

Universal Basic Income: Need or Fantasy?

By Didem Özçakır & Duygu Bayram

Universal Basic Income (UBI) is a proposed social policy in which each citizen receives a set amount of monthly income that covers the costs of their basic needs. The main difference between UBI and Welfare is that UBI is for everyone, it has no conditions, and it cannot be taken away. Sounds too good to ever become a reality? Well, not so fast. It is important to keep in mind that economic systems, like most other systems, change and evolve over time. Our system hasn't always been what it is today, we didn't always have welfare or even the right to ownership. Our current state, our culture, and what is expected from our future shape our economic rights along with what we expect from our governments. Usually, these cultural changes are subtle, the demands shift slowly, and the new policies are adopted gradually. However, human history has been experiencing something new in the recent century, and the 21st century specifically has been vastly impacted by it: Technology. Considering the growing risk of automation and increasing economic struggle, coupled with our current experience with the COVID-19 pandemic, UBI has never been more relevant.

UBI, being a controversial proposal, gives rise to many different questions from many different aspects and consists of many different models. In this article, we will be taking a look at the model that only offers a high enough amount to keep people above the poverty line and we will be addressing some doubts surrounding UBI, starting with more social problems and moving onto what it would look like in our current economic system.

Firstly, a popular question is "Would UBI really end up eliminating financial struggle, or would it simply collapse society because people would just stop going to work?" This isn't an easy question to answer one way or another, but there are some things to consider when trying to predict it. To start with more abstract scenarios, we should first think about why people work. Generally, we are used to people working for money, but some people work for a sense of purpose in life or because they genuinely have passion for what they do, some even go as far as to choose low-paying jobs solely for the reason that they enjoy doing them. According to Gallup reports^[1], only 15% of employees are engaged in their work worldwide, so taking this into consideration with the recent findings regarding a positive correlation between happiness and productivity^[2], we have to ask whether it would be better if we allowed people the financial freedom to choose the work they care about doing.

What about all the jobs that are boring and gruesome? It's not like anyone will think their calling is to fill out documents behind a desk. The very real possibility of these jobs being replaced by automation aside (which might introduce a robot tax to create extra money flow for UBI), there are still reasons for doing them. They could be part of a more desirable job, or as the UBI would only be covering minimum needs, there might still be some incentive for people to accept these jobs (based on their skill set and education) to receive some income boost. Remember that UBI doesn't necessarily eliminate the wealth gap, it only ensures that people do not live in fear of not meeting their basic needs. Besides, the optionality of unwanted work such as hard labor might allow the workers the power to demand more rights and better conditions.

It is also important to touch on the effects of the COVID-19 pandemic when discussing UBI, even though we can't say much as it is hard to predict what the post-pandemic economy will look like. First things first, it's looking like when people are left with nothing to do, they actually do want to do things with their lives because they become depressed^[3] otherwise. Furthermore, in the US, even in the healthcare industry, job creation is worryingly slow during the pandemic. The unemployment numbers all over the world have risen, which might not be surprising on its own but it is estimated in the US that only 3 out of 10 layoffs will be rehired, and possibly 42% of the new layoffs will be permanent^[4]. These numbers suggest a lot of people are and will be finding themselves in financial distress, and a new system might be crucial.

Although UBI looks like it would be a major step towards ending poverty and providing basic living standards, its effects on inflation has to be kept in mind as well. Inflation means the overall increase in the price level, and it can be attributed to different factors. If the amount of money circulating and in bank accounts ready to be spent (money supply) it is expected that there would be inflation. The amount of things that you can buy with the money (production of goods and services) stays the same but there is now more money to purchase all of them, intuitively this would mean the price level would go up. Another reason may be attributed to the increasing cost of production. If your cost to produce computers increase, the consumers would see this as more expensive computers. UBI can contribute to both increasing the money supply and increasing the cost of production.

Giving a basic amount of money to everyone would mean there would be more money to be spent. The way of creating the UBI fund really matters here: If you are able to create a fund by dismissing the already existing welfare programs and by not printing money the effect on inflation would be relatively low. Still, there would be more money to spend and the banking industry would have more money to lend out as credits, it would inevitably increase the amount of money in circulation. However, this more money to spend also means there would be an increase in purchasing power, thus consumption as well. To meet this increasing demand, there would be more production. At this point, UBI might mean an overall larger price level with much more production, meaning that every citizen can now take advantage of the production in the country.

The second problem is that since people would not be dependent on jobs for their basic needs, the number of people who would want to work in minimum wage jobs might decrease. This would mean that to find someone to work as a security guard or cashier, firms would have to offer higher wages. Higher wages mean a higher cost of production for firms, that would reflect on the prices as well. Then the amount of UBI had to increase, having the possibility of creating an endless loop. Automation and technology play a very important role here, as it would mean we would not need to offer higher wages to find people to do the mundane jobs.

Another question that arises in mind is if giving free money to *everyone* is the best way to spend this money. Our welfare system right now, the unemployment benefits serve as a self-correcting mechanism in the economy. It means that government has the chance of increasing the overall demand for goods and services in the economy without having to pass laws and find places to spend money. When the economy is not going well, when there is a recession, the number of unemployed people increases thus automatically increasing the amount of unemployment benefits. With UBI, the government would not have this mechanism to automatically increase demand. Demand would decrease from the pre-recession levels, since people would now *only* receive UBI, but the government would not be able to give more money to people to increase the demand to the level that the economy is accustomed to, without infringing with the bureaucratic processes of legislations that takes time. Besides, the money that would be given to the upper and middle-income families could be spent for the needs of the groups that are more in need of support. The UBI that a rich kid spends to buy himself an EarPod could be used for the education facilities for low-income groups.

UBI, with technology, gives us the chance to talk about a world in which no one has the concern of being hungry or homeless, a world in which people have the chance to continue their education or look for the job that suits their skill set the best. With the COVID 19, the UBI has gained very much of an importance, since the historic rise in unemployment made us see how necessary could it be to make people receive an amount of money to keep their day to day life. We will see in the following years if UBI will be a part of the history books, never tried at a wide scale or a revolutionary economic application to change the world from its roots.

References

1. <https://www.gallup.com/workplace/238079/state-global-workplace-2017.aspx>
2. <https://www.journals.uchicago.edu/doi/abs/10.1086/681096>
3. <https://guilfordjournals.com/doi/abs/10.1521/jscp.2009.28.3.307>
4. https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202059.pdf