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## **Commentary: Universal Basic Income May Sound Attractive But, If It Occurred, Would Likelier Increase Poverty Than Reduce It**

by Bob Greenstein

At first blush, universal basic income (UBI) seems a very attractive idea, especially to a progressive. Yet it suffers from two serious problems. First, the odds are very high that an effort to secure UBI would prove quixotic. Second, and more disconcerting, any possibility of overcoming the formidable obstacles to UBI will almost certainly require a left-right coalition that has significant conservative support — and conservative support for UBI rests on an approach that would *increase* poverty, rather than reduce it.

The key issues related to UBI include what it would cost, how it would be paid for, and the risks it poses. Let's take these one at a time.

### **The Cost**

There are over 300 million Americans today. Suppose UBI provided everyone with \$10,000 a year. That would cost more than \$3 trillion a year — and \$30 trillion to \$40 trillion over ten years.

This single-year figure equals more than three-fourths of the entire yearly federal budget — and double the entire budget outside Social Security, Medicare, defense, and interest payments. It's also equal to close to 100 percent of all tax revenue the federal government collects.

Or, consider UBI that gives everyone \$5,000 a year. That would provide income equal to about two-fifths of the poverty line for an individual (which is a projected \$12,700 in 2016) and less than the poverty line for a family of four (\$24,800). But it would cost as much as the entire federal budget outside Social Security, Medicare, defense, and interest payments.

### **Paying For It**

Where would the money to finance such a large expenditure come from? That it would come mainly or entirely from new taxes isn't plausible. We'll already need substantial new revenues in the coming decades to help keep Social Security and Medicare solvent and avoid large benefit cuts in them. We'll need further tax increases to help repair a crumbling infrastructure that will otherwise impede economic growth. And if we want to create more opportunity and reduce racial and other

barriers and inequities, we'll also need to raise new revenues to invest more in areas like pre-school education, child care, college affordability, and revitalizing segregated inner-city communities.

A UBI that's financed primarily by tax increases would require the American people to accept a level of taxation that vastly exceeds anything in U.S. history. It's hard to imagine that such a UBI would advance very far, especially given the tax increases we'll already need for Social Security, Medicare, infrastructure, and other needs.

## The Risk

UBI's daunting financing challenges raise fundamental questions about its political feasibility, both now and in coming decades. Proponents often speak of an emerging left-right coalition to support it. But consider what UBI's supporters on the right advocate. They generally propose UBI as a *replacement* for the current "welfare state." That is, they would finance UBI by eliminating all or most programs for people with low or modest incomes.

Consider what that would mean. If you take the dollars targeted on people in the bottom fifth or two-fifths of the population and convert them to universal payments to people all the way up the income scale, you're redistributing income *upward*. That would increase poverty and inequality rather than reduce them.

Yet that's the platform on which the (limited) support for UBI on the right largely rests. It entails abolishing programs from SNAP (food stamps), which largely eliminated the severe child malnutrition found in parts of the Southern "black belt" and Appalachia in the late 1960s, the Earned Income Tax Credit (EITC), Section 8 rental vouchers, Medicaid, Head Start, child care assistance, and many others. These programs lift tens of millions of people, including millions of children, out of poverty each year and make tens of millions more less poor.

Some UBI proponents may argue that by ending current programs, we'd reap large administrative savings that we could convert into UBI payments. But that's mistaken. For the major means-tested programs — SNAP, Medicaid, the EITC, housing vouchers, Supplemental Security Income (SSI), and school meals — administrative costs consume only 1 to 9 percent of program resources, as a CBPP analysis explains.<sup>1</sup> Their funding goes overwhelmingly to boost the incomes and purchasing power of low-income families.

Moreover, as the Roosevelt Institute's Mike Konczal has noted, eliminating Medicaid, SNAP, the EITC, housing vouchers, and the like would still leave you far short of what's needed to finance a meaningful UBI.<sup>2</sup> Would we also end Pell Grants that help low-income students afford college? Would we terminate support for children in foster care, for mental health, and for job training services?

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<sup>1</sup> Robert Greenstein and CBPP staff, "Romney's Charge That Most Federal Low-Income Spending Goes for 'Overhead' and 'Bureaucrats' Is False," updated January 23, 2012, <http://www.cbpp.org/research/romneys-charge-that-most-federal-low-income-spending-goes-for-overhead-and-bureaucrats-is?fa=view&id=3655>.

<sup>2</sup> Mike Konczal, "The Pragmatic Libertarian Case for a Basic Income Doesn't Add Up," Roosevelt Institute, August 8, 2014, <http://rooseveltinstitute.org/pragmatic-libertarian-case-basic-income-doesnt-add/>.

Ed Dolan, who favors UBI, has calculated that we could finance it by using the proceeds from eliminating all means-tested programs outside health care — including Pell Grants, job training, Head Start, free school lunches, and the like, as well as refundable tax credits, SNAP, SSI, low-income housing programs, etc. The result, Dolan found, would be an annual UBI of \$1,582 per person, well below the level of support most low-income families (especially working-poor families with children) now receive. The increase in poverty and hardship would be very large.<sup>3</sup>

That’s why the risk is high that under any UBI that could conceivably gain traction politically, tens of millions of poor people would likely end up worse off.

To further understand the risks, consider how working-age adults who aren’t working would fare. In our political culture, there are formidable political obstacles to providing cash to working-age people who aren’t employed, and it’s unlikely that UBI could surmount them. The nation’s social insurance programs — Social Security, Medicare, and unemployment insurance — all go *only* to people with significant work records. It’s highly unlikely that policymakers would agree to make UBI cash payments of several thousand dollars to people who aren’t elderly or disabled and aren’t working. (By contrast, there *is* political support for providing poor families that have no earnings with *non*-cash assistance such as SNAP, Medicaid, rental vouchers, Head Start, and the WIC nutrition program.)

## Universal vs. Means-Tested Programs

Some UBI supporters stress that it would be *universal*. One often hears that *means-tested* programs eventually get crushed politically while universal programs do well. But the evidence doesn’t support that belief. While *cash* aid for poor people who aren’t working has fared poorly politically, means-tested programs as a whole have done well. Recent decades have witnessed large expansions of SNAP, Medicaid, the EITC, and other programs.

If anything, means-tested programs have fared somewhat better than universal programs in the last several decades. Since 1980, policymakers in Washington and in a number of states have cut unemployment insurance, contributing to a substantial decline in the share of jobless Americans — now below 30 percent — who receive unemployment benefits. In addition, the 1983 Social Security deal raised the program’s retirement age from 65 to 67, ultimately generating a 14 percent benefit cut for all beneficiaries, regardless of the age at which someone begins drawing benefits. Meanwhile, means-tested benefits overall have substantially expanded despite periodic attacks from the right. The most recent expansion occurred in December when policymakers made permanent significant expansions of the EITC and the low-income part of the Child Tax Credit that were due to expire after 2017.

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<sup>3</sup> Dolan notes that the UBI could be raised to \$3,591 per person if policymakers also entirely eliminated an array of what he calls “middle class tax expenditures” — include the mortgage interest deduction, all tax benefits for 401(k)s, IRAs, and other retirement saving, the deduction for charitable contributions, other individual tax expenditures, and the personal exemption — *without* lowering tax rates. The chances of policymakers doing that are essentially zero. <http://www.economonitor.com/dolanecon/2014/01/13/could-we-afford-a-universal-basic-income/>

In recent decades, conservatives generally have been more willing to accept expansions of means-tested programs than universal ones, largely due to the substantially lower costs they carry (which means they exert less pressure on total government spending and taxes).

The record of recent decades thus points to an alternative course — pushing for steady incremental gains through available mechanisms, including means-tested programs, to provide as much of a floor as possible for Americans of lesser means. In 1967, the safety net lifted out of poverty only *4 percent* of Americans who would otherwise be poor. Today, it lifts *42 percent* of such people out of poverty, with programs like SNAP and the EITC playing crucial roles alongside Social Security. A multi-pronged strategy — working to start phasing in the Child Tax Credit with the first dollar of a parent’s earnings, substantially raising the minimum wage, extending affordable child care and rental assistance to many more families, enlarging SNAP benefits (as a new Hamilton Project paper proposes), and strengthening Social Security benefits for low-income workers — would substantially strengthen the income floors. It would do so in ways that are far likelier than UBI to succeed politically and much less fraught with danger to the very people we most want to help.

## **Will the politics change radically?**

While some UBI proponents argue that continued pressure on the middle class will make UBI politically feasible, I’m skeptical. Economic pressure on the middle class will not alter UBI’s daunting financing challenges. In fact, more such pressure will likelier increase middle-class resistance to the massive tax increases required to secure UBI without increasing poverty. And we shouldn’t think that we can just get the resources solely or primarily by hitting people at the top. Will we really tax the top 1 percent or top several percent enough to finance most or all of UBI — on top of the higher taxes we’ll want the same group to pay to shoulder a substantial share of the burden of restoring Social Security solvency, repairing the infrastructure, and meeting other critical needs? Increased pressure on the middle class is more likely to put UBI farther out of reach, unless it’s financed heavily — as UBI supporters on the right favor — by shifting income and resources away from the poor.

To be sure, there is a possible exception: a carbon tax that returns its proceeds to the public via a universal payment. For a carbon tax to have any chance of enactment in the not-too-distant future, however, it almost certainly will have to allocate a substantial part of its proceeds to uses that are necessary to get the votes to enact it in the first place, such as relief for coal-producing states or regions. There’s also a powerful case for using some of the proceeds to greatly expand and accelerate research into alternative energy technologies; a carbon tax likely won’t be sufficient by itself to arrest global warming.

Thus, the proceeds available from a carbon tax to finance universal payments would likely be significantly constrained. If a carbon tax could pass, we might need to focus the proceeds available for these payments on low- and moderate-income families — so the payments would be adequate to offset the higher energy costs these families would face as a result of the tax — rather than extending the payments all the way up the income scale in universal fashion.

## Conclusion

I greatly admire the commitment of UBI supporters who see it as a way to end poverty in America. But for UBI to do that, it would have to: (1) be large enough to raise people to the poverty line without ending Medicaid, child care assistance, assistance in meeting high rental costs, and the like (otherwise, out-of-pocket health, child care, and housing costs would push many people back into poverty); and (2) include among its recipients people who aren't currently working (and lack much of an earnings record), something no U.S. universal program does. It also would have to be financed mainly by raising taxes layered on top of the large tax increases we'll already need — and will probably have to fight tough political battles to achieve — to avert large benefit cuts in Social Security and Medicare and meet other needs.

The chances that all this will come to pass — whether now or 10 to 20 years from now, a time when the baby-boomers will nearly all be retired and Social Security and Medicare costs will be much higher, placing greater pressure on the rest of the budget and on taxes — are extremely low. Were we starting from scratch — and were our political culture more like Western Europe's — UBI might be a real possibility. But that's not the world we live in.