

Labor or leisure? Why a universal basic income might foster well-being but not productivity

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The current cost-of-living crisis, high interest rates and the ensuing [economic contraction](#) have disproportionately hit low-income households. And for many low-income workers, the future remains

uncertain.

On top of that, the rise of [artificial intelligence](#) may result in significant job redundancies and displacements. And recent employment data for New Zealand has been grim, with a [rise in the number of unemployed](#).

The uncertain future of work in general has led many to propose some form of universal basic income (UBI) as a solution. The underlying idea is simple: everyone receives a basic income with no strings attached. Think of something like New Zealand superannuation, but for everyone.

Both the [Green Party of New Zealand](#) and the [Opportunities Party](#) have put forward a UBI as a practical response to the financial insecurities experienced by low-income households. [Some commentators](#) have described the UBI as inevitable.

But would a UBI really work? And by how much could it change the lives of low-income households in particular? As it turns out, a [new study](#) from the United States, funded by [OpenAI's founder Sam Altman](#), provides insights into what can potentially be expected if the UBI becomes a reality.

Altman sees universal cash payments as a possible solution to the large-scale job displacements expected with AI-driven automation. However, the study's results were not necessarily what supporters of the scheme were hoping for.

UBI in practice

As an unconditional cash transfer, a UBI scheme works differently from a means-tested benefits system (such as the Working for Families tax credit), which requires a family's economic condition to fall under specific criteria for eligibility. The UBI is for everyone.

Thus, the UBI can be a costly program for a government, depending on the amount paid. A [2019 study](#) calculated that a UBI at the jobseeker support level of NZ\$215 per week would cost \$41.3 billion annually.

However, the government can also generate savings by slashing bureaucracy and [replacing the welfare system](#) with the UBI.

A number of countries have been exploring what a UBI might mean for them. Finland ran a [two-year UBI pilot](#) in 2017 and 2018. This aimed to understand whether an unconditional cash transfer encouraged uptake of low-paid or temporary work among the unemployed.

Two thousand randomly selected unemployed people received €560 (NZ\$1,000) monthly. The study found positive well-being effects. The basic income recipients were found to be more satisfied with their lives and experienced less mental strain. The impact on employment was also positive but small.

In 2023, England started a [two-year UBI trial](#). The scheme gives 30 people a monthly payment of £1,600 (NZ\$3,500). The focus is on how the lump sum transfer affects the mental and physical health of the recipients. The first set of results are expected next year.

UBI and employment

Sam Altman's [US-based study](#) investigated how guaranteed minimum income affects low-income households' employment and earning prospects.

The study recruited participants from low-income households, aged between 21 and 40 as of 2019, in the states of Texas and Illinois.

The research group consisted of 1,000 randomly selected low-income

adult individuals who unconditionally received US\$1,000 (NZ\$1,700) per month for three years.

To put this amount in perspective, the cash transfer equaled, on average, a 40% increase in household income. Compared with other such studies, both the amount and the duration are unprecedented.

Two thousand participants formed the control group, each receiving US\$50 (NZ\$85) monthly.

Labor or leisure?

Interestingly, the analysis revealed a 2% drop in labor market participation by those receiving the cash transfer, and a reduction in the weekly number of hours worked by between 1.3 to 1.4 hours.

Similar effects were found for the participants' partners. The decline in labor market participation reduced individual income by \$1,500 a year (NZ\$2,500) relative to the control group.

What were the participants doing with the extra time? In theory, the additional financial security for [low-income households](#) should enable individuals to spend more time productively.

This could include searching longer for a higher-quality or better-fitting job, starting training or education, building startups, or being productive in non-work activities such as caregiving.

However, the study found an increase in the time spent on leisure pursuits, but no significant improvements in the quality of employment and no significant effects on education or training.

The future of work

The findings suggest the negative labor market implications of UBI may depend on the duration and the generosity of the program.

A German newspaper [summarized these findings](#) as "disenchanting" for supporters of a UBI.

Given the most recent changes to the jobseeker benefit rules in New Zealand, which include [benefit sanctions](#), it is unlikely the current government will consider a program like a UBI.

But AI is fundamentally changing the nature of work. There may come a time soon when such a cash transfer becomes necessary.

While the overall literature on the effects of unconditional cash transfers offers mixed evidence, the new US study provides crucial insights for policymakers to consider while evaluating the net economic gains from a UBI.

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