The pie-in-the-sky UBI

By Laura Tyson and Lenny Mendonca
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According to the conventional wisdom in Silicon Valley, robots will soon eat everyone's job, and a universal basic income will become necessary. Lately, tech titans are especially eager to extol the results of a UBI pilot project in Kenya that is being funded largely by Silicon Valley philanthropists.

While the idea of UBI often arises during periods of economic and social stress, this is the first true test of it. The Kenya project provides a guaranteed poverty-ending income for those who receive it. In 40 poor, remote villages, 6,000 adults are now receiving 75 cents (yes, *cents*) per day – or $22 per month for 12 years.

We hope that the experiment in Kenya works. Cash assistance shows much promise for eliminating extreme poverty in developing countries. But, to be effective, it must be delivered directly to those in need over a sustained period of time, and inadequate amounts. In poor developing countries, a UBI can disintermediate expensive aid programs that fail to address the targeted population's needs, and that are often undermined by corrupt regimes.

Still, Silicon Valley's titans should curb their enthusiasm. The Kenya UBI relies on M-Pesa, a for-profit mobile banking system that was built with the support of foreign aid, private companies, and a forward-looking government – not well-meaning philanthropists.

And even if a UBI succeeds in Kenya over the next 12 years, it is not a solution to pressing problems in the US economy today. A UBI for the United States is as fanciful as President Donald Trump's border wall: it would be prohibitively expensive; and it would not solve the problems that it is meant to address.

Worst of all, UBI proposals are disingenuous distractions from such immediate problems as persistent poverty, especially for children and racial and ethnic minorities; stagnant real (inflation-adjusted) wages and incomes for most households; expanding income inequality; declining social mobility; inequalities in educational opportunities; and the income volatility that comes with erratic employment.

Technology has not yet significantly reduced the overall number of jobs in the US, but it has certainly undermined job quality for millions of workers. New technologies are wiping out routine manual and cognitive middle-skill jobs, and exacerbating labor-income inequalities, the most important source of overall income inequalities. But does this litany of problems justify a basic income for every working American, including Silicon Valley "superstars," whose skills and incomes have been complemented and enhanced by skill-biased, labor-saving technological change?

Even if a UBI for every American adult was a desirable goal, no serious proposal for funding it exists. In Kenya, a $22 monthly payment might very well eradicate poverty; but it would be "chump change" in the US, where the official poverty line for an adult in 2016 was $12,700 per year.

Each year, a $10,000 basic income for every American adult would cost more than $3 trillion, consuming more than three-quarters of the annual federal budget. This would require historically high taxes, and yet we rarely hear wealthy UBI advocates calling for their taxes to be raised. They are more likely to advocate cutting existing social-welfare spending, such as Social Security and other programs that benefit the bottom two-fifths of the population, including children.

While we await the results of the Kenyan UBI pilot and anticipate the future destruction of jobs by intelligent robots, we need to modernize and strengthen existing programs that address the challenges workers face today. Quality education at all levels, including job-relevant training and lifelong learning opportunities, are critical to provide the skills that labor markets demand, but require significant investment.

Transition-assistance programs, to help workers and their families cope with employment and income disruptions, also will be needed. In Silicon Valley, "disruption" connotes positive change; in reality, disruption inflicts substantial pain on those whose livelihoods are upended by new technology.

In the US, current programs – such as Medicaid, unemployment compensation, the Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) – should be made more generous. In addition, the US should develop a national, universal income-insurance program to assist those facing financial insecurity as a result of unemployment, disability, illness, or the death of a family member. Meanwhile, as a larger share of the workforce engages in independent work, the current employment-based benefits system will need to be replaced with a portable benefits system that covers all workers, regardless of employer.

Americans also need a higher federal minimum wage. Had the minimum wage kept pace with rising productivity, it would be nearly $19 per hour today, instead of $7.25. Among workers earning the minimum wage, more than half are women, and many of them depend on tipping for the bulk of their income, as restaurants are permitted to pay a shockingly low minimum wage of $2.13 per hour. A majority of Americans support raising the minimum wage, as do seven Nobel laureates in economics; one hopes that Silicon Valley's UBI proselytizers do, too.

Finally, America should start to develop a means-tested income supplement for workers whose jobs are displaced, or whose wages are undercut, by automation. To that end, the earned-income tax credit should be replaced by a generous negative income tax – an idea that the economist Milton Friedman proposed decades ago, when robots were still the stuff of science fiction.

A negative income tax – which, unlike a UBI, provides a powerful incentive to work – could raise the take-home pay of millions of workers employed in low-wage jobs. Many of these are "care" and other "personal services" jobs, which are projected to be among the fastest-growing occupations in the next decade – and which robots are unlikely to "disrupt."

As Teddy Roosevelt said, "Far and away the best prize that life offers is the chance to work hard at work worth doing." The focus of policy today should be on worthwhile work that pays a living wage, not starry-eyed proposals for a post-work future.

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