



# **UNCONDITIONAL CASH TRANSFERS (UCT)**

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# AGENDA

**01** Introduction

**02** History and Recent Developments

**03** Debate and Misperceptions

**04** Experimental Results

**05** The Role of UCTs in the Future

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# THESIS

Unconditional cash transfers are politically contentious, but they have many wide-ranging benefits for individuals and society in both the short and long terms and can help the American economy adapt to changing trends in automation and employment. We support a vision of a future in which the United States has a social wealth fund that pays a universal basic income and want to convince everyone to support two concrete steps toward making that vision a reality.



# UCTs - WHAT IS IT?

Unconditional Cash Transfer	Universal Basic Income	Negative Income Tax
Giving cash to a population with no strings attached	Giving cash to everyone with no strings attached	Giving cash to anyone that earns below a certain threshold



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# A BRIEF HISTORY

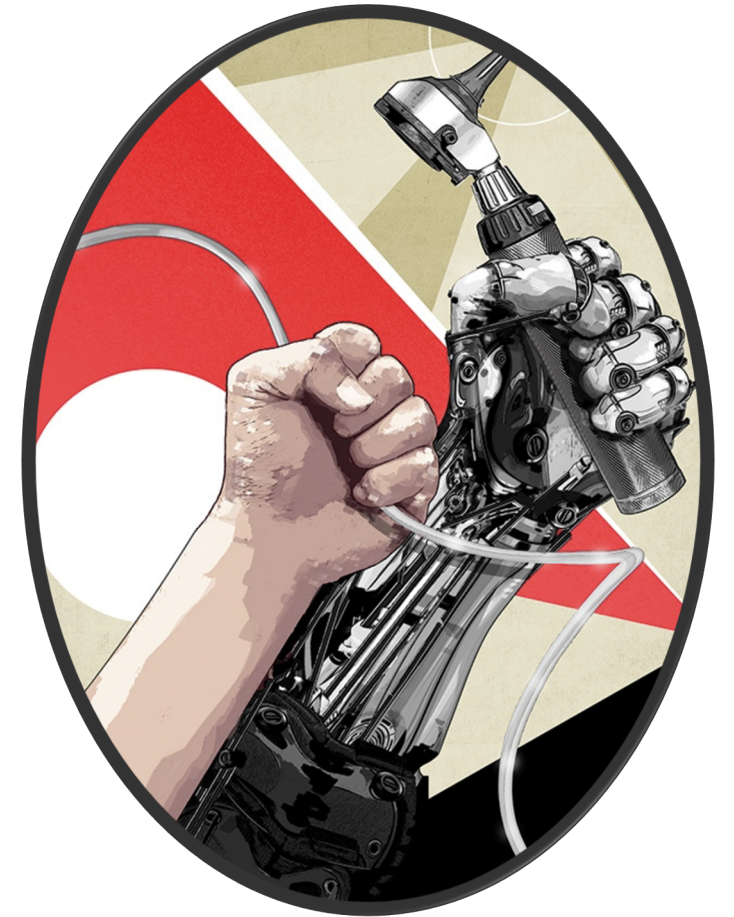
- Thomas Paine (1796)
  - £15 at 21 years old
  - £10 annually after 50 years old
- Speenhamland (1795-1834)
  - Wages topped up to a minimum level
  - Based on the price of bread
- Richard Nixon (1969)
  - ~\$11,000 for a family of four
  - Never implemented (obviously)



# RECENT DEVELOPMENTS

Recent uptick in interest driven by modern social and economic forces

- Globalization
- Automation
- Artificial Intelligence





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# WHY UCTs?

- People know what they need
  - In Uganda: the government believed that recipients would spend money on crops but instead recipients spent it on livestock
- Simplify bureaucracy
  - Total welfare cost of 13 programs in the US in 2017: \$729b USD
- Psychological
  - Increase autonomy
  - Decrease stress and mental illness
  - Increase altruism and empathy



# TRANSFER PROJECT

- Research initiative of United Nations Children's Fund (UNICEF), UN Food and Agriculture Organization (FAO), Save the Children UK, University of North Carolina at Chapel Hill (UNC-CH)
- In 7 countries in sub-Saharan Africa, 8 projects:
  - Ethiopia
  - Ghana
  - Kenya
  - Lesotho
  - Malawi
  - Zambia
  - Zimbabwe



# FIGHTING PERCEPTIONS WITH DATA

1. Transfers induce higher spending on alcohol and tobacco
2. Transfers are fully consumed (rather than invested)
3. Cash creates dependency (reduces participation in productive work)
4. Transfers targeted at households with young children will increase fertility
5. Transfers will lead to negative economic impacts on local markets
6. Cash transfers at scale are not fiscally sustainable



# PERCEPTION 1: TRANSFERS INDUCE HIGHER SPENDING ON ALCOHOL AND TOBACCO

## Findings:

- Alcohol and tobacco represent 1-2% of food expenditures.
- No increase in spending on alcohol or tobacco.

	Ethiopia SCTPP	Ghana LEAP	Kenya CT-OVC	Lesotho CGP	Malawi SCTP	Zambia CGP	Zambia MCTG	Zimbabwe HSCT
Panel A: Baseline Means (Local currency)								
Total per capita expenditure	–	63.29	1441.89#	163.718#	45840.45	40.48	51.35	32.11
Per capita expenditure on food	2628	44.83	849.04	108.764#	35519.83	30.06	39.51	20.41
Per capita expenditure on alcohol/tobacco	–	0.51	7.07	1.747#	87.18	0.40	0.63	0.51
Expenditure on alcohol/tobacco as percentage of food expenditure	–	0.01	0.01	0.02	0.00	0.01	0.02	0.02

# PERCEPTION 2: TRANSFER ARE FULLY CONSUMED (RATHER THAN INVESTED)

## Findings:

- Increase in:
  - Investments in livestock and agricultural asset ownership
  - Use of seed, fertilizer, and value of harvest sales
  - Secondary school-age enrollment



# PERCEPTION 3: CASH CREATES DEPENDENCY (REDUCES PARTICIPATION IN WORK)

## Findings:

- Programs do not discourage work; reduction in casual wage labor and a shift to on-farm and more productive activities.
- Age is a targeting demographic for UCT programs; where children and youth as well as elderly members are the focus.



# PERCEPTION 5: WILL LEAD TO NEGATIVE ECONOMIC IMPACTS ON LOCAL MARKETS

## Findings:

- No inflation detected.
- Boosts local economies through small cash injections as the money is provided to the poorest households.
- Substantial impacts for non-beneficiaries (such as local shopkeepers and service providers).
  - Ex. In Ethiopia, for every dollar transferred by the program, about \$1.52 was generated for the local economy.





# PERCEPTION 4: TRANSFERS WILL INCREASE FERTILITY

## Findings:

- No impact on the number of young children in different age groups in Kenya, Malawi, and Zambia.
- Decrease in women who report ever having a stillbirth, miscarriage, or abortion.
- In Kenya, females aged 12-14 are more likely to delay first pregnancy.



# PERCEPTION 6: TRANSFERS AT SCALE ARE NOT FISCALLY SUSTAINABLE

## Findings:

- Costs analysis in: Kenya, Lesotho, and Zambia
  - Cost-transfer ratio (CTR, ratio of administrative costs to transfer costs) used to measure cost-efficiency
  - Programs with complex targeting approaches have high CTRs because they of large start-up costs (no economies of scale)
  - CTRs fell after 3-4 years of implementation
- Based on government spending for 48 countries in sub-Saharan Africa in 2008-2012, annual cost of UCT based on the percent of government expenditures would be an average of 4.4%



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# DAUPHIN, MANITOBA

- “Mincome” program ran from 1974 to 1979
- Original intent: evaluate if giving money to the working poor would kill people’s motivations to work
- An Individual was given the 2014 equivalent of ~CAD\$16,000
- A family of two was given the 2014 equivalent of ~CAD\$20,000



# DAUPHIN, MANITOBA

- **Result:** it didn't kill motivation
- Hospitalization rates dropped for those who received it, from accidents as well as mental health reasons
- Primary wage earners worked only a little less
- Married women worked less, mostly to take longer maternity leaves
- Teenage boys worked less, mostly to remain in high school
- Poverty was eliminated



# KENYA

- Policy project began in 2016, will run until 2028
- Approximately \$22.50 per month to 21,000 adults in Bomet County
- Four different “arms”
  - One group gets \$22.50 per month for two years
  - Another group gets \$22.50 per month for twelve years
  - A third group gets \$505 in two payments two months apart
  - A fourth group acts as a control



# KENYA

- Psychological Impact
  - “What this money does is it creates hope...  
And when people have hope, they are happy.”
- Spending on necessities, not vices
  - School fees for children
  - Medicine
  - Home repair
  - Entrepreneurial investment





# NATIVE AMERICAN COMMUNITIES

- **1993:** Research project studying rural poverty in Cherokee, North Carolina
- **1995:** Harrah's Cherokee Casino Resort opened
  - All members of the Eastern Band of Cherokee Indians were promised an equal share of the profits
    - \$595 in 1995
    - \$12,000 in 2016
  - Children have their payments set aside and invested until they reach adulthood



# NATIVE AMERICAN COMMUNITIES

- 40% decrease in behavioral problems compared to other natives and whites
- Effects were more pronounced the earlier they received the benefits
- Decreased drug and alcohol usage
- Psychological impact



# NATIVE AMERICAN COMMUNITIES

“If you’ve lived in a small rural community and never saw anybody leave, never saw anyone with a white-collar job or leading any organization, you always kind of keep your mindset right here... Our kids today? The kids at the high school? ...They believe the sky’s the limit. It’s really changed the entire mindset of the community these past 20 years.”



# ALASKA PERMANENT FUND

- State-level sovereign wealth fund in which resources are pooled by the state and invested in the market
- Every resident of Alaska gets an annual dividend
  - In 2017, this was \$1,100



# ALASKA PERMANENT FUND

- Little-to-no reduction in work
- Small increase in part-time work
- Used to pay down debt, buy durable goods, etc.
- Reduction in poverty rate of Alaska Natives by 25%, also benefits other disadvantaged groups



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# AUTOMATION AND THE FUTURE OF WORK

- 50% of current work activities are automatable with already implementable technologies
- Up to 800 million workers could be displaced by automation by 2030
- 75 million to 375 million people may need to switch occupational categories and learn new skills





# SECTORS MOST UNDER THREAT

- Predictable blue-collar jobs
  - Operating machinery
  - Fast food service
- White collar jobs with data collection & processing
  - Paralegal work
  - Accounting
  - Simple office tasks



# INDUSTRIAL REVOLUTIONS CAUSE UPHEAVAL

“We know from history that wages for many occupations can be depressed for some time during workforce transitions. More permanent policies to supplement work incomes might be needed to support aggregate demand and ensure societal fairness.” - McKinsey Global Institute



# WEALTH INEQUALITY IS GROWING AND SHOWS NO SIGNS OF SLOWING DOWN

- In the US, the top 1% of families own more wealth than the bottom 95%
- Between 2007 and 2016, average wealth of top 1% increased by \$4.9M, median family wealth declined by \$42,000

Percentiles of Family Wealth, 1963–2016



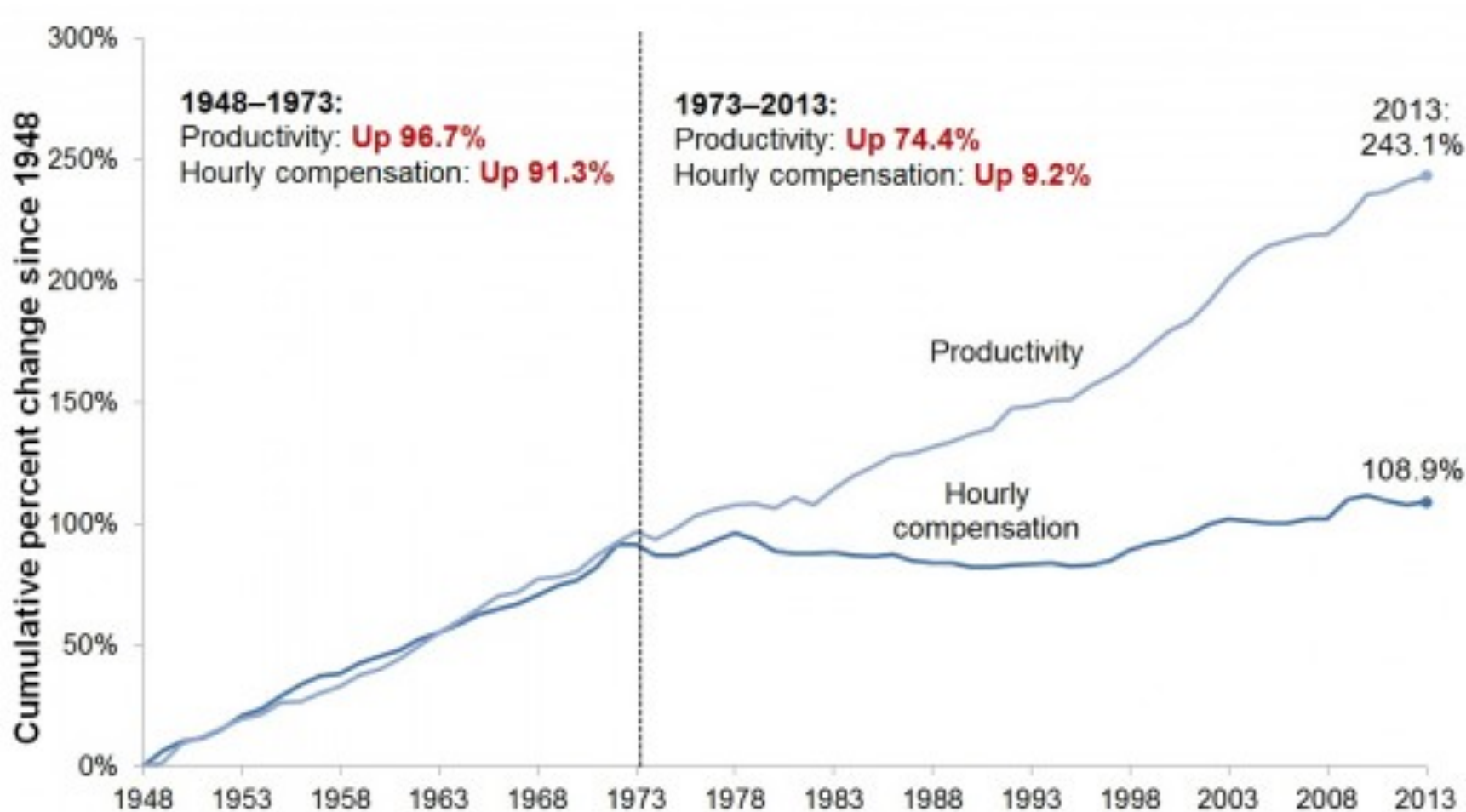
Sources: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Notes: 2016 dollars. No comparable data are available between 1963 and 1983.

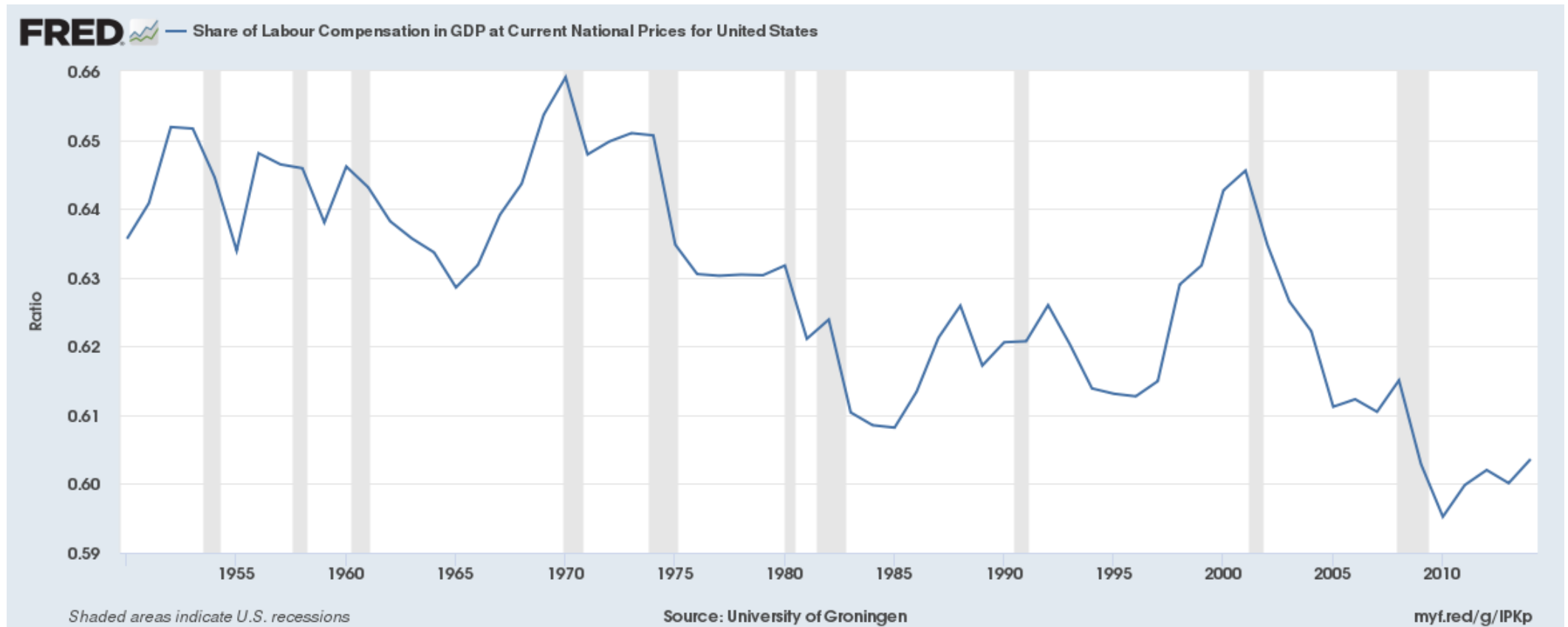
URBAN INSTITUTE



# SINCE THE 1970s, PRODUCTIVITY HAS FAR OUTPACED WAGE GROWTH



# LABOR SHARE OF COMPENSATION IN GDP HAS TENDED TO DROP



When measuring strength of the economy, pundits often point to stock market indexes like the SP500. However...

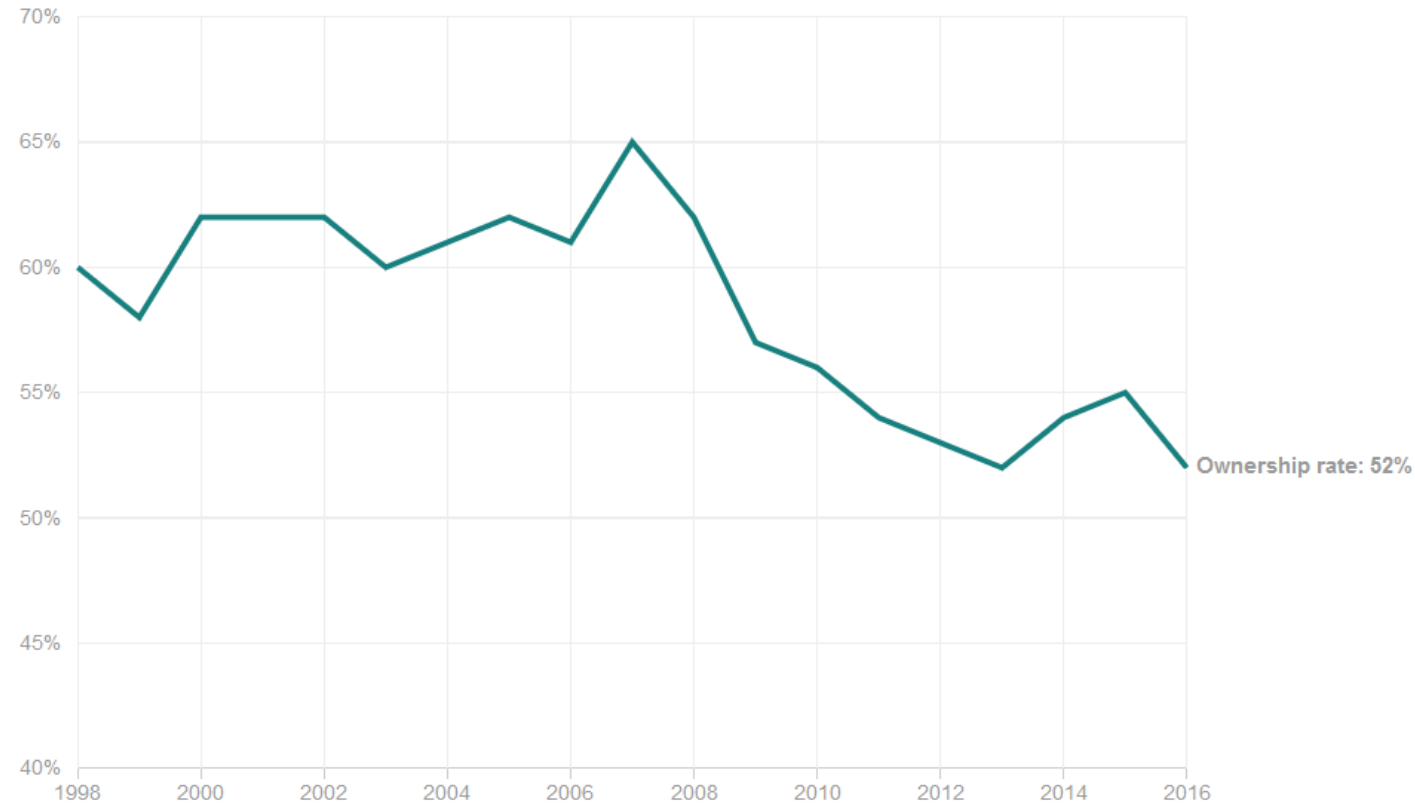
# OWNERSHIP OF STOCKS IS UNEQUAL

- In 2016, top 10% of families owned 84% of stocks
- 48% of American adults own no stock
- Only 27% of the middle 60th percentile own stock





# ADULT STOCK OWNERSHIP IS DROPPING



## Notes

Reflects respondents' answers to "Do you personally, or jointly with a spouse, have any money invested in the stock market right now — either in an individual stock, a stock mutual fund, or in a self-directed 401(k) or IRA?"

Source: [Gallup](#)

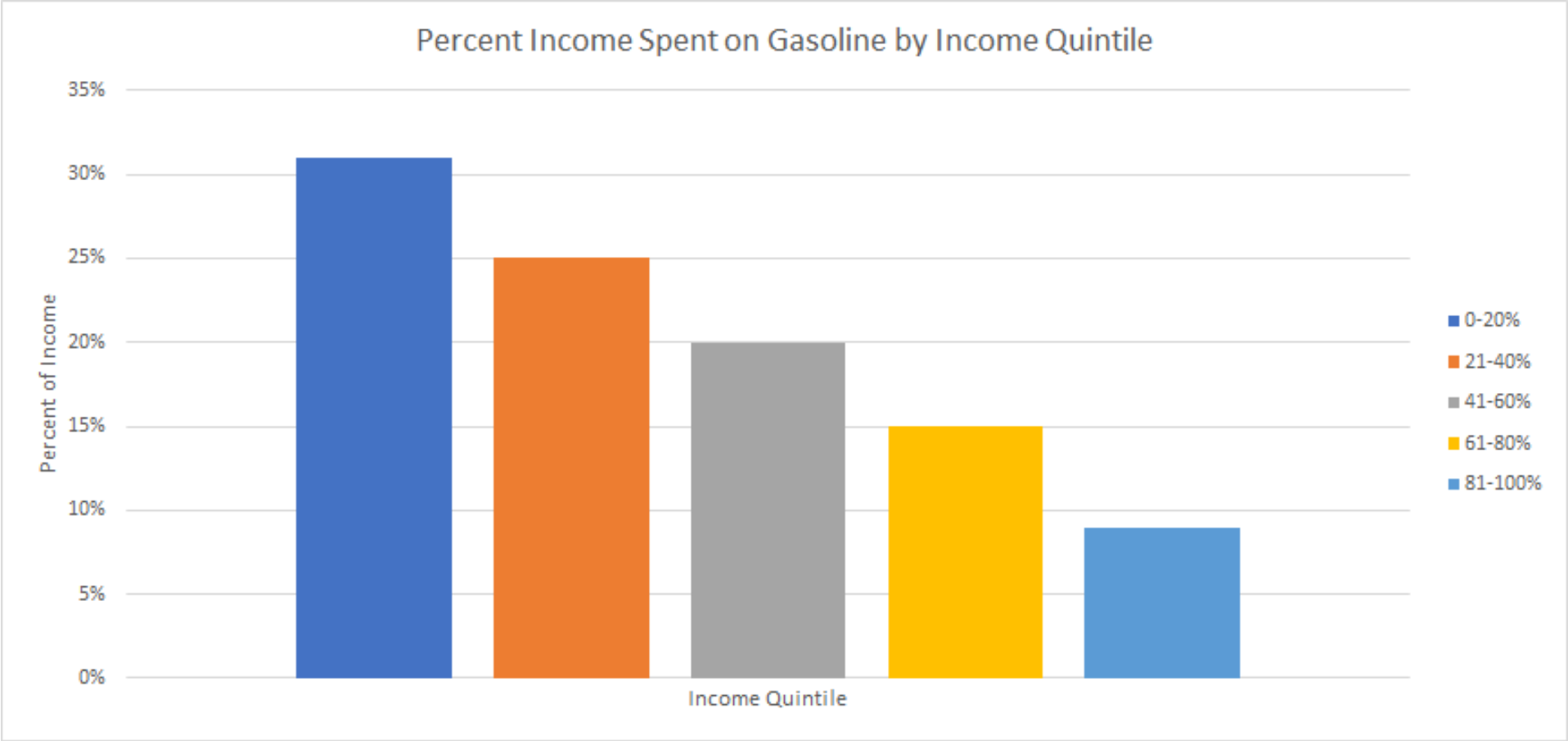


# DECARBONIZATION EFFORTS WILL HURT POOR CONSUMERS THE WORST

- To meet IPCC goal of staying below 1.5° C warming, global net CO2 emissions in 2030 must be 45% of 2010 levels and reach zero by 2050
- Poor and middle-income families spend larger fractions of income on carbon intensive products like home heating or gasoline



# DECARBONIZATION EFFORTS WILL HURT POOR CONSUMERS THE WORST



# LONG TERM VISION

A social wealth fund (also called sovereign wealth fund) that pays a universal basic dividend is a policy scheme that can help all citizens live without extreme material deprivation and distribute capital income more equitably.



# UNIVERSAL BASIC DIVIDEND MODEL

- Social Wealth Fund - A collectively held financial fund, fully owned by the public and used for the good of society as a whole
- Federal government sets up a publicly owned corporation to manage the fund's financial assets
- All citizens are paid a dividend, presumably annually, from returns on capital investment



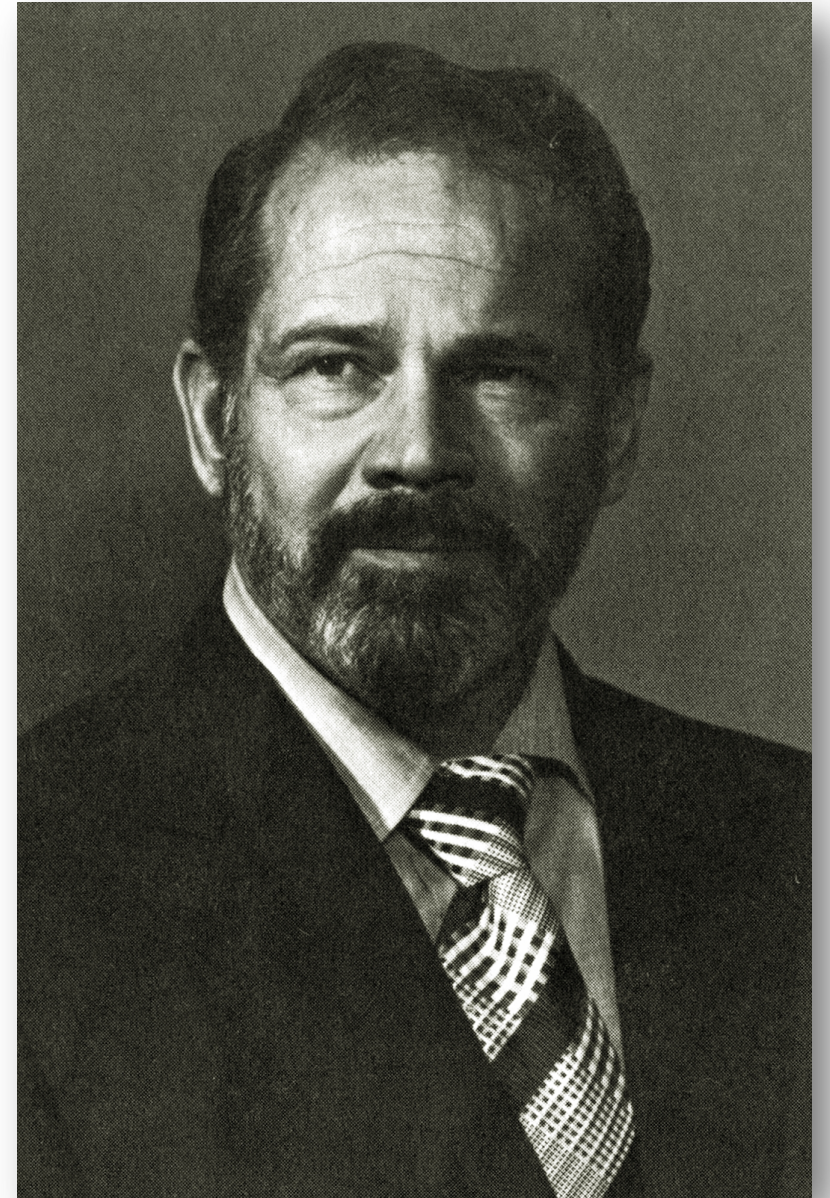
# Social Wealth Fund Benefits

- Creates model of equitable growth by cutting against rentier class reaping all surplus growth
- Low bureaucratic overhead compared to other social spending initiatives
- Universality and tangibility makes it difficult for unfriendly political actors to undermine



"I found almost no one remembered the tax credit. At that point I decided that if another dividend program were established, I wanted to put a check in everyone's hand, rather than simply a credit for those making sufficient income to pay a state income tax. I thought that by so doing people would better recognize and appreciate the dividend concept and demand the state maximize returns from its resource wealth."

- Jay Hammond, Alaskan Governor



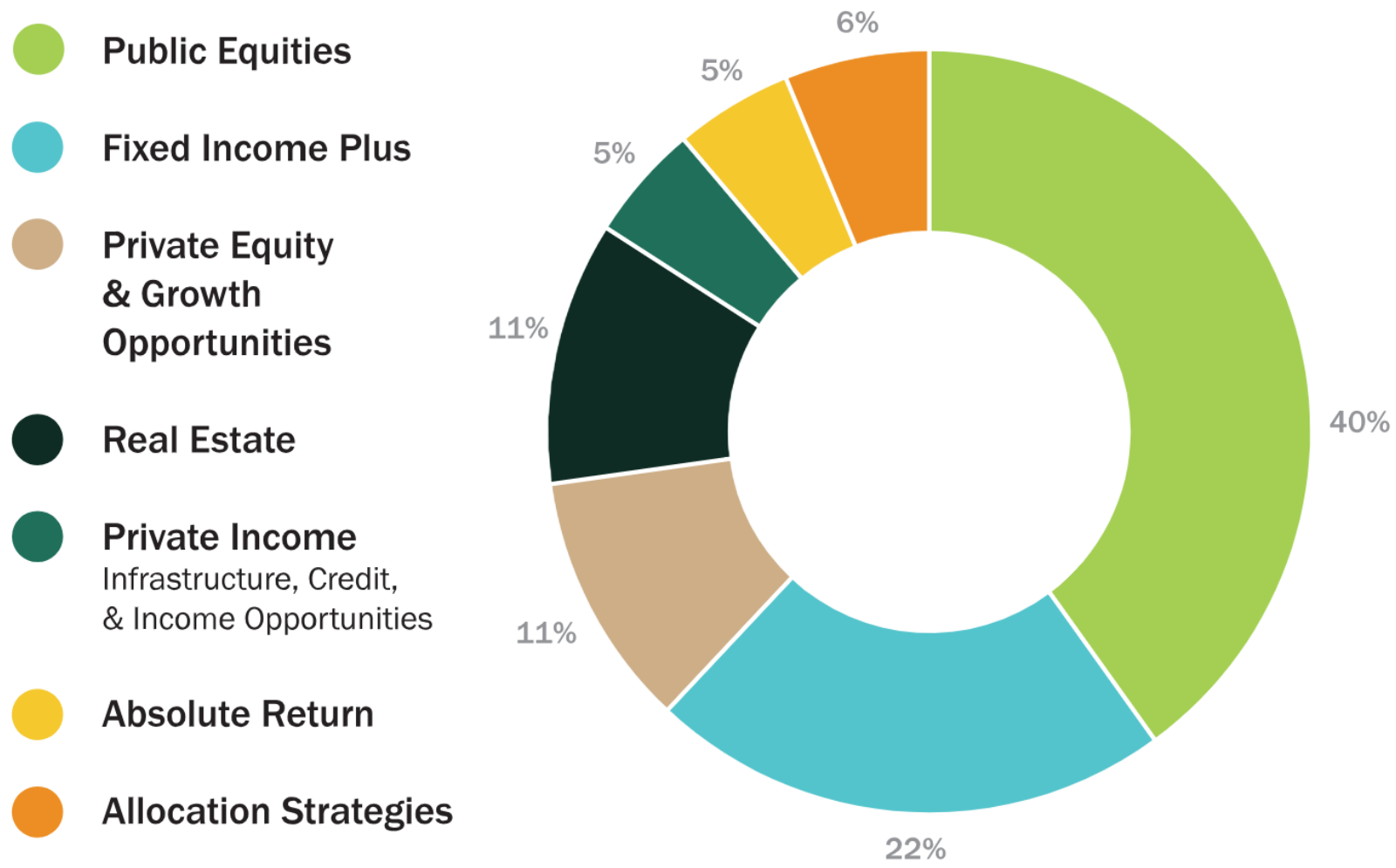
# CAN GOVERNMENT ORGANIZATIONS RESPONSIBLY MANAGE ASSETS?

- The Norwegian government owns social wealth funds that have assets equal to
  - 248% of the country's total GDP
  - 59% of the country's total wealth
  - 76% of the country's non-home wealth
- The management expenses for these funds are about 0.06% of asset value, competitive even when compared to private asset management





# ALASKAN ASSET ALLOCATION



FY2017 TARGET ASSET ALLOCATION

# SOURCES OF FUNDING FOR SOCIAL WEALTH FUND

- Carbon tax
- Closing of tax loopholes
- IPO tax
- Market capitalization tax
- Inheritance tax



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# CHILDREN INVESTMENT FUND

- Funds are seeded from tax revenue and then invested into income-generated assets to create a fund for every child
- Similar to the Native American communities, we recommend that when a child reaches the age of 18, they will have access to 1/3 of their fund every 3 years (first payment at 18)
- Administered by the Social Security Administration



# EITC MODERNIZATION ACT

- Expand the EITC to students, caregivers of children and caregivers to the elderly
- \$200 a month to people in these categories
- Something between a UCT and CCT - tries to compensate people for unpaid labor but isn't necessarily meant to incentivize these things



# EXPECTED BENEFITS OF RECOMMENDATIONS

## Children Investment Fund

- Politically feasible
- Helps break cycle of poverty
- Redistributes income on capital investment
- Establishes infrastructure for SWF

## Expanded EITC

- Politically feasible
- Normalizes broader money transfers
- Cushion against potential wave of unemployment



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Questions?