Addressing Inequality: Health, Education, and a Citizen Dividend

(Excerpt from Where I'm Coming From)

By Michael E. Arth

A Universal Basic Income (UBI) has the potential of solving a vast range of problems—including the fact that automation is beginning to replace jobs, especially those requiring simple skill sets. A UBI would address inequality, restore dignity, and break the cycle of generational poverty. It would also reduce crime, increase personal freedom and security, improve education, promote gender equality, raise the status of unpaid caregivers, and advance society as a whole. It would also render moot the question of reparations to the descendants of Native Americans, slaves, or anyone else who feels they have been shortchanged in our capitalist system. Evidence shows that cash transfer programs don't make people lazy, and the research on UBI is highly supportive of the concept. With a basic income, and universal health care, people without homes could either afford to pay rent, or pay to live in a village where shared housing and other costs would be minimal. If they are capable of working, they could also have access to re-training and education.

No force is as powerful as an idea whose time has come. Universal Basic Income is such an idea. We are all stakeholders in our society. Thomas Paine, one of our founding fathers, promoted a UBI as our "natural inheritance," and the term "Citizen Dividend" might be a better way to describe it. A Citizen Dividend has already been successfully tested in various locales, including Alaska's ongoing **Permanent Fund** which provides every resident a percentage of the profits from the state's collectively-owned oil resources.

For the sake of argument, let us assume that with progressive taxation, every person 18 and over would automatically receive an inflation-adjusted monthly income that begins at $1,000 per month, along with universal health care, and free higher education or job training in public colleges. This could perhaps be coupled with a term of public service for young people fresh out of high school or college. Qualified service would include AmeriCorps, Peace Corps, military service, or local community programs. The Dividend paid during this public service would automatically allow reductions in the military budget. Republican and Democratic politicians beholden to their corporate sponsors will tell you that universal health care, a Citizen Dividend universal postsecondary education, and resolving the student debt crisis are not financially possible, so it is important to confront them with the simple math inherent in the following scenario:

There are 250 million adults in the US. If every citizen 18 or older got a UBI of $1,000 per month, it would cost $3 trillion per year. Providing $25,000 vouchers to each of the 20 million postsecondary education students would cost $500 billion. (Public colleges would be required to accept the voucher for full tuition.) National health expenditure is $3.6 trillion, or about 18% of GDP, which is far more than what the rest of the developed world pays both in sheer numbers and as a percentage of GDP. In actual spending we spend more than twice what the British pay, yet around 44 million Americans have no health insurance at all.

Medicare and Medicaid together comprise 37% of health care costs. Once we institute price controls, reference pricing, cost effectiveness thresholds, and regulations that limit the profitability of drugs, we should be able to save enough to drop health care costs for Medicare and Medicaid to 33% of health care costs ($1.18 trillion). Switching to Medicare for everyone else—which includes younger and healthier people—should not add more than $1.1 trillion. This would be $2.28 trillion, or 11.4% of GDP, which is what Canadians, who live two years longer than Americans in a country much like ours, pay to cover everyone. Thus, Medicare for All should save the public at least $1.32 trillion per year, which would help finance the citizen's benefit through taxes. Because the issue of taxes is dealt with separately, we won't include this health care savings in our calculations here. **The total annual estimated cost for the Citizen Dividend, universal postsecondary education, and Medicare for All would be $4.6 trillion.**

In 2018, the size of our economy is roughly $20 trillion. Federal tax revenue of $3.34 trillion plus state and local revenues of $2.87 trillion equals total government revenue of $6.12 trillion. Tax collections, now about 30.6% of the GDP, would increase to 49.5% of GDP ($9.9 trillion) Taxation would become more progressive and inheritance taxes on large estates would increase. There would also be a wealth tax that ranges from 0.1% to 1% on fortunes over $5 million, as much for purposes of transparency in order to help prevent tax evasion as for collection purposes. Increased collections add **$3.780.5 trillion**, including a Value-Added Tax (VAT).

Keep in mind that taxpayers would be able to apply $1.32 trillion in health care savings to their taxes, and the rich would bear the brunt of the additional tax burden. Private health care and private insurance would still be available for those who want it, as it is in the United Kingdom, but it would be much less expensive than it is now because of regulated drug cots, and the private health care industry would be in competition with Medicare. Indeed, this is the case in the UK.

Eliminating bureaucratic waste and spending associated with means-tested welfare, food stamps, disability and other such programs would save **$600 billion**. Ending the War on Drugs with legalization, regulation, taxation, and Medicare-covered treatment could save **$100 billion** in law enforcement and incarceration alone (savings estimates range up several times higher). A small financial transaction tax, combined with a globally adopted, flat-rate automated payment system would add about **$50 billion** to collections and also help prevent excessive speculation and volatility in the market—especially that caused by high-frequency "black box" traders using sophisticated algorithms on supercomputers.

The part of the 2018 US military budget that includes the Department of Defense and the overseas contingency operations budget totals $639.1 billion. This could be rolled back to the fixed amount of the 2011 Budget and Control Act cap of $587.1 billion. Inflation and the growth of the economy would allow this fixed amount to drop as a percentage of GDP until it reaches 3%. From that point on it could be pegged at about 3% of GDP until global peace initiatives allow it to drift lower. Initially this would be a savings in the defense budget of **$52 billion** but the savings would grow until the goal was reached. At that point, the defense budget would grow with the economy. At the same time, foreign aid, especially family planning aid, could increase until it reaches at least 1% of GDP. Further savings would be realized from subtracting the citizen's benefit from Social Security payments. There are currently 67,494,000 beneficiaries receiving an average of $1,297. Thus **$67.5 billion** in Social Security benefits can be subtracted from the UBI budget.

How to Save Capitalism and Create a More Equitable America

(In Billions)

$1,000 monthly Citizen Dividend to every adult citizen	3,000.0
Medicare for All	1,100.0
Universal post-secondary education	500.0
Total Cost	**4,600.0**

How to Pay for it

Progressive tax, including inheritance and global wealth tax	2,890.5
VAT of 20%, (less average 5% sales tax already being collected)…….(1,120.0 x .75) =	840. 0
Financial Transactions Tax	50.0
New Taxes	3,780.5

Direct Savings

Ending Means-Tested Welfare, Food Stamps, Disability	600.0
Ending Drug Prohibition	100.0
Military Budget reduction	52.0
Social Security savings from Citizen Dividend	67.5
Direct Savings	819.5
Total of New Taxes and Direct Savings	**4,600.0**

Indirect Savings

Health Care Savings from Medicare for All over existing private system	1320.0
Social cost of inequality	unknown or unquantifiable but enormous

Since the Citizen Dividend would be completely taxed away for those earning substantially more than the median income, the primary benefit will fall on those people most likely to spend it all every month, thus being a reliable boost to the economy. Those earning income less than the median would pay little or no federal income tax, but everyone would pay an all-inclusive VAT on taxable goods and services. The VAT would replace state sales taxes that now average about 5% across the states. A VAT is already being used by more than 160 countries, including all developed countries, as a highly efficient consumption tax. A European-style VAT of 20% would capture about 5.6% of the GDP, or $1.12 trillion, some of which would be redistributed to the states to make up for the loss of sales tax revenue.

The Citizen Dividend would appear on a weekly basis as an electronic entry on individual accounts in a newly created National Bank of the United States. Every citizen would have a debit card for expenditures and they could use their account like any other bank account. Creation of the National Bank, either under a hybrid system that preserves the fractional reserve system, or under the proposed full-reserve system, would solve the $1.5 trillion student debt crisis. Anyone with an existing student loan could get immediate refinancing with a zero-interest, principal-only government-sponsored loan with payments to be automatically deducted from their Citizen Dividend account.

Full-Reserve Banking

Switching from fractional reserve banking to full-reserve banking may be the best way to help finance government programs, increase prosperity, and ensure economic stability in our monetary system. Currently, only bank notes and coins are issued by the Treasury (about 9% of money) while the vast majority of money is created by private banks on electronic ledgers out of thin air and lent out with interest. With full-reserve banking, both specie and electronic money would be created by the government under rigorous guidelines, as many economists believe it should be. Instead of banks only holding about 10% of their deposits in reserve with the government having to provide deposit insurance to prevent runs on the banks, banks would be required to hold 100% of deposits. Taxpayers would no longer pay seigniorage on money to private banks for taking over the job of the treasury. Sovereign money would stabilize the banks, vastly reduce boom and bust cycles, help reduce public and private debt, and provide a bonus that could be used to lower taxes and finance government programs. Sovereign money and the Citizen Dividend would everyone to share in the common wealth, while also eliminating the stigma, inefficiency, and unfairness of means-tested welfare. Those who profit from the public and its collectively owned resources and infrastructure should be required to share the wealth more equitably. Money is an important part of that commonly held wealth.

The banking and financial sector would lobby vigorously against sovereign money to protect their profits, while predicting disaster. They will also point to the fact that no country currently has a full reserve system, even though polls show that most people already think that is how money is created. After experiencing grave hardships during previous recessions, one country is seriously flirting with the idea of adopting a full reserve system. Iceland is a small but progressive, and highly developed country of only 350,000 people, with an economy that is one-thousandth the size of the US. I propose that the US and other countries offer them an incentive of—say $1 billion—that would give each of its three major banks money for the transition, and each of its citizens $250 in cash.

Iceland's economy collapsed and all three of the major, privately owned commercial banks defaulted during the Great Recession from 2008 to 2011 due to a run on their foreign deposits which could not be guaranteed by their central bank, so they know well the dangers lurking in fractional reserve banking. This experiment would give Iceland all the economic benefits of a full-reserve banking while also calling more attention to its magnificent scenery and its burgeoning tourist industry. Once full-reserve banking is shown to work in Iceland, we can move quickly toward our own monetary reform. The next serious downturn—especially one precipitated by the failure of politicians to implement banking reforms—might even facilitate it.