

# Universal Basic Income: An Update

House Appropriations Committee

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**JFO**

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# Outline of talk

Part 1: What is Universal Basic Income, and why consider it?

Part 2: What jurisdictions have tried it, and what are the outcomes?

Part 3: Would it cost too much, and would it discourage work?



# Part 1: What is Universal Basic Income, and why consider it? A quick review

Brief description



# UBI is a universal, unconditional, individual, regular, cash payment

- Thomas Paine (1797) suggested a lump sum to all citizens at reaching adulthood
- Variants of UBI were circulating in the United States in the early second half of the 20<sup>th</sup> century
  - Martin Luther King, Jr. – guaranteed income
  - Milton Friedman – negative income tax
- Around 2016, several prominent Americans began writing on the policy again
  - Former SEIU president Andrew Stern, former U.S. DOL Secretary Robert Reich, futurist Martin Ford
  - A tech incubator started testing UBI in Oakland, CA, and the Economic Security Project was launched to engage in research and advocacy



# Why UBI now?

- Various concerns
  - The growth of income and wealth inequalities
  - The changing position of labor
  - The persistence of abject poverty
  - The fear that automation may displace workers from the labor market at unprecedented rates, especially around Silicon Valley
- Not just for developed countries
  - Kenya, Namibia, and India as well as Finland and Canada have conducted UBI experiments in recent years



# Part 2: What jurisdictions have tried it, and what are the outcomes?

From nationwide pandemic payments to community supports



# Economic Impact Payments during the COVID-19 Pandemic

- Not universal, but about 90 percent of tax filers and millions of non-filers qualified for the three rounds of Economic Impact Payments, administered by the U.S. Internal Revenue Service (IRS) and costing about \$867 billion in total, according to the Joint Committee on Taxation (JCT)
- In 2020 and 2021, Congress authorized three rounds of direct payments to individuals with AGI up to \$75,000 for singles, \$112,500 for head of household, or \$150,000 for married couples; payments were phased out for higher AGI
  - \$1200 per adult, \$500 per child under 17;
  - \$600 per adult, \$600 per child under 17;
  - \$1400 per adult and all qualifying members of the household
- According to the IRS, none of the three payments is taxable or counts as income when determining eligibility for programs financed in whole or in part with federal funds
  - <https://www.irs.gov/newsroom/what-people-really-want-to-know-about-economic-impact-payments>
  - <https://www.irs.gov/coronavirus/second-eip-faqs>
  - <https://www.irs.gov/pub/taxpros/fs-2022-22.pdf>



# Stockton Economic Empowerment Demonstration (SEED)

- Beginning in February 2019, the mayor-led SEED program began distributing \$500 each month to 125 residents of Stockton; the payments continued for 24 months.
  - SEED was set up as a Randomized Control Trial, so some people in the study received monthly payments and some in the study did not
  - Participants were selected randomly from neighborhoods at or below Stockton's median household income
- SEED was fully funded by philanthropic dollars, and an independent evaluation of the program was funded by the Robert Wood Johnson Foundation





# Stockton Economic Empowerment Demonstration (SEED), continued

- Findings from the first year include:
  - Guaranteed income reduced income volatility, meaning the month-to-month income fluctuations that households face
  - Unconditional cash enabled recipients to find full-time employment
  - Recipients were healthier, showing less depression and anxiety and enhanced wellbeing
  - The guaranteed income alleviated financial scarcity, creating new opportunities for self-determination, choice, goal-setting, and risk-taking
- People spent the SEED money on basic needs
  - Food, nearly 37%
  - Sales/merchandise including home goods, clothes/shoes, discount/dollar stores, 22%
  - Utilities, 11%
  - Auto costs, 10%
  - < 1% on alcohol and/or tobacco



# The founder of SEED, Michael Tubbs, formed Mayors for Guaranteed Income in June 2020

- More than 55 mayors are advocating for a guaranteed income at the local, state, and federal level
  - MGI will provide technical assistance and funding support for new pilots
- Member cities include Montpelier, VT; Newark, NJ; Rochester, NY; Austin, TX; Madison, WI, Santa Fe, NM; College Park, MD; Tacoma, WA
  - Cities with pilot projects include Chelsea, MA; Saint Paul, MN; Hudson, NY; Paterson, NJ; Gary, IN; Richmond, VA



# A sampling of MGI pilot projects: Chelsea, MA

- In Chelsea, 2,074 low-income families (12% of Chelsea households) received up to \$400 a month from November 2020 through April 2021. Money was distributed via cash cards, accepted anywhere Visa is accepted.
  - Chelsea was hit hard by COVID-19 early on, and nearly 40% of families enrolled in the program reported being food insecure.
  - After five months, researchers from the Harvard Kennedy School found nearly three-quarters of the cash transfer was spent at food retailers
  - Another 21% of spending occurred at retail stores including Walmart and Target, TJ Maxx, or Family Dollar; about 4% was spent at utilities and professional services



## Another pilot project: Saint Paul, MN

- The People's Prosperity Guaranteed Income Pilot will provide at least 150 Saint Paul families with \$500 per month as a guaranteed income for up to 18 months.
  - Established September 2020, to be completed April 2022
  - Funded in part by Twitter CEO Jack Dorsey -- \$500,000 to Saint Paul
- Random selection of families participating in CollegeBound Saint Paul
  - Provides every child born to a Saint Paul resident on or after January 1, 2020 with a college savings account and a \$50 seed deposit. To build families' wealth while supporting their income, their child also received a monthly \$10 bonus deposit in their CollegeBound Saint Paul account.
  - Residents in four of the city's lowest-income zip codes, affected by COVID-19



## Another pilot project: Hudson, NY

- HudsonUP provides a guaranteed income of \$500 per month to 128 residents for five years
  - The 2020 cohort consisted of 25 participants; 50 more were added in fall 2021, and another 53 will be chosen in 2022.
  - Participants are randomly selected Hudson residents over age 18 who earn less than the median annual income of the city (\$39,364)
  - HudsonUP is supported by local nonprofits and entrepreneurs
- The report on the Year 1 (2020) participants highlights the following:
  - Increases in employment
  - Improved mental and physical health
  - Decreased symptoms of psychological distress



# Part 3: Would it cost too much, and would it discourage work?

Brief description



# Would UBI cost too much?

- The cost depends on the size of the program as well as on
  - Design of the program – does it replace or supplement other welfare programs
  - Fiscal capacity of the sponsoring entity
- In 2016, The Economist magazine calculated the amounts that 34 OECD countries could pay if they scrapped all non-health transfer payments (based on 2015 data); the OECD mostly consists of rich countries in Western Europe and North America
  - Luxembourg: \$17,800 annual payout
  - Denmark: \$10,900
  - U.S.: \$6,300 (about half the federal poverty level) based on 2015 tax rates
- But even small payments are beneficial (Alaska \$992, Brazil \$600)



# Would people stop working?

- The Manitoba experiment: Residents of a rural town in Manitoba received a guaranteed minimum income from 1974 to 1979
  - Secondary earners—married women and young men—worked less, while primary earners barely altered their behavior
  - Married women took longer parental leave, and young men saw a higher high school completion rate
  - Hospitalization rates fell 8.5%, led by accident injuries
- Researchers at UPenn are now watching Los Angeles BIG:LEAP
  - 3,000 individuals will soon receive \$1,000 monthly payments for one year, with no restrictions on how the money is spent (spurred by L.A. Mayor Eric Garcetti, part of MGI).
  - Another 3,500 families will act as a control group





Thank you!

