

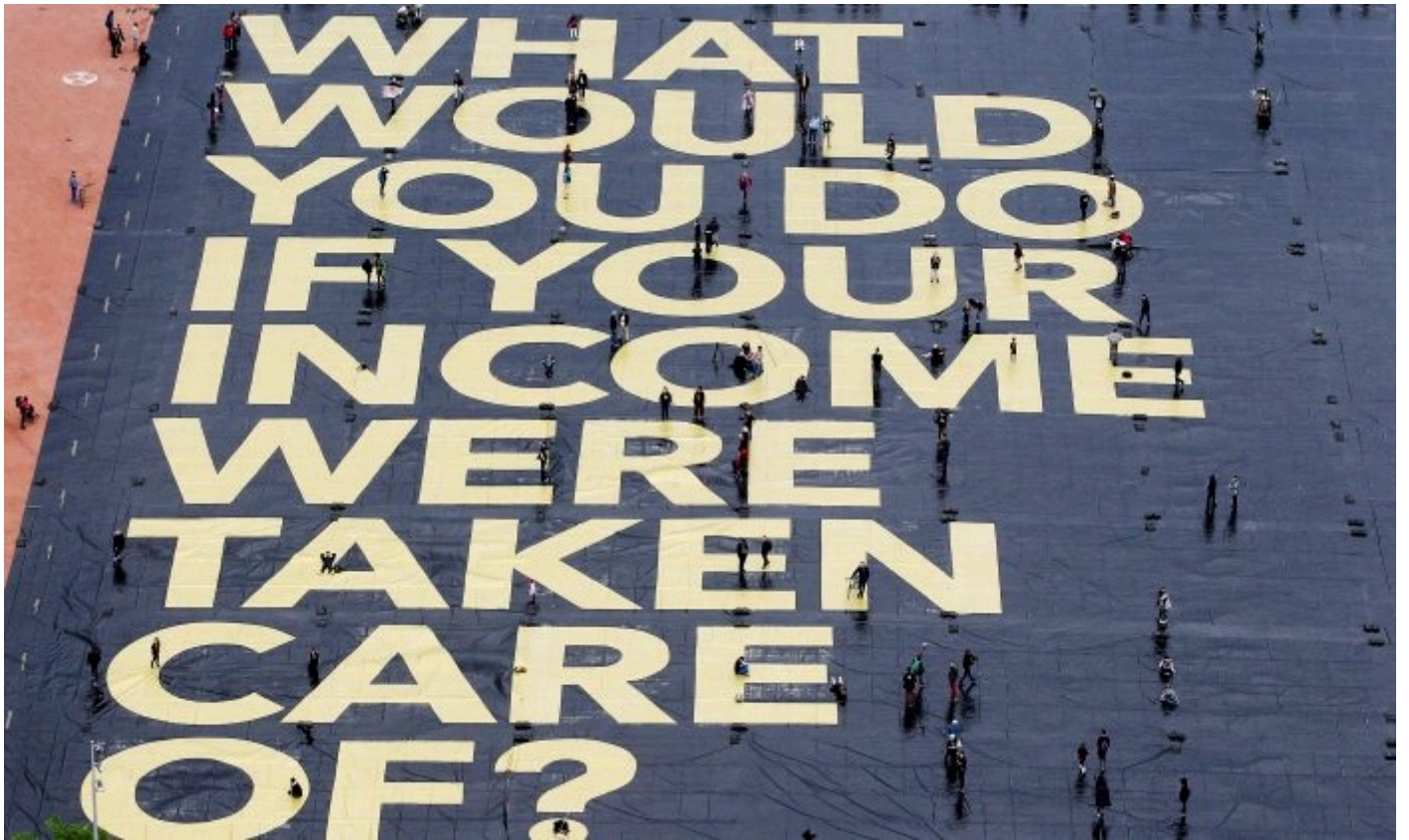
A Second Working Paper Shows That People Who Receive a Guaranteed Income Tend to Work Less

It's not the answer UBI supporters want.

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A huge poster reading “What would you do if your income were taken care of?” is pictured on the Plaine de Plainpalais square in Geneva, Switzerland, on May 14, 2016. Magali Girardin/Keystone via AP



By Peter Jacobsen

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Commentary

In October, I [reported](#) on the release of the largest research project ever on universal basic income (UBI). The study's results were disappointing for advocates of the idea. In short, the research showed that many people who received the income reduced their hours working and increased leisure time. Furthermore, people didn't use their leisure time in any of the productive activities advocates often claim (e.g., self-improvement, entrepreneurship, time with family).

In December, a National Bureau of Economic Research (NBER) [study](#) on UBI authored by economists Sidhya Balakrishnan, Sewin Chan, Sara Constantino, Johannes Haushofer, and Jonathan Morduch was released.

The study examined 2,097 households in Compton, California. They gave around one-third of the households a guaranteed monthly income of an average of \$487 and examined how recipient households acted relative to the non-recipients.

Employment and Guaranteed Income

The most obvious impact of a guaranteed income is going to be on a recipient's work decisions. Predictably, many people who received the guaranteed income reduced their working hours.

The researchers found that part-time workers (those who worked less than 20 hours per week) reduced their time working by 13 percent. Less time working means less money. How much less? The paper states:

The negative impacts on labor market participation translate into negative impacts on household income. While the average monthly

cash transfer amount for the treatment group is \$487... the net impact on total monthly household income over the past 30 days including the cash transfer was just \$92 and not significantly different from zero.

This means that these part-time worker households who received a nearly \$500 transfer ended up only being \$100 richer overall, because they reduced their working hours. Furthermore, this \$100 difference was not statistically significant, which means it's unclear whether the transfer really leaves people with more income than before!

It should be noted that full-time employees did not significantly change their working habits. This fact also does not bode well for UBI advocates. Why?

Ask yourself, why would part-time employees work less, but full-time employees work the same amount? One explanation is that it is generally easier to pick up part-time work than it is to find a full-time job. As such, full-time workers were likely reluctant to leave behind their stable full-time jobs for a temporary guaranteed income.

Additionally, an income of \$500 per month is likely not enough to make up for the loss of a full-time job. So it's unsurprising that this program didn't affect the decisions of full-time employees.

However, if this program were a permanent government program, I would expect that some full-time employees would also leave their jobs or cut back hours. If you expect to get a guaranteed monthly stipend for two years, you aren't going to quit your job, because you're going to have to take on the cost of finding a new full-time job when it ends. However, if you're going to get it *forever*, you're more likely to do so.

Other Impacts of Guaranteed Income

Unlike the study I discussed in October, this study did not examine extensively how recipients used their time. However, it examined other impacts of guaranteed income, some positive and some negative.

On the positive side, the monthly stipend appears to “have a strong positive impact on the index of housing security,” but the authors also highlight that it had “no clear impact on the indices of psychological well-being, financial security, or food security.”

The research also found: “The list experiments show strong evidence of relative reductions in IPV [intimate partner violence], weak evidence of reduced alcohol consumption, and moderately strong evidence of relative increases in tobacco consumption.”

So in some of these other areas, we see some positive results. Does this vindicate the idea of a government-provided guaranteed income? Not exactly.

It’s no surprise to economists, or anyone for that matter, that if you give people money, they’ll get some benefits. Adding more inputs leads to producing more outputs in the simplest systems. However, the economic problem is determining *which* beneficial avenues are best to pursue. For example, instead of giving people a guaranteed income of \$500 per month, that money could have been spent on healthcare, education, means-sensitive charity, or research and development of technology.

This gets even more complicated when you think about who the \$500 comes from. In a government-run guaranteed income system, the money for the guaranteed income comes from taxpayers.

Do the benefits generated by such a system outweigh the benefits taxpayers would have enjoyed if they were able to keep their own money? How could we even begin to compare the benefits of a government program like this to all the unimplemented, unseen plans of the millions of taxpayers who pay into the system?

What This Means for Basic Income

Overall, the picture drawn by the two recent studies on this policy is underwhelming in my estimation. Looking at both studies together, it

seems like when you give people a guaranteed income, they become a bit wealthier and more financially stable, but the gains are small because the policy disincentivizes working relative to leisure. We would expect this problem to *worsen* if the policy were permanent, and this may cause the benefits to evaporate almost entirely.

On the flip side, such programs on a large scale would be extremely expensive—meaning that taxpayers would have to give up a lot. To give a stipend to every adult would be more than a trillion dollars *every year*.

While advocates may consider more leisure a good thing by itself, that argument becomes a tougher sell when we look at studies that show how the type of leisure people engage in with basic income isn't of the kind that its advocates usually tout. Furthermore, that increase in leisure by some will simply result in more labor on the part of taxpayers who now must achieve the same standard of living with higher taxes.

When something sounds too good to be true, it often is. Receiving “free money” every month may sound enticing, but the more we study the details, the more we see the real costs and illusory benefits.

From the [Foundation for Economic Education \(FEE\)](#)

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