled to the same sum of money regardless of their socioeconomic status and need for government assistance. Thus, if the government supplies all Americans with more money universally, that simply implies that the gap between rich and poor would remain the same. For example, if Person X has \$1000 and he is given a stimulus check of \$500, his gross revenue is \$1500. If Person Y has \$0 and is given a stimulus check of \$500, his gross revenue is \$500, maintaining the same gap of \$1000. Therefore, Person Y will need to raise prices of the goods he sells in order to make a living to escape the cycle of poverty. To prevent this, Andrew Yang's UBI plan would have only provided stimulus checks to those in dire need of his “Freedom Dividends.” Conversely, Donald Trump's COVID-era stimulus checks gave monetary assistance to a far

wider range of people than Yang's plan. While this financial gain may help businesses who have suffered from the pandemic in the short run, it could lend itself to the free rider problem in the long run.

The prisoner's dilemma perfectly illustrates the tragedy of the commons problem which arises from the provision of a Universal Basic Income. In the traditional prisoners' dilemma, two prisoners are given a choice as to whether they would prefer to confess their crimes in exchange for shorter jail time. The results can be seen through strategic game theory:

		Prisoner B	
		Remain silent	Confess
Prisoner A	Remain silent	A gets 2 years B gets 2 years	A gets 8 years B gets 1 year
	Confess	A gets 1 year B gets 8 years	A gets 5 years B gets 5 years

If one prisoner confesses, the other is disadvantaged. This “winner” and “loser” mentality can be applied to UBI's economic reasoning whereby a shared resource is given to the entire population and is only to be taken by those who *need* it. Individuals who need UBI are crowded out by other members of the population and free riders, those that ‘confess’ and fail to cooperate will cause the overexploitation of the resource. Since the government only has a limited amount of taxpayer dollars to spend on creating a UBI, a strain on resources could lead to its ultimate demise.

Therefore, while a Universal Basic Income is likely to help bail-out businesses facing economic instability in the status quo, it could be overexploited in post-COVID years if it is abused by those who need the money less than others. The balance between providing a safety-net and preventing free riders will be important in the coming years as society attempts to rebuild entrepreneurship and innovation following economic recession.

