

## Universal Basic Income: A Solution to Automation-Driven Inequality

There are roughly 150 million total jobs in the USA. Unfortunately, the robots are coming, and that number is about to change. Over 45% of these 150 million jobs – in every sector, machining, medical, retail, business – are on the brink of being automated by faster, better, smarter computers and robots. Even highly educated workers like radiologists are at risk of being replaced, with deep learning startup Enlitic's newest algorithm easily identifying anomalies in a CT scan. And it does so faster, cheaper, and over 50% better than expert radiologists. Looking at the current situation of economic equality in America, we aren't in a great place. And with advanced robotics only generating wealth for those who can afford them, we're on a perilous path. However, there is an economic system that can remedy this, one that's not only not as extreme as communism and socialism, but that also encourages innovation, provides social security nets, is more efficient than the welfare system, and can in fact be implemented today, in its current state. That economic system is known as Universal Basic Income, or Guaranteed Basic Income. The idea behind UBI is to eliminate all existing need-based welfare systems, and instead provide every single adult citizen a flat sum of money every month, regardless of need, want, or socioeconomic status. No matter whether one's net worth is \$7 or \$7 billion, they would expect to receive a flat sum of money per year, enough to live on, in straight cash. This would not only provide a safety net in the face of job loss, but also encourage innovation, entrepreneurship, and creativity through a comprehensive safety net. Faced with the onset of higher level automation, job loss, and growing inequality in today's world, the concept of a universal basic income is not just enticing, but feasible.

First, it is important to dispel the notion that redistributing the wealth for a UBI would hurt the economy. In fact, many economists say otherwise, and the solution isn't even that complicated. First, the US spends roughly 1 trillion on welfare, the Cato Institute reports (Tanner 5). That alone is enough to provide every US citizen over 18 with roughly \$4.1k/yr. If we were to additionally abolish tax expenditures, the personal exemption, and social security (as UBI is a replacement), the total is brought to roughly \$7.1k/yr (Dolan 3). This is a strong beginning, enough to benefit most citizens, and provide a modest safety net, all without raising any taxes.

Now, with a small to modest raise in taxes accompanied by a carbon, land, or consumption tax (all economically progressive), it would be almost trivial to completely fund a comprehensive UBI for all citizens. A carbon tax is (hopefully) ineffective long-term as we transition to renewable sources of energy, and a land tax can be argued against on the basis that it encourages outsourcing. Conversely, a consumption tax is a stable, feasible method of taxation that doesn't encourage outsourcing or changes in spending habits, with economists William Gale and Benjamin Harris stating that "A broad-based VAT that is levied uniformly on all goods and services would not distort relative prices among consumption goods." (Gale and Harris 3). Economists Joseph Rosenberg and Eric Toder estimate that implementing an across-the-board 5% consumption tax would generate roughly \$355 billion in revenue (Toder and Rosenberg 12). If we raise the consumption tax fourfold, to 20%, an additional 1.4 trillion in revenue is created, almost doubling the Universal Basic Income to \$12.9k/yr. In fact, a \$13k/yr UBI is enough to cover a 20% consumption tax of any income up to \$65k/yr, providing a solid buffer against any negative effects to the lower and middle classes, effectively only taxing the upper middle and upper class. In fact, the – at first glance quite high – proposed 20% consumption tax is below the average European VAT of roughly 21% (VAT Global). As well, the value of America's land is roughly \$23

trillion. A 5% land-value tax would raise roughly \$1 trillion – enough for an extra \$3.5k/yr to every American (The Economist 8), boosting the UBI to \$16.5k/yr, higher than a full time job at the federal minimum wage. And while land taxes might encourage relocating assets, it balances this effect by highly encouraging full development of existing land, stimulating the economy.

What economist Milton Friedman has also suggested – in place of a universal basic income – is the idea of a negative income tax, effectively a UBI where the benefits start to drop off after a certain income tier, usually starting to drop off after median and converging to zero at 10% or so. This would allow more funds to be allocated towards the lower end of the economic spectrum, but is a completely different topic with its own moral, ethical, and political hazards. However, it does allow for more diverse, robust options in the implementation of a UBI. Overall, we can see that it would be much simpler than it first appears to raise the resources needed for a universal \$13-16k/yr basic income. This proves that, contrary to its biggest criticism, a universal basic income is economically compatible with and feasible in today's economy.

Next, let's look at the primary role of a UBI: reducing economic inequality. Right away, we can extrapolate from other countries that a UBI would almost immediately reduce economic inequality; countries with a higher amount of social services and welfare have a lower Gini coefficient, the economic measure of inequality ("Sighing for paradise to come; Universal basic incomes," The Economist). In essence, this shows that a UBI would adeptly reduce the growing inequality in our society. As well, a UBI is one of the only current, strong plans of wealth redistribution. As the reach of automation and robotics grows larger, more and more material wealth will be created by non-humans, effectively for free. And with such an abundance of nearly free wealth, "if citizens are to begin adult life under fair conditions, it is wrong to deprive them of their just share of the wealth created by prior

generations.” (Ackerman et. al 44) By nature, such wealth would only go to the upper echelons of the economy – those who could afford the means of production in the first place. This is, however, not necessarily with a UBI, Ackerman stating that “stakeholding and basic income share a commitment to progressive redistribution.” (Ackerman et. al 44) A portion of those wealths would be redistributed to ensure that, at the very least, all citizens have sufficient economic wealth to easily survive. Given this research and evidence, it’s apparent that a UBI is a strong economic regularizer,

However, the most important tenant of a UBI has yet to be stated – the economic freedom and benefits that it creates for quality of life. Fundamentally, a universal basic income not only ensures that everybody has – at the very least – the necessities for survival but also supplements the existing incomes of many families. But what does this actually mean for the less fortunate echelon of society? In 2010, British economist Prof. Guy Standing conducted a study among eight impoverished tribal villages in Madhya Pradesh, India. In each village, every single resident over 18 received an unconditional RS450, and every child RS225. The effects were truly astounding. Most noticeably, many took it upon themselves to improve their living conditions. The percentage of households with even a single bed rose from 35.5% to 83%, the ownership of mobile phones rose sevenfold, from 9% to 61%, and the ownership of motorbikes rose from 3% to 30% – all assets that can help in the job market, and all from just \$6 USD per person (Schjoedt 2-3). As well, before the project started, 45% of recipients claimed malnourishment due to lack of income. At the end, this fell to only 19%. The consumption of beans and vegetables went up 1000% and 888%, respectively, with dairy and meat consumption also increasing. As well, the percentage of children with a normal weight in respect to age increased from 39% to 59%. The quality of education, like nourishment, rose substantially as well. School attendance for roughly 55% of students slightly rose, while attendance for roughly 20% of students had a “big improvement” in

attendance (Schjoedt 3). Taking all of these statistics into account, it's clear that a UBI can have huge effects in the sector of living conditions, and help raise families and individuals out of poverty.

A common critique of a UBI policy of direct money transfers is that it encourages laziness, or at least a reduction of working hours. In fact, the data from the studies in Madhya Pradesh state the exact opposite. While the overall amount of wage-based labor slightly declined, this was in reality due to the policy of a universal basic income allowing for greater self-determination; many laborers chose to work on personal farms over partaking in wage labor (Schjoedt 4). As well, the argument that much of the money – especially that given to children – would be exploited to purchase alcohol or drugs. In reality, alcohol consumption actually went slightly down, as compared to a control village, where the consumption rate went up (Schjoedt 2). These facts go together to show that a policy of effectively free money – that of UBI – will actually encourage people to work harder, going against the common idea that a “free lunch” will just make one lazy.

Overall, we can see that Universal Basic Income is a solid policy that is not only feasible in today's economy, but is also effective in raising living conditions, encouraging and helping self-determination and – by extension – innovation, reducing economic inequality, and protecting those in the labor force displaced by automation. As it starts to move more and more into the public eye, all signs point to it gaining more support over time, especially with the multitude of online communities growing around sharing research as well as discussing the concepts and implementations of a universal basic income policy. Already, we have multiple world governments planning implementations, with successful trials in Madhya Pradesh, and a two-year trial in Finland currently undergoing. Hopefully, we'll see successful results in these trials, and a stronger, more robust economic and welfare system in the future.

Works Cited

"Sighing for paradise to come; Universal basic incomes." *The Economist*, 4 June 2016, p. 24(US).

Business Collection. Accessed 18 Jan 2017.

Dolan, Ed. "The pragmatic case for a universal basic income." *The Milken Institute Review: A Journal of Economic Policy*, July 2014, p. 14+. Business Collection. Accessed 18 Jan. 2017.

Fabre, Alice, Stéphane Pallage, and Christian Zimmerman. "Universal Basic Income versus Unemployment Insurance." *Forschungsinstitut zur Zukunft der Arbeit Institute for the Study of Labor* (2014): n. pag. Ssrn. Web. 19 Jan. 2017.

Dubner, Stephen J. "Is the World Ready for a Guaranteed Basic Income?" Audio blog post. Freakonomics. Ed. Greg Rosalsky. *Freakonomics*, 13 Apr. 2016. Web. 19 Jan. 2017.

McIntyre, Lynn et al. "Impact of a guaranteed annual income program on Canadian seniors' physical, mental and functional health." *Can J Public Health*, vol. 107, ser. 2, 2016, 2, [journal.cpha.ca/index.php/cjph/article/view/5372](http://journal.cpha.ca/index.php/cjph/article/view/5372).

Reed, Howard, and Stewart Lansley. "Universal Basic Income: An idea whose time has come?" *Compass* (n.d.): n. pag. Web. 19 Jan. 2017.

Ackerman, B., Allstott, A. and van Parijs, P. 2006. Redesigning distribution: basic income and stakeholder grants as cornerstones of an egalitarian capitalism.

E. O. Wright (ed.), *The Real Utopias Project*, Vol. V. London, Verso.

Standing, G. 2015. India's experiment in basic income grants.  
*Global Dialogues*, Vol. 5, No. 4. <http://isa-global-dialogue.net/indias-great-experiment-the-transformative-potential-of-basic-income-grants/>

Standing, G. 2015. "Unconditional Basic Income: Two pilots in Madhya Pradesh ." 30 May 2013.

Schjoedt, Rasmus. "India's Basic Income Experiment ." *Development Pathways*, no. 21, Apr. 2016.

"EU VAT Rates, Formats & Thresholds." *VAT Global*. N.p., n.d. Web. 1 Feb. 2017.

Toder, Eric, and Joseph Rosenberg. "EFFECTS OF IMPOSING A VALUE-ADDED TAX TO REPLACE PAYROLL TAXES OR CORPORATE TAXES ." *Tax Policy Center*, 18 Mar. 2010.

Gale, William G, and Benjamin H Harris. "Creating an American Value-Added Tax." *Tax Policy Center*.

Tanner, Michael. "The American Welfare State How We Spend Nearly \$1 Trillion a Year Fighting Poverty—and Fail." *CATO Institute*, 11 Apr. 2012.

Dolan, Ed. "Could We Afford a Universal Basic Income?" *EconoMonitor*, 13 Jan. 2014.