Universal Basic Income: Worse Than the Status Quo

Bryan Caplan
Dep’t of Economics and Mercatus Center
George Mason University
bcaplan@gmu.edu
Classical Liberalism vs. the Welfare State

• Classical liberals have three main complaints about the welfare state.

• Complaint #1: The fiscal cost is high and growing rapidly, leading to a future of exorbitant taxes or financial crisis.

• Complaint #2: It gives recipients bad incentives. If government takes care of you, you’re less likely to take care of yourself by working, planning, and saving.

• Complaint #3: “Forced charity” is unjust. Individuals have a moral right to decide if and when they want to help others.
From Classical Liberalism to the UBI

• Even if you think these complaints justify abolition of the welfare state, no more than moderate reform is likely.
• So what reforms should classical liberals push?
• Top answer? The Universal Basic Income.
• Idea: Every citizen gets a lump-sum cash grant from the government, paid for by taxes on all other income.
• Classical liberal variant: Pay for the UBI by abolishing most or all of the other government programs.
• My thesis: Politically feasible UBI is worse than the status quo.
The Cost of the UBI

• To estimate UBI’s cost, you have to know:
  • Base payment (i.e., how much you get per year if you earn $0)
  • Benefit reduction rate (i.e., how much you lose if you earn $1).

• What sounds fair to Americans?
  • Base payment: $12k per person per year.
  • Benefit reduction rate: 25%

• Problem: Family of 4 wouldn’t start paying taxes until it earned $196k! Entire net fiscal burden borne by top decile of households.

• Can’t we fund this by abolishing existing programs? Ed Dolan’s math says this can only fund a UBI of $4452.

• What makes the UBI so expensive? Wasting most of the budget on people who don’t need it!

• Why no sensible philanthropist would fund a UBI.
Disincentives of the UBI

• Unclear if UBI gives better incentives to minority that is already on welfare.
  • Better incentives: End of 100% marginal benefit reduction rules.
  • Worse incentives: Much higher net income at $0 of earned income; no time limits or work requirements.

• UBI definitely gives worse incentives to everyone else.
  • Under current regime, non-custodial able-bodied adults are largely ineligible regardless of their income.
  • Few benefits for those residing with adults or other relatives.

Do college students have a “parental UBI”? No.
More eligibility → more beneficiaries → higher tax rates → even worse disincentives.
Injustice of the UBI

• Is forced charity always unjust, or sometimes justified?

• Either way, there are still degrees of injustice. Being victimized for a really good reason isn’t as bad as being victimized for no reason at all.

• Crucial variables:
  • The severity of poverty: absolute versus relative.
  • Blameworthiness of the recipient: “deserving” vs. “undeserving poor.”

• Classification is not that hard.
  • War orphans vs. habitual drunks

• At least status quo prioritizes innocent children. UBI bizarrely forces workers to support total strangers regardless of need or desert.
Austerity for Liberty

• Is there a better reform? Yes: austerity.
• Instead of advocating a radical and costly new approach, why not whittle down the status quo?
  • Budget cuts
  • Eligibility requirements
  • Time limits
  • Audits
  • Cost-effectiveness tests
• Despite its unpopularity, austerity is just common sense.
  • “What do you need it for?”
  • “What happened to the last billion?”
• Coalition-building: Austerity appeals to pragmatists as well as CLs.
• Austerity now!