

The Adverse Effects of Universal Basic Income as Proposed by Andrew Yang

Every four years American politics see a plethora of innovative politicians testing their respective platforms as they run for the most prestigious political position in the world: The United States President. One seemingly reoccurring theme among recent leftist runner ups has been the radically socialist idea of universal basic income. In 2019, democratic entrepreneur and philanthropist Andrew Yang is promoting his campaign entirely based on such a proposal. Yang proposes the "Freedom Dividend" as a way to decrease poverty and increase prosperity within the States. Although, it's hard to believe such a policy could be implemented in the United States recent trends in politics seem to indicate that this fate may be not as far away as we once thought. Yang believes it is time for the US to follow suit. However, upon further analysis universal basic income, as proposed by Andrew Yang's campaign, will yields numerous glaring issues. The most prominent of these being funding issues, a decrease in labor force work incentive, and deadweight loss from taxation collection.

It is best to first start with a basic definition of universal basic income. As defined by Yang's campaign site, universal income is a form of social security that gives a predetermined amount of currency to every person within the desired population. No other requirement is necessary to receive the divided. For example, the person does not need to be actively searching for a job if they are unemployed. Basic Income Earth Network states that basic

income must have five defining characteristics. These being periodic, made in cash payments, individual, universal, and unconditional. First the payments must be periodic, simply meaning that they must be paid in regular intervals not all at once or sporadically. The payments must additionally be paid in cash, allowing individuals to choose what they spend the income on rather than restricting the usage of the money to items such as groceries. Thirdly, the payments must be made individual not to groups of people or households. The final two conditions, universal and unconditional, simply state that the payments must be paid to everyone and under no circumstances will they be taken away (Yang), (BEIN). Therefore, if all the previously stated conditions are satisfied an economy will be operating under universal basic income.

Yang believes that by putting more money in the hands of Americans the economy will flourish. He believes that this will help many American's cope with losing their jobs as they are replaced by artificial intelligence and other computer technology. He claims that because of the current technological shift happening in America four million Americans have already lost their jobs with many more to be lost in the future. He predicts that one third of Americans will lose their jobs in the next twelve years. These jobs that will be lost will be primarily trucking jobs as autonomous cars are becoming ever more prevalent. The other workforce population Yang believes will suffer is the manufacturing industry. With the ever-increasing use of robots many factory workers will be laid off as companies rule in favor of the less costly investment of robots. This poses a major issue for America's future as there will not be enough jobs for many citizens to be able to provide for their families. The solution of course, is Yang's universal basic income policy. Yang proposes this be funded by charging a value-added tax, which would

charge a twenty percent tax on all products sold by companies (Yang). He claims that one of the major issues of our current system is that industry giants such as Amazon can avoid paying any taxes by keeping their money in offshore accounts. The value added tax would hold such companies accountable while funding a useful end by providing Americans with the freedom dividend which will allow America to prepare for its future of automation. (Yang)

Yang's specific proposal is that a \$12,000 monthly stipend be distributed to every American over the age of eighteen. Doing some simple math, we can calculate the total amount this will cost the United States each year. The 2018 Census estimated that the amount of people living in America totals to 327,167,434 (U.S. Census Bureau). Of the population 77.4 percent of people are over the age of eighteen (U.S. Census Bureau). This brings the total number of people over eighteen to 253,227,594. Multiply this number by the \$12,000 distributed annually and we have the total amount that will be paid out to Americans. This amounts to a whopping \$3,038,731,128,000.00. To put this in perspective, in 2017 the entire United States GDP amounted to \$19.39 trillion dollars. This puts Yang's plan at around 15.5 percent of our nation's GDP. Thus, the question is brought up of where is this money to come from? There are several ways to finance such a large annual investment in the nation's population. First, the Federal Reserve could simply increase the money supply by the amount of three trillion dollars per year. The second is to implement a 20% Value added tax to all the goods sold. Third the government could raise income taxes by 3 trillion dollars to pay for the stipends. A final solution would be to create a hedge fund that would allow the United States to pay out the dividends made on the stocks as the stipend for all Americans. There are many issues with all these methods of funding which will be drawn out. (Henderson)

Friedman's the father of the negative income tax which is the precursor of universal basic income had several critiques of his own policies. His first critique of his proposed policy was that it would reduce the incentive of those helped by others to help themselves. He says that this is simply unavoidable in policy when trying to reduce poverty. He also states problems of administration may arise, but he reconciled that this would be merely a minor disadvantage of the proposition. Once it was implemented the benefits would far outweigh the drawbacks. The biggest drawback of the negative income tax is it would establish a system under which the rich are forced to pay taxes which are reallocated to the poor in the community. If the number of poor people outnumbered the number of rich, then the poor could end up voting for more policies of income redistribution against the will of the rich. Therefore, the rich would unwillingly be paying much higher taxes to fund the presumed freeloading of several poor citizens (Freidman, p. 190-194), (LibertyPen). Freidman concluded that the advantages of such a system would outweigh the disadvantages were the disadvantages not to get out of control.

Milton Freidman would disagree with Yang's proposal for several reasons. The primary reason is that because Yang is not replacing the current policies, he is simply adding to the problem of increase government intervention by throwing more fuel on the fire. Were this policy to effectively replace all welfare policies in place, it may be more beneficial to the economy. Friedman's plan differed from Yang's in that the whole amount of income would not be supplemented only a percentage. Friedman would argue that Yang's proposal would disincentivize people from working and increase the amount of freeloading. In Friedman's words, "The majority imposes taxes for its own benefit on the unwilling minority (Freidman, p. 194)." Although there can be many positive benefits of basic income, even Freidman would

agree that Yang's proposal would very negatively affect the United States economy (Yang) (Freidman).

There are many issues with each possible method of funding for Yang's proposal. First, if Yang's universal basic income policy were to be implemented expecting the Federal Reserve to finance the entire project, the results could end up being catastrophic. This would almost exactly replicate the thought experiment of "Helicopter Money" laid out by Nobel Prize winner Milton Freidman. The thought is that if everyone has more money, than they will spend more money, increasing the velocity of money in circulation, leading to economic growth. This does take place to some extent; however, it does not come without adverse effects. Price inflation will ultimately ensue as there will be an increase in demand and suppliers will raise their prices to the new higher market clearing point. This will decrease the purchasing power of money, which is not of societal benefit. If everyone is \$1,000 richer, than no one is richer at all because prices rise relative to the amount of money circulating in the economy. In addition, in the long run, producers would anticipate the periodic increase in the money supply and raise prices before the dividend is distributed, negating any benefit gained by the increase in money velocity. This process would also involve redistribution of wealth from those who spent the money later to those who spent the money earlier. Those who received the money first would be able to spend the money before prices increase. Therefore, they will benefit at the expense of those who receive the money later. The prices will have already risen by the time those who receive their money later go to spend their money. This would inevitably run into a diluted currency and could spark hyper-inflation in which the dollar would be increasingly worth less and less until Americans move to another form of more stable currency altogether. The

economy will they plunge into a deep recession and undergo a long process of monetary contraction, leaving many firms insolvent and greatly decreasing productivity within the economy. In conclusion, no politician should ever fund a project such as this through severely increasing the money supply because the negative effects far outweigh the positive effects (Dowd), (Freidman), (Ritenour).

A second way to finance the stipend would be through a value added or VAT tax. There are many issues with funding through a VAT tax. The first being just the enormous sum that would need to be raise. It has been calculated that in order to fund the 3 trillion annually a 20% value added tax would need to be taxed on all phased of production. This is noble in theory as it taxes these major corporations so that they can not get away with tax evasion. The issue is that this tax will be placed on top of all other taxes in place such as state sales tax and other government taxes. This will likely lead to major price inflation as business owners will receive less for their products than before. In addition, consumers will pay much more for their products offsetting much of the benefit gained from the additional income. (Ezrati), (Henderson)

Another issue with the value added tax is the impact it will have on business. Primarily it may put many companies that operate on low margins. This companies most likely would not be able to increase the price of their product by 20% to offset the increase in taxes. This would pose a major issue for these corporations as they would likely not be profitable anymore. This would put many companies out of business and likely lead to a setback in the economy. This would further hurt the nations GDP and ultimately the VAT tax would no longer be enough to fund the entire freedom dividend. Therefore the government would end up either further

increasing the national debt by adding to the budget deficit, or they would need to further increase the value added tax which would further constrict the economy and lead to a decrease in total investment and likely a recession. (Ezrati), (Henderson)

In the words of Jose Nino of Mises institute, “When a transfer policy like the UBI is implemented, what is seen is the transfer of money from one sector of the economy to humbler sectors. However, what is not seen is the money that productive sectors of the economy lose out on. Under normal circumstances, this same money would otherwise be allocated towards business expansion and other ventures that increase worker output and worker incomes.”(Nino)

A major argument for the VAT tax is its ease of implementation and simplicity. This would potentially be a valid solution if the US were to abandon all other taxes in favor of a VAT tax. However, just adding a VAT tax on top of all other taxes will only add to the complexity of tax collection processes. The size of the Vat tax would also be so large it would almost certainly be boycotted. This brings up another interesting point in relation to the VAT tax and the distribution of the \$1000 per month. It could be that under such a system the prices of goods will rise so much that even poorer populations are worse off than they were previously. The 20% tax could be so much that consumers will end up spending more on goods than the meager \$12,000 increase in their salary leaving out the income and substitution effects. Therefore, such policies should be carefully considered before implementation. It could be that in reality the cost of consumer goods increases by enough to completely offset the stipend. This could have the opposite of the desired effect. Andrew Yang seeks to make Americans more financially

independent and able to pay off their taxes. This would greatly decrease the purchasing power of money and make the average American poorer than they were previously. In conclusion Yang should be cautious before instituting policies based on UN nations that are under a completely different tax system. (Henderson)

A third way to finance a Universal Basic income would be through simply increasing income taxes. However, once again we run into the issues with raising such a large sum of money. The federal government would need at least a 45% increase in tax revenue income to fund such a project. This means that all taxes would need to be raised by more than that to pay the collector of the taxes as well as the costs of redistributing this money back to the people. Henderson estimates that the united states would need to increase its current tax rate by seventy percent to pay for such a policy. The nation of the United states simply does not have a large enough economy to support such a tax. The investment rate would be significantly reduced as the rich are those with much lower time preferences that do the majority of the investing. With significantly higher taxes, the rich would not longer be able to invest as much as they previously had. In addition, this is a major redistribution of wealth which will disincentivize people from earning a higher income because they will just have to pay more in taxes. It is far more appealing to live comfortably and not work than to work hard to pay the majority of your income to the state in taxes. Therefore, it is most definitely not a great idea to fund the universal basic income through increasing income taxes because the decrease in investment will offset any benefit gained by giving money to the poorer populations. (Ezrati), (Hanna),(Henderson)

A final way to attempt to fund Universal income is through a hedge fund similar to that of Alaska. Alaska is often cited as a real-world example to how UBI can work. However, there are many issues when extrapolating such a small population to the entire United States. Alaska has operated under universal basic income supported by the oil drilling industries in the state since 1976. This guaranteed income distributed is known as the Alaska Permanent Fund Dividend often abbreviated PFD. The PFD meets four of the five requirements for universal basic income. It falls short on the last criteria in that the dividend's monetary value differs from year to year. The fund was originally created in 1976 when oil deposits were found in the Prudhoe Bay. To date this remains the largest oil field found in North America. The purpose of the fund was to recognize that eventually the oil reserves would no longer exist because of the unsustainability of petroleum. The fund was fueled by the blossoming oil industry in the region; collecting twenty five percent of royalties based on the wellhead value of oil paid by the companies extracting the petroleum. However, only about ten percent of total revenue from the industry is deposited into the fund as the State takes a large portion for other taxation measures. The fund's money is then invested in a diversified portfolio to hedge for inflation and maximize the duration and long run rate of return of the fund. The fund deposits are prohibited from being spent for any reason by the state, however, they are available for appropriation by state legislature for whatever purpose they may desire. An additional benefit of this plan is that by putting away a portion of current revenue royalties, Alaska state legislature is not able to overspend and be wasteful of the large sum of taxes they receive from these industrial giants. This will help keep the economy in check and not allow for price inflation and economic growth to grow at exponential rates, only to plummet when the reserves run dry; leaving Alaska in

economic ruins. Through this process, a portion of revenue from the petroleum industry are transformed into a sustainable income for native Alaskans in anticipation of the oil supply eventually running dry and being unrenewable. Therefore, future generations will not suffer in the region and can even benefit from the large quantity of production in the Alaska petroleum industry today (Goldsmith).

After the fund's creation in 1976, PDFs began to be distributed in 1982 and have been distributed every year after. According to Goldsmith, "The size of the PFD is calculated as half of the earnings of the Permanent Fund averaged over the preceding five years divided by the number of eligible residents (Goldsmith)." The PDF differs from Yang's plan in that all residents who have resided in the State for more than a year and plan to in the future receive the dividend. As opposed to Yang's plan where only United States residents over the age of 18 would receive the dividend. At first legislature for the PDF was not heavily supported as policy makers believed that these funds could be better allocated to bettering the unsatisfactory infrastructure of Alaska and other public projects. They also feared that such funds would be misallocated by individuals indulging in wasteful and harmful spending such as alcohol and drug consumption or taking lavish previously unaffordable vacations. They also hypothesized that more people would drop out of the labor market because of the new dividend would disincentivize them to work. Supporters argued that the best way to provide benefits to Alaskans was to put cash in their hands and allow them to choose what to do with it rather than the state deciding what to spend the funds on. This gained enough backing by the public to finally be passed. The state legislature retained the right to alter the formula for the amount of funds allocated from the fund to dividends each year. However, the amount of the dividend

continues to increase as if it were to decrease that politician would be unlikely to be reelected. The dividend has increased in size from \$331 in 1984 up to the highest in 2008 of \$3,269 delivered annually. The dividend amount entirely depends on the rate of return of the fund that given year. Therefore, there can be major fluctuation from year to year in the dividend paid (Goldsmith).

Goldsmith explains that there are several reasons why basic income in Alaska has not been heavily researched. These are the reasons why many Americans have never heard of this innovative new policy and the benefits it can have on the economy. These being, "First, Alaskans tend to view the disposition of dividend income as a private matter that is not the business of government to be investigating. Second, even if it were viewed as a public program rather than a distribution of earnings, there is little tradition in Alaska for funding the studies necessary to evaluate whether a program has been performing as anticipated. Third, because almost everyone in the state receives the dividend, it is difficult to construct statistical analyses that allow researchers to isolate the effects of the dividend from all the other factors simultaneously impacting behavior. And finally, the quality of much of the data that could be used for this type of study is generally not of high enough quality to support rigorous statistical analyses (Goldsmith)."

The main question being asked is what do these Alaskans do with this slight increase in income each year. The answer is contained in what is known as the Permanent Income Hypothesis. According to Goldsmith this is, "Assuming that people expect the dividend program to continue indefinitely into the future, they will treat the dividend as a permanent increase in their annual income. They will spread the additional consumption made possible by the

dividend income over their entire lifetime, probably on more of the same types of goods and services they would have consumed without the dividend income (Goldsmith).” He further claims that consumption will not increase at the time the dividends are distributed because they were expected for the entire upcoming year. Evidence from consumer purchases showed that purchases were not concentrated around the time when dividends were distributed making this fund a great success and follows the permanent income hypothesis. A survey in 1994 reported that over seventy five percent of respondents planned on saving more than half of the dividend further strengthening its positive effects. In conclusion, Goldsmith finds that the PDF is not wasteful in nature, but rather plays an important part in the success of the Alaskan economy by encouraging Alaskans to save more money and have slightly more spending money for normal non-extravagant purchases (Goldsmith).

Alaska’s Permanent Fund Dividend is certainly an example of how basic income can be successful and benefit an economy. There are several other countries that could be used as successful trials for basic income as well. However, what would be the effects if Yang’s policies would be implemented nationwide. First, there is no nationwide industry that the United States can impose royalties on to fund Yang’s idea. No hedge fund is large enough to produce dividends or interest amounting to three trillion dollars annually. Therefore, it would be impossible to fund the freedom dividend through such a method as is done in Alaska.

This would mean he would have to tax the rich more to redistribute their income to the poor through his universal income plan. There are many disadvantages to redistribution of income. The major argument against it is that it disincentivizes anyone from working harder. Why work harder than your counterpart when in the end you will both end up making the same

wage? This highly incentivizes more freeloaders to jump on the backs of the working class and unemployment will skyrocket. Production will fall and efficiency will drop because there is no longer the incentive to work hard under a socialistic government. If Yang's policy were to be introduced, we would see much more freeloading because the Freedom Dividend would allow for these people to live almost solely off this income. Throw in other welfare programs as well and there is never an incentive to work. Freeloaders can have their entire housing, food, and healthcare paid and have an additional 12,000 per year in spending money indefinitely. This would also certainly increase our country's national debt to an unprecedented level as this program would not be able to pull in enough taxes from taxpayers alone. Ultimately this would lead to an unprecedented economic downturn that may persist for many years as the economy corrects. This would be done through credit contraction and severe deflation. In conclusion, Yang should be careful applying basic income policies to large scale economies even if they have been proven to work in smaller economies (Goldsmith).

The most prevalent issue with universal basic income is the decrease in workforce incentive. Universal basic income has a negative impact on the labor supply period this is due to the fact that the income shifts the budget constraint lineup increase increases a reservation wage. This simply means that people are not willing to work for lesser amounts of money and require a higher wage to accept a job. This is because people would rather take the free income they receive and not work. Therefore, it requires a higher income to pull the unemployed or low-income earners away from enjoying their leisure time. This reduces the opportunity costs of not working by giving people enough income to live off of while they can put off work.

(Henderson)

There are two primary effects in place in this example. First the income effect occurs when people put off working altogether to enjoy their leisure time this can be made possible by the increase in their base salary. The low income earners can now afford to live off the small stipend they are given. Many would prefer living a humble life on a low income and enjoying not being in the workforce. This can be a major burden to other tax-payers as these people are not contributing at all to society and are consuming scarce resources. If too many people get in the habit of freeloading, the system will not be at all sustainable and will surely fail. The substitution effect occurs when people work less because they have more income, so they choose to take more time off because they don't need the additional income. This is very similar to the income effect except not quite as extreme. It is however, far more common. Just think about it, if you are given an extra \$12,000 a year and you currently make \$30,000 a year; it is likely you will use up all your sick days and take additional vacation time because you no longer need to earn the entirety of the \$30,000 to support yourself and your family. Both the income and the substitution effect adversely impact the economy and are major drawbacks of universal basic income. (Henderson)

Universal basic income also causes a large amount of dead weight loss. Dead weight loss is an allocative inefficiency when the equilibrium is not achieved. Dead weight loss is easily summarized as the amount of exchanges that would have taken place were it not for a government intervention to take place. Deadweight loss can occur from taxation, price floors and price ceilings. In all cases the deadweight loss adversely affects the economy by reducing the number of exchanges that take place. It is simply a misallocation of funds in which the money is not used for its most beneficial end. For deadweight loss due to taxation the demand

curve shifts downward while the supply curve shifts upward. Therefore, the price buyers pay increases and the price that sellers receive decreases therefore both parties share the burden of the tax. The dead way losses come from having to collect money from the entire population just to give it back to the to the same people. This causes multiple unnecessary exchanges to take place between the government collecting the money government agencies handling the money. The government must collect more than \$12,000 a year distribute back to the people. This collected money is involuntarily taken out of the economy preventing many exchanges from taken place. Although it is eventually given back to the people it is largely unnecessary. Why is it necessary for the government to take money from the rich just to give a smaller amount back to them? Is this some form of appeasement? Whatever the reasoning for such a policy to take effect it is largely inefficient. Why attempt to disguise a clear redistribution of wealth in form of free money given to everybody? It is far more effective to simply take money from those who are rich and give this money to the targeted poorer demographics. Although this is not necessarily a great solution it is still more efficient to stick with the policies in place then to switch to universal basic income which attempts to do the same thing with a plethora of unwarranted exchanges. In conclusion, the effects of the deadweight loss that would occur from the taxation that take place outweigh any benefits that would be gained by those receiving the money. (Henderson)

Another issue associated with universal basic income is the ever-increasing expansion of policies. The issue lies entirely in the greed of people too want to keep increasing their wealth. People always think that they deserve more than they're getting paid. Thus, it is likely that once the universal basic income policy is put into place people will continue to advocate for a higher

and higher wage stipend to be paid. This is due to the fact that the poorer population is much larger than the rich population therefore the distribution of wealth would be beneficial to the larger population. Therefore, the poor population would elect officials into place that would advocate for their higher distribution stipends. Or they would be able to manipulate politicians into increasing this stipend this is known as the ratchet effect where politicians will advocate for more government intervention and then ease off finally to institute more policies that include more government intervention. (Henderson)

One last issue with universal basic income is that it encourages unproductive behavior. Although the stipend can allow for people to get on their feet by creating a successful company, it can also have the inverse effect. This being that entrepreneurs are kept afloat by the monetary payments so that they can continue to pursue their undesirable ends. The issue is that these struggling entrepreneurs are struggling for a reason. They are not creating a product that other people want to buy and they must move away from this idea and come up with a product that satisfies a need. The market has found that the goods they are providing to be lacking in value to consumers. Universal basic income allows them to continue their unproductive businesses with the money of those who have actually produced real value. Thus, all we really see is a redistribution of wealth from those who have created value to those who are producing sub-par, undesirable products. In the marketplace, wealth is earned by generating value and these entrepreneurs are failing to create value. Therefore, they must inherently go out of business and find a new venture that creates value. Universal basic income, however, allows people who aren't producing wealth to still consume scarce goods they would otherwise not have access to. Therefore, universal income simply leads to capital consumption

y those who are not creating value and the economy ends up worse off than it was before the institution of the universal basic income policies. (Henderson)

The main take away from universal basic income is that people become more dependent on this system rather than becoming more autonomous like universal basic income seeks to accomplish. Andrew Yang wishes to accomplish making people more self-sufficient. He also seeks for the American people to have financial stability and to be able to pay off all their debts. However, people instead become more attached and dependent on the money that they are given from the government by putting off their work. The citizens learn to rely on the income as part of their salary and it becomes a necessity for them to receive. The issue is that if the system is not sustainable, many of the dependent citizens will find themselves in financial ruin were the system to collapse. This in all likelihood would happen as the amount of the stipend is ratcheted upwards and more and more people become dependent on the state for their income. It will get to the point where the system is no longer sustainable, and the bottom fall out of the system. As you can see universal basic income has exactly the opposite effect instead making people more dependent on the system by putting off their work leading to a decrease in the labor supply. Thus, in conclusion Andrew yang's policy will have exactly the opposite effect that he wishes it to on the economy. (Henderson), (Ezrati), (Hanna)

There are many more suitable ways to deal with the increase in automation ending and decrease in jobs. One such way is to decrease regulations so that it is easier to create a company. This would allow poor populations to be able to create their own corporations rather than being unemployed. A second way to deal with the decreasing amount of jobs is to foster innovation by taking away barriers to entry for jobs. Much of this stems from the high cost of

training for specific jobs such as Licenses and training. Decreasing the cost of these training and licensing would allow poor populations to get a much better paying job very easily if they are willing to put in the time to learn the profession. A third simple way to deal with this issue of increase unemployment is simply to decrease taxation. This would allow innovation too to take off as people would have more spending money and be easier for them to invest. The fourth suggestion would be to stick with the targeted aid as this is far more efficient than giving them taking money from the rich and then giving it back to them this would eliminate much of the dead weight loss that would occur in a universal basic income system. Regulations to limit the amount of aid people can get much like were instituted during the Clinton administration would be beneficial to our economy as well. Creating program that allows certain populations to only get need when they actually need it for a limited amount of time would make these populations less likely to be freeloaders and would have to think about when they actually need the money. This would force many of them to take jobs when they become available and thus stimulate our economy and decrease unemployment. Therefore, as you can see there are many better solutions than universal basic income policies proposed by Yang that would not only deal with the future increase in unemployment but also stimulate our economy in a way that universal basic income could never do. (Henderson), (Ezrati), (Hanna)

Finland is one of the countries that has been at the forefront when adopting new policies. In 2017 Finland announced that it was conducting a social policy experiment in which it would test universal basic income on a small population to see if it was worthwhile to institute on a nationwide basis. The experiment included a guaranteed basic income of 560 euros to 2,000 randomly selected welfare recipients. The money given to the recipient would be

subtracted from other, currently existing welfare benefits that participants were receiving beforehand. Additionally, these payments would not be taken away no matter what the participant made during the experiment. This was done to not disincentivize the participants from making as much money as they possibly could. Finland instituted such an experiment in an attempt to fight their ever-increasing unemployment rates. If all went well with the experiment, then the policy could be instituted on a nationwide basis in an effort to decrease unemployment rates. Unlike Yang's policy Finland planned to replace the welfare system in place with this legislation, at least in part. (Sieroń),(Nino)

The primary issue with the traditional welfare system is that welfare recipients' benefits slowly taper off and eventually stop, based upon how much income individuals independently earn. This disincentivizes welfare recipients from attempting to seek out employment. If they were to receive new employment, they would immediately see their benefits removed, and potentially their income would decrease. They may be an issue with some worker where the small amount of added income is not worth pursuing because the income isn't worth the additional labor the person would have to do. The recipients will likely value their leisure time more than the little money they will make over government payments. Therefore, those on welfare will not pursue income that results in the same or less than the benefits received from the welfare program. (Henderson), (Sieroń),(Nino)

UBI's main innovation is that it claims to avoid this disincentive to work. This is because everyone will receive the established basic income regardless of other income earned. The thought is that this will incentivize those who make less income to pursue work because their

income will no longer be capped. In addition, they will have slightly more income to invest and potentially become entrepreneurs. Some believe that universal basic income may even positively effect employment by allowing welfare recipients to make an easy transition from unemployment to employment without feeling large amounts of financial stress. (Sieroń),(Nino)

The experiment came to an end in 2018 and was considered a failure. The Finish government found that. "It (UBI) does not create incentive to work. It won't help solve unemployment, and it will not alleviate poverty. The truth is that a UBI will exaggerate all of these factors in comparison to what would exist in a more unhampered market." (Sieroń) This is because universal basic income merely moves around disincentives to work. Wealth is forced from those who have it to those who do not in a classic example of redistribution of wealth. The reality is that the more a person earns, the higher percentage of their wealth will be taken from them in the form of a tax. Therefore, work disincentives are simply transferred onto different, higher income groups because of the increase in taxes they are involuntarily subjected to. In addition, the experiment found that the number of people in the labor force would greatly decrease with the institution of such a policy. The reasoning for this is the same as previously extrapolated in the paper. Another major issue found with the experiment was that UBI deprives employers of the resources needed to increase capital accumulation, and thus increase worker productivity. This occurs because the corporations are taxed so heavily. They are unable to accumulate capital to increase their productivity and scale of production because of the heavy burden of the taxes placed on them. The study found that unemployed people receiving the UBI payments as well as other government aid are benefiting at the expense of other employed workers creating real value. These workers are not only having their

money taken from them, they are also missing out on opportunities to become more productive in the workplace. In this way the system of universal basic income appears to function like traditional welfare systems. (Sieroń),(Nino)

After extensive analysis, it is clear that there are far better solutions to our nations potential loss of jobs than instituting a universal basic income. First, there will be unsolvable problems attempting to finance such a large sum of money. Second, there will be a clear disincentive for those in the workforce to continue working as much as they do currently because of the substitution and income effects. Finally, dead weight loss will occur due to the large amount of taxation that will take place. Instead of pursuing such policies the US should advocate for deregulation and looking for ways to stimulate the economy. This will allow Americans to have a promising future with a flourishing economy.

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