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Real-World Lessons

Contribution to GTI Forum Universal Basic Income: Has the Time Come?

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My comment focuses on one aspect of Guy Standing's very thorough survey of arguments for basic income: how the COVID-19 pandemic has demonstrated the need for a basic income as a foundation of a resilient social safety net. I focus on the US social safety net since that is the one with which I am most familiar.

As the COVID-19 pandemic began to shut down the US economy in March 2020, our social safety net was a collection of programs with different target populations, eligibility requirements, areas of coverage, and technical sophistication. The key existing program to address the loss of wages from the shutdown was Unemployment Insurance (UI), the federal-state partnership that provides replacement wages at varying percentages to covered employees. A number of its limitations soon became clear:

- UI's work-seeking conditionality would have to be suspended, since fewer jobs were available.
- UI's normal 6-month time limit would have to be extended, especially for those who were already unemployed when the pandemic hit.
- UI would have to be extended to workers not normally covered, including contract workers and the self-employed, in order to cover a significant proportion of those who lost wages due to the pandemic.

Even a very modest pre-existing universal and unconditional basic income would have obviated the need to approve these changes to the UI system in the midst of a crisis.

The US response to a fourth dilemma posed by the existing UI system is particularly instructive. Lawmakers realized that UI benefit levels would have to be increased above normal replacement rates—approximately 45% of lost wages—to keep average Americans from falling into destitution and worsening the downward trajectory of consumer demand. The preferred response was to increase the UI replacement rate to 100% of lost wages for average workers (who earn about $50,000 in the US), but the system's antiquated computer system could not easily implement this adjustment—a rich topic for a different forum. Instead, Congress approved a uniform $600 a week supplement for all UI recipients, immediately raising a concern with which basic income advocates are familiar—that the supplemental payment, which was targeted to raise UI benefits to the roughly $50,000 average full-time salary, would dampen the enthusiasm of many of the unemployed for looking for work.

This labor supply concern, together with a fifth dilemma never fully addressed by Congress, makes the case for a basic income as a critical foundation of our response to crises clear. The fifth dilemma was that workers who kept their jobs, especially those quickly lauded as "essential workers" like hospital staff, supermarket clerks, food deliverers, and public safety officers, did not receive any supplemental benefits, even though they were risking their safety and that of their families to keep essential services operating.

Interviews suggest that some of the recipients of the supplemental UI benefit did indeed prefer that to returning to work for lower wages while the pandemic continued—and who can blame them?—while recent research suggests the UI supplements had little negative effect on overall labor supply, since many of the unemployed had other reasons aside from income to want to return to work.[1] (The temporary supplement expired in July 2020, so any labor supply disincentive is no longer in effect.) Had lawmakers approved a universal $600 weekly supplement for all, regardless of work status, essential workers would have received a well-deserved bonus while the unemployed would have received a financial cushion and the prospect of financial gain, not loss, from returning to work. Even a smaller supplement, as long as it was ongoing, unconditional, and universal, could have had the economic stimulus effect lawmakers intended.

Congress did, as part of its pandemic response, approve a one-time $1,200 payment to adults with incomes up to about twice the average income (plus a $500 payment for children of eligible adults).

Although it was not the first time the government has sent out stimulus checks in the face of economic crises, this response also faced obstacles in implementation—in this case distributing the funds, since those at the low end of the income scale are less likely than higher earners to be in the federal tax database that was used to identify eligible recipients and their bank or postal details.

One group that was easy to identify and among the first to receive their stimulus checks were seniors who receive Social Security. Social Security is a well-run, efficiently administered program that sends monthly payments to 64 million seniors via direct bank deposit or mailed checks and whose payments levels are individually tailored to recipients' earnings history—exactly the infrastructure the government lacked for its UI supplements and stimulus payments. Social Security has long been recognized for dramatically reducing the poverty rate of the elderly.[2] Our long experience with Social Security together with our recent experience in the COVID-19 pandemic make clear the steps we need to take not only to continue to meet the current crisis but to prepare for the next one—as likely to be a climate crisis as a public health crisis. As it did in its response to the pandemic-induced economic crisis, the government needs to employ a dual response to economic disruption:

(1) Universal and unconditional benefits are the foundation on which a variable, earnings-tested UI system should rest. The $560 billion allocated to the one-time stimulus and to the weekly UI supplement would be better spent as progressively taxed unconditional payment to support workers employed in the formal sector, those currently without paid employment, and those providing unpaid care work in the home where burdens have dramatically increased as schools, care centers, and restaurants have closed or reduced services. All individuals should be enrolled in a Social Security-like database that stands ready to distribute without delay funds allocated in a crisis.

(2) We should move from targeting benefits ex ante through means tests to targeting ex post through taxation from higher earners, as the one-time stimulus payment did. Even better would be to have a progressive wealth tax in place with revenues dedicated to a basic income, much as employment payroll taxes are dedicated to Social Security. This would avoid any negative labor supply effects from taxes on earned income, and would allow the fund to build up reserves during periods of economic prosperity.

The US is now the site of dozens of basic income pilots designed to generate evidence about the effects of creating a foundation of economic security through a basic income. Because of the high cost of a truly universal basic income in a country like the US these pilots are all limited in scope, making it hard to extrapolate their results to those of a universal basic income. The government's response to the economic crisis precipitated by COVID-19 gives us a clearer picture of the effects of a universal and unconditional basic income in comparison to its conditional and targeted alternatives. We should recognize what we did right and what we could do better next time, and build the infrastructure we need now for a more effective response in the future.

Endnotes

1. Iona Elena Marinescu, Daphné Skandalis, and Daniel Zhao, "Job Search, Job Posting and Unemployment Insurance During the COVID-19 Crisis," July 2020, Social Science Research Network, https://ssrn.com/abstract=3664265.

2. Kathleen Romig, *Social Security Lifts More Americans Above Poverty Than Any Other Program* (Washington, DC: Center for Budget and Policy Priorities, 2020), www.cbpp.org/research/social-security/social-security-lifts-more-americans-above-poverty-than-any-other-program.

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