Why universal basic income costs far less than you think

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Want to get rid of poverty, lessen inequality and provide financial stability in a world of precarious work? Well, why not simply give everyone enough money to ensure basic sustenance?

This is the deceptively simple solution proposed by advocates of

universal basic income (UBI). Just transfer enough money to everyone, every month, to guarantee a basic livelihood. The policy is universal and unconditional (you get it no matter who you are or what you do).

This means no bulky bureaucracy to administer the programme, or onerous reporting requirements on the poor. Nor do you have to wait to file paperwork to benefit: whether you lose your job, decide to strike out on a new career path or take time away from work to care for a family member, the money is already there.

But the UBI movement has a major problem: both critics and even many supporters don't understand how much the programme would really cost. To calculate the cost, most people just multiply the size of the monthly income (say, $1,000) by the population (it's universal, after all) and – voilà – a number that seems impossibly expensive.

But this is not how much UBI costs. The real cost – the amount of money that actually needs to be taken from someone and redistributed to someone else – is just a small fraction of these estimates.

The key to understanding the real cost of UBI is understanding the difference between the gross (or upfront) and net (or real) cost. Here's a simple example: imagine a room with 15 people who want to set up a UBI for the room of $2 per person. The upfront cost of the policy would be $30. The ten richest people in the room are asked to contribute $3 each towards funding it. After they each put in $3, raising the total $30 needed, every person in the room gets their $2 universal basic income. But because the ten richest people in the room contributed $3, and then got $2 back as the UBI, their real, net contribution is in fact $1 each. So the real cost of the UBI is $10.

Estimates that just multiply the size of the UBI by the population of a country do the equivalent of claiming that the cost of UBI in the room

above is a whopping $30. But the real cost in this scenario – the money redistributed from the wealthy – is only $10.

The billionaire's dilemma

It's important to understand who will be gaining money through a UBI and who will be contributing to it. The common mistake is to double count the net contributors. Yes, they get a UBI, but in contributing to the UBI pot they first return their UBI, and then throw in some money on top of that. So it's incorrect to count them when calculating the true UBI cost.

This is a fundamental point that often gets missed: those that are taxed to pay for the UBI will get some of that cost back – by getting their UBI. You can also think about it in reverse: while the UBI goes to everyone, the rich in effect give it back in the first chunk of taxes they pay, so you don't need to count their UBI in cost estimates.

This also resolves UBI's "billionaire's dilemma" – why give someone like Bill Gates a basic income? The answer is that Gates would simply return that UBI through his taxes – and help pay for others. But if Gates becomes suddenly destitute, the UBI will still be showing up for him to use every month. And since his tax bill will drop, he'll become a net beneficiary rather than contributor.

True costs

Any UBI estimate that just multiplies the size of the UBI by the population is a red flag that the cost has been over-inflated. A true cost estimate will always discuss who the net beneficiaries will be, who the net contributors will be, and the rate at which we gradually switch people over from being beneficiaries to being contributors as they get richer

(this is sometimes called the claw-back rate, the withdrawal rate or the marginal tax rate – which is not an overall tax, but simply the rate at which people start to return their UBI to the communal pot as they earn more).

Cost estimates that consider the difference between upfront and real cost are a fraction of inflated gross cost estimates. For instance, economist and philosopher Karl Widerquist has shown that to fund a UBI of US$12,000 per adult and US$6,000 per child every year (while keeping all other spending the same) the US would have to raise an additional US$539 billion a year – less than 3% of its GDP. This is a small fraction of the figures that get thrown around of over US$3 trillion (the gross cost of this policy). Karl's simplified scheme has people slowly start contributing back their UBI in taxes to the common pot as they earn, with net beneficiaries being anyone individually earning less than US$24,000 a year.

This point still holds if you're raising money for UBI from other sources than income or wealth taxes. If you use a corporate or data tax, or a natural resource or carbon tax to finance a UBI, you are still redistributing money that would otherwise ultimately be profits that go to Google shareholders or BP executives. And you're taking less away from them than you would think – because they too get a UBI. So the money they end up losing through the new tax is offset by the UBI they receive. The same holds if you're paying for a UBI by reshuffling your budget.

Some people get confused and question whether UBI is really universal if only a portion of the population actually ends up with extra income, while another portion pays for it. But any policy that is universal yet redistributory works this way. Public transit, roads and schools are all universal benefits, but some people pay a lot for their funding through their taxes, while others enjoy them for free or at a lower cost.

In light of the huge benefits available from a UBI, it's a waste of time to argue over wildly inflated cost estimates. The numbers are out there – we can pay for a basic income.

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