

Why universal basic income is a bad idea

The concept is gaining momentum in US political circles and is on the agenda in Australia, but there will be a high economic price to pay.

Influential US podcaster Joe Rogan has, for all the right altruistic reasons, been championing the burgeoning economic concept of universal basic income (UBI).

Rogan – whose podcasts with astute and contemplative Americans on a wide array of topics receive several million views or downloads – has regularly hosted US Democratic presidential candidate Andrew Yang, who is running on the single stump issue of UBI for all Americans.



US presidential candidate Andrew Yang suggests the annual bill for UBI to the US government would be US\$1.6 trillion.

As admirable as their genuine interest and attention to helping others is, UBI is deeply flawed economically and has [real financial consequences for not only Americans but Australian investment communities too](#).

For those who doubt this, google, “basic income parliament of Australia 2016”.

Australians have an inherited colonial predisposition to politely ignore or discount academia, universities and higher scholastic research as something arbitrary, ethereal and not relevant to real daily experienced financial or economic life, but on this they are wrong.

Every major economic and financial trend that has changed Australian life has emanated out of academia (with at first often dismissive laughs but surprisingly quickly full implementation and realised consequences): globalisation, central banking, floating currencies, value-added taxation, cryptocurrencies, gender equality, global warming. These were all fringe academic ideas that became accepted as truisms.

When everyone receives universal income, market forces accommodate and the price of everything moves accordingly, dollar for dollar.

Originating out of the academic workings of British economist William Beveridge, who led the Beveridge Committee, commissioned by Winston Churchill in 1944 to rethink the welfare system, what was then academically referred to as “basic income” evolved over time into the US adaption of “guaranteed income”.

Martin Luther King Jr strongly campaigned for this until the actual day of his assassination on April 4, 1968, when he was intending to lead the “Poor People's Campaign”, in Washington DC on the very topic of what we know now as UBI.

The idea of UBI is to provide every citizen of a country a guaranteed monthly cash payment, delivered to all without means-testing or work requirements – everyone gets the same payment.

In the case of Yang’s proposed “Freedom Dividend”, this would mean every US national would receive \$US1000 a month from the US government, unconditionally.

Lifting the tide

The interest of Rogan, Yang and Luther King Jr in this concept is that it is thought that by lifting the tide for all of society, those that are economically suffering or permanently impecunious can raise themselves above the poverty line, better meet basic personal needs and then become freer to pursue better professional pursuits.

Yang suggests the annual bill for UBI to the US government would come in at US\$1.6 trillion and help mitigate the prescient onslaught of automation, artificial intelligence and robotisation of the American labour force which is expected in the coming decade, if not sooner.

UBI is economically flawed for one rudimentary reason: if some in any given society receive additional cash or income from whatever source, then yes, assistance or advantage can be gained by some; but when all in a society receive ubiquitous universal income, then market forces naturally accommodate and the price of everything moves accordingly, dollar for dollar.

Economically this is known as “price elasticity” – a measure used in economics to show the responsiveness of demand for goods and services when nothing but the price changes.

Put simply, if every American (or Australian) receives an additional \$1000 per month, the prices of nearly everything will inflate accordingly. Importantly, no real benefit is achieved for those economically suffering to begin with – it's an illusion and one that would cost the US taxpayer more than \$1 trillion dollars annually.

Triumph of simplicity over numeracy

For global investors, this is a wolf in sheep’s clothing and immediately recognised as an ill-prepared response to the immanency of automation, AI and robotisation of the global labour force. In the shorter term it's also seen as an obvious extension of the US’s unconventional monetary experiments which began with the "dollarisation" of global trade at Bretton Woods in 1944, the US Federal Reserve’s Operation Twist in 1967, then the Nixon shock of 1971, the deregulatory years of Reagan, the "Greenspan put" during the 1990s and early 2000s, quantitative easing after the Great Recession – and now?

It is not coincidental that [Facebook launched its quasi-fiat, quasi-crypto currency alternative](#) about one year out from serious US presidential campaigning. Nor should it come as a surprise that the split in US politics will manifest itself in US presidential campaigning with a neo-socialist resurgence on the left, with calls for nationalising American public healthcare, education and social services alongside UBI, and an even greater tilt on the right advocating a rebuild of the US Federal Reserve system, retracement of government altogether across public health and even inane calls to privatise national defence.

Before this explosion in US government spending begins, it should be noted that the US budget deficit rose by 39 per cent in the first six months of this year alone and the deficit will be larger than 5 per cent of GDP by Christmas as is.

This is a level which, for most countries, usually means a weaker currency, unless foreign capital can be attracted in a constant manner to plug those massive deficits.

Both the US Treasury and District Reserve Banks (12 collectively) know this is coming and have not hidden the fact they would struggle to finance inflated US presidential campaigning promises, such as UBI or the bellicose and boisterous equivalent President Trump will offer.

That Facebook harbours 2.7 billion individuals and 90 million corporate users versus the US's 330 million citizens is not academic to those in Washington or its neighbouring Virginia.

Neither Facebook nor the Libra Association created the Libra currency alternative. It emanated out of the US's RAND Corporation's "Project Libra Optimizing Individual and Public Interests in Information Technology" in 2004.

Rand Corporation has a long and public reputation for bringing academic concepts into real world practice and it is also known for implementing these concepts with a clear purpose and specific timing.

For Australian investors who dismiss UBI as a fringe academic insignificance, they may wish to take pause and consider what even Martin Luther King dreamt one day could become a reality.

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