According to a recent poll by Pew Research, 45% of U.S. adults are in favor of a guaranteed, unconditional cash transfer of $1,000 per month for all adult citizens. Such proposals, commonly referred to as universal basic income (UBI) strategies, have quickly captured public interest due to their increased traction in modern politics. Figure 1, which illustrates this growing interest, shows Google search frequency for the term, “universal basic income.” Values of 100 indicate peak search interest while values of zero indicate no interest.

![Figure 1: Google Search Interest in “Universal Basic Income”](image)

**A Universal Basic Income: Effective or Overkill?**

Jacob B. Grant
Search interest for “universal basic income” peaked in 2020 when Andrew Yang made a bid for the democratic presidential nomination on the promise of a $1,000 per-month UBI for all American adults.

The difficult question for policymakers and concerned citizens alike is whether implementing a UBI would constitute a significant improvement to the existing welfare state. Basic income detractors believe that implementing a UBI would be too expensive and make welfare beneficiaries lazy, while basic income proponents insist that it is an essential step forward in improving economic and emotional well-being. To separate fact from fiction, we will explore the following ideas:

1. The definition of and argument for a UBI
2. The myth of the lazy welfare recipient
3. The fiscal and economic costs of basic income
4. The psychological effect of basic income
5. The unproven track record of basic income

Americans must understand these ideas so that they can properly evaluate the diverse claims made about universal basic income.

THE DEFINITION OF AND ARGUMENTS FOR A UBI

According to Juliana Bidanure, a faculty director at the Stanford basic income lab, a true UBI must be cash-settled, regular, individually distributed, unconditional, and universal. This means that UBI strategies should include regular cash payments to all individuals, regardless of employment status, income, or any other criteria. Bidanure argues, “Among the package of benefits provided by the state, it is imperative that a significant portion be in the form of unconditional cash to enable recipients to have the effective means to exercise their freedom.” Nested in egalitarianism, this reasoning exemplifies the philosophical case for a UBI.

Additionally, many UBI proponents champion a more pragmatic claim for basic income. These individuals—such as the aforementioned presidential candidate, Andrew Yang—argue that artificial intelligence and computer automation will displace the global workforce so drastically that a UBI will be necessary to support a dwindling labor market. According to the management consulting group McKinsey and Company, advanced technology could displace up to 400 million workers globally by 2030. This assessment, however, is highly speculative with a large margin of error. Figure 2, below, illustrates this estimate as well as the estimate’s wide range of uncertainty.

![Figure 2: Estimates of Workforce Displacement by Adoption of Automation through 2030](image)

THE MYTH OF THE LAZY WELFARE RECIPIENT

One common criticism of basic income is this: if you give people a bunch of undeserved money, you risk making them lazy or less likely to pursue employment. This is arguably false. A 2015 report from Harvard and MIT studied multiple cash transfer programs across developing
countries. The study, which included conditional and unconditional cash transfer programs, found that zero of the seven programs participating in the study saw a statistically significant change in employment levels or hours worked because of the financial aid. 6

While the study shows that cash transfer programs are not likely to cause a decrease in productivity, it also illustrates that cash transfer programs fail to create significant upward mobility to those seeking employment.

THE FISCAL AND ECONOMIC COSTS OF BASIC INCOME

Though the effects of a universal basic income on employment are important, the costs associated with a UBI are equally crucial to understand. Andrew Yang, for example, estimated that his proposed UBI of $1,000 monthly for all American adults would "permanently grow the economy by 12.6 to 13.1 percent... and would increase the labor force by 4.5 to 4.7 million people." 7

While the phrasing of Yang's plan makes a UBI appear attractive, it ignores the issue of fiscal costs. Such a proposal would likely never be budget neutral. Figure 3 gives the estimated costs and revenues of Yang's UBI as determined by the Tax Foundation.

According to the Tax Foundation, Yang's proposal would cost around $2.8 trillion with his proposed taxes only bringing in $1.3 trillion. Additionally, the Tax Foundation concludes that "it is very unlikely that it [Yang's proposal] would be able to produce significant [economic] growth on a persistent basis." 8 This is because Yang's proposed taxes to pay for a UBI would disproportionately target U.S. oil and gas operations, increasing costs and displacing workers in those industries as a result.

Trade-off costs are also problematic for a UBI because universal basic income (by nature of being universal) cannot target cash disbursements to those who need them most. Targeting mechanisms are important as they enable governments to provide greater financial relief to those who desperately need it. A UBI, on the other hand, provides lessened financial relief to a mixed pool of individuals who may or may not need it.

Benjamin Olken and Rema Hanna, professors at Harvard and the Massachusetts Institute of Technology, studied the positive effects of targeted cash transfers versus universal ones. Their paper, published in the Journal of Economic Perspectives, explains that "existing targeting methods in developing countries, while imperfect, appear to deliver substantial improvements in welfare compared to universal programs, because they can transfer much more on a per-beneficiary basis to the poor as compared with universal programs." 9

Figure 3: Potential Costs v. Revenues for Andrew Yang's UBI ($ in Trillions)
THE PSYCHOLOGICAL EFFECT OF BASIC INCOME

Despite minimal economic and employment effects, some evidence suggests that a UBI has a superior psychological impact. Namely, that recipients of basic income are likely to feel a better sense of economic security than those who receive traditional welfare benefits.

Finland, for example, just completed the world’s first nationwide, randomized basic income trial. The experiment—sponsored by Kela, the Social Insurance Institution of Finland—was designed to observe whether a UBI could enhance the existing Finnish welfare state. The trial pitted recipients of a basic income against a control group that received conventional welfare benefits. Finnish researchers found that basic income recipients were no more or less likely to pursue additional employment than recipients of traditional welfare. More interestingly, researchers noticed that basic income recipients reported an increased satisfaction with life. These findings are explored in Figure 4.

Recipients of the UBI reported a higher sense of overall life satisfaction, 7.3 on a 10-point scale versus 6.8 from the control group. A greater understanding of this benefit could prove important for governments that want to prioritize mental and emotional advances within welfare programs.

Despite an apparent psychological benefit to receiving a UBI as opposed to traditional welfare, one must consider if that benefit is worth overhauling the conventional welfare system. Doing so would likely cost billions of dollars to any country that undertook it, a bold (or reckless) course of action considering a UBI’s negligible effect on individual employment and its inability to efficiently target financial relief to the most impoverished. For this reason, Finland has decided to forgo any plans of implementing basic income into its welfare programs.

THE UNPROVEN TRACK RECORD OF BASIC INCOME

Universal basic income proponents and detractors are both plagued by the lack of data available. True universal programs are few and far between. Most studies show that universal programs fail to compete with targeted programs when it comes to benefitting the most vulnerable. Unfortunately, researchers are limited by the lack of universal programs to study. Excluding Finland, no developed country has yet to conduct a serious basic income trial.

Lack of data aside, if existing evidence is any indicator, universal basic income advocates would have to demonstrate incredible results to convince the world that their solution was ready to dethrone the modern welfare state.

WRAPPING UP: NEW SOLUTIONS SUFFER THE SAME PROBLEMS

In summary, universal basic income strategies have costs and benefits like all policy proposals; however, these costs and benefits fail to demonstrate that a basic income model is objectively superior at improving economic well-being relative to the existing welfare state.
Robert Stephens, a senior research associate at the Victoria University of Wellington, illustrates why he believes a UBI struggles to be markedly superior to existing systems. “The UBI,” he states, “does not resolve the fundamental trade-offs… the incompatibility of achieving labor force incentives, poverty relief, and low fiscal costs at the same time.” Figure 5 explores the relationship between these tradeoffs.

Simply put, a UBI merely rearranges the tradeoffs in the existing system without necessarily improving the net effect. For example, while a UBI might improve economic incentives, doing so would likely come at the expense of poverty relief and fiscal costs.

The fundamental idea is that there is no perfect solution to welfare disparity and that economic policies always have tradeoffs. Please use this understanding to realize the limitations of a UBI and realistically evaluate the claims of politicians, policy proponents, and policy detractors accordingly. As more data becomes available (and more people pay attention to said data) it will become clear whether a UBI is effective or overkill.