

# Universal Basic Income - Utopia or Realism?

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Free money for everyone. A proposal, which sounds like a utopia has existed for centuries and has even been promoted by the founders of the ne-liberal thought, Milton Friedman and Friedrich Hayek. It's the talk of an universal basic income, a fixed amount, transferred every month by the state to the citizens, independent of work efforts or any other circumstances. The proposal is controversial, because it scratches at some elementary questions: Are we by nature lazy or industrious? How much do we really trust our fellow human beings? What is the value of work measured by? And what is the real meaning of work?

## The proponents of UBI

In the 21st century, the coupling of capitalism and welfare have led to some progress, not only regarding the sustainable development of our world economies, but also the convergence of developing countries to new standards of living. Admittedly, this is under a condition that this combination both endangers and requires social policy: globalisation. On the one hand, because it endangers its national economic and nation-state constitution. On the other hand, because globalisation in turn demands

a fundamental democratic, namely human rights-based and thus increasingly idealistic justification of social policy. There remains sufficient reason for concern about persisting global inequality and poverty. There are therefore good reasons to consider social policy as a central arena for shaping society in the 21st century.

## A different society

The idea of a basic income has been gaining a hearing in all political camps for several decades, among which the 1969 President Richard Nixon, who nearly implemented a negative income tax in the United States of America. For some this idea has even become a "social paradigm within contemporary welfare theory"<sup>1</sup>. A universal basic income (UBI), which is also known as a "subsistence income", a "social dividend" or as a "negative income tax", would intervene in the world of work and life by questioning deep-seated value orientations on the function of work. At the same time, however, this concept would also change its face in the light of different socio-political orientations. It is the right to an income that secures one's livelihood, which every member of a society can claim regardless of performance and origin. Hence, a society with a basic income is certainly a different society than the one we have today.

## A model against poverty and its economic effects

The elimination of poverty may be the first of the 17 UN Sustainable Development Goals, however its achievement seems like a utopia. Can a basic income, as a social civil right, be helpful in the fight

<sup>1</sup>De Wispelaere, J., & Stirton, L. (2004). The many faces of universal basic income. *The Political Quarterly*, 75(3), 266-274.

against poverty and improvement of health and education aspects? Scientific findings underline these assumptions. But not just the effects on poverty are of interest, instead for economists its effect on the growth of the economy will be important. According to a report by the Roosevelt Foundation from 2017, using macroeconomic models, demonstrate that a UBI programme could have level but not growth effects on real GDP. In the short-term growth rates would change, however in the medium-term (here 8 years), they return to their baseline values in the macroeconomic forecasts by the Levy Institute. Overall, due to an increase in aggregate demand, employment, wages and labour force participation would increase. Estimating these macroeconomic effects should now be extended even further to include more policy measure ideas and evaluate their impact on the macroeconomy.

## The UBI could destroy our welfare state

At the same time, UBI is an alternative type of benefit that breaks with the construction logic of the existing welfare state and hence could potentially destroy its entire structure. Since the 19th century, the welfare state has been based on social insurances that collectively cover standard life risks (illness, old age, disability, unemployment and the need for long-term care), provided that the insured employee and his employer have paid corresponding contributions beforehand. Only if this is not the case, or if the entitlement to unemployment benefits is exhausted, does one have to resort to tax-financed benefits.

## Work means more than financial security

Social security cannot be decoupled from gainful employment, since the former is based on the latter. At best, parts of the population can live without working, but only as long as they can share the

wealth with others. Therefore, even if the unemployed would receive material security by a basic income, the social inclusion is not necessarily given. Going back to the question of the real meaning of work, it can be observed that one's occupation is closely linked with life satisfaction and social status. In today's society, many do not just work to cover basic needs, but it provides a sense of purpose. Further studies, such as experiments in Dauphin, Mintoba or in the village of Omitara (Namibia), come to similar conclusions.

### Financing and Inflation

Putting aside all the scientifically proven benefits of a UBI programme, the most pressing question would be how any government could finance such a project. Generally, UBI can be financed through three possible implementations. Either it is financed through deficit spending, through tax-financed revenues, or money printing. The first method would increase the risk of inflation as the reallocation of money from wealthy part of the population to the middle/poor class would incentive the latter to spend a higher percentage of their household income. Eventually, this transfer must be repaid and it becomes clear that the issuance of debt cannot be sustained in the long run. Revenue from taxes operates similarly, except that the debt burden does not have to be paid back. The idea of a value-added tax (VAT) would encourage to increase savings, while penalising the ones who spend the most. Lastly, the idea of money printing is certainly connected to the fear of inflation. "Helicopter money" - printing money and letting it rain down from helicopters to the population, will certainly cause inflation. As a result, this would probably increase public poverty and would relegate the re-

alisation of the UBI per se to the realm of utopia. However this is not necessarily true. The assumption that UBI would lead to inflation is based on the idea that the middle classes will be inundated with money, consequently rising prices. A controlled, stable injection of money supply by an independent entity can ensure that hyperinflation is evaded. In fact, UBI can even present a macroeconomic policy to control and target inflation rates. Especially in deflationary environments, such as European countries or the USA, the inflation rate can be increased to reach the desired level. Of course, in inflationary environments, as observed in developing countries, UBI would certainly lead to hyperinflation and could be disastrous. Furthermore, the money supply velocity equation gives some insight :

$M * V_t = PY$  states at which speed money is exchanged in an economy. Therefore, additional money (M) would drive up prices (P). But, the velocity (V), as well as the quantity of goods sold (y) are not constant. With more money to spend, the frequency of change of money will increase (v). At the same time, also more goods and services will get sold (y). Since, demand and supply correlate positively and depend on each other, supply will increase and keep prices stable.

### The policy question

Concluding, it can be observed that the discussions regarding the UBI are of topical and highly significant nature. But the question of its implementation remains. Would a general, equal and direct benefit of all people from the returns of the capitalistically constituted economy be advisable through social policy regulation? And if so, how could this regulation of public goods succeed as an ensemble of

social rights? Answers are still to be found through its implementation on trial basis. In the end, design principles of future social policy must be examined and structural innovations such as the UBI will have to be deeply questioned in order to change the logic of the previous welfare state.