A New Social Compact

The next three pieces take on the future of the safety net. The pieces begin with very different diagnoses of the key threats of the 21st century: the rise of the gig economy; growing automation; and the perverse incentives in our existing safety net. When the diagnoses differ, so too do the solutions.

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A New Safety Net for the Gig Economy

Elizabeth Warren, U.S. Senator (D-Massachusetts)

The gig economy is here to stay. We need to build new policies and institutions that protect against poverty as the gig economy spreads.

Basic employment law was written for a very different world of 40-hour workweeks and 30-year commitments to a single employer. By contrast, virtually all the net growth in employment in the last decade was in contract employment[1]—workers at temp agencies, on-call workers, independent contractors, and freelancers. Current law leaves gig workers to shoulder enormous risks with few protections when things go wrong.

Work has changed, and it is now time to modernize employment laws to accommodate the 21st-century workforce, but this need for change presents a special risk for much of the American workforce. Lobbyists and lawyers from giant companies and trade associations have seized this moment to press for changes that would leave workers worse off. They are urging Congress to roll back employment laws and give their companies a free pass on workers' rights.

Most gig work comes with a combination of fewer hours, lower pay, and virtually no traditional benefits.[2] The men and women who work in these jobs often don't have access to safety net programs such as unemployment insurance and workers' compensation. They also don't have many of the workplace protections that are guaranteed to traditional employees. The bottom line is that many gig workers are struggling to put together any financial security, living paycheck to paycheck while homeownership and a secure retirement are too distant even to dream about.

An army of lobbyists will make sure that Washington hears from the employers, but policymakers also need to look at this new economy from the workers' point of view and examine the tectonic changes that have undermined workers' ability to negotiate for a larger share of the wealth they produce. We need to examine the impact of the erosion of unions, which allow workers to join together to fight for higher wages and better benefits, and we should take a hard look at the extreme concentration in markets that stifles competition and drives down wages.

These trends in our labor market have exposed gaping holes in worker protection. It's time to rethink workers' rights so that every worker has a chance to build some economic security. The good news is that we can solve this problem. We've done it before.

More than a century ago, the industrial revolution radically altered the American economy. Millions moved from farms to factories. These sweeping changes in our economy generated enormous wealth. They also wreaked havoc on workers and their families. Workplaces were monstrously unsafe. Wages were paltry and hours were grueling.

America's response wasn't to abandon the technological innovations and improvements of the industrial revolution. We didn't send everyone back to their farms. Instead, we came together, and through our government we negotiated new public policies to adapt to a changing economy—to keep the best parts and get rid of many of the bad.

The list of new laws and regulations was long: A minimum wage. Workplace safety. Workers' compensation. Child labor laws. The 40-hour workweek. Social Security. The right to unionize. This didn't happen overnight. There were big fights—over decades—to establish that balance. But once in place, these policies underwrote the widely shared growth and prosperity of the 20th century. Now it's time for a 21st-century rewrite with workers' security front and center.

There are a lot of good ideas out there for how we can strengthen worker security. One is to make sure that workers' benefits are fully portable, following the worker wherever that worker goes. Another is to level the playing field by ensuring that every worker has the right to bargain as a group with whoever controls the terms of their work, and is protected from retaliation or discrimination for doing so.[3] Whichever specific policies we adopt, we should start with one simple principle: All workers—no matter when they work, where they work, who they work for, whether they pick tomatoes or build rocket ships—should have some basic protections and be able to build some economic security for themselves and their families.

Nearly 100 years ago, we wrote new rules to protect workers in a changing economy, and with those changes, we helped build the greatest middle class on the face of the earth. Now it's time to write the rules for a 21st-century economy and 21st-century workers—before that once-great middle class disappears.

The Basic Income Hypothesis

Sam Altman, President, Y Combinator
Elizabeth Rhodes, Basic Income Research Director, Y Combinator Research

Extreme poverty in the United States has increased dramatically over the past 15 years, and a growing number of Americans are experiencing financial precariousness due to the erosion of the middle class.[1] Individuals and communities are struggling as opportunities increasingly concentrate in urban areas and among the highly skilled. As technological advances continue to automate more low-skill jobs and polarize the labor force, these trends appear poised to continue or even accelerate.

In this context, existing attempts to alleviate poverty and promote economic security have proved insufficient. The social safety net, which is predicated on traditional forms of employment, leaves many people cycling in and out of poverty or categorically ineligible for aid.[2] The patchwork of programs is complex, costly to administer, and difficult to navigate. Take-up rates are often low—particularly among those most in need—exacerbating the inefficiency of the system.[3]

While we should continue to improve existing programs, we need to explore bold solutions in response to rapid changes in labor and economic dynamics. Providing a basic income—giving all Americans enough money to live on with no strings attached—is one potential solution.

Research points to negative economic, social, and psychological feedback loops that keep individuals without a steady income "trapped" in poverty.[4] A basic income seeks to break these feedback loops. Unlike in-kind assistance, unconditional cash transfers give recipients the freedom to meet their specific needs. The security provided by basic income could allow individuals to pursue further education or job training, engage in entrepreneurial activities, become more involved in their communities, or spend additional time caring for children or the elderly. People could spend more time looking for a good job rather than accepting the first offer that came along, thus reducing skill and qualification mismatches and increasing labor productivity.

These are just a few hypotheses of the effects of a basic income, but there is a conspicuous absence of rigorous research testing these ideas. Interest in basic income has skyrocketed lately, but the debate often relies on conjecture, stereotypes, and studies that are out-of-date, methodologically flawed, or from a disparate context. To help inform the discussion, we plan to measure the individual-level effects of a basic income through a large randomized controlled trial. After enrolling a random sample of 3,000 low-income individuals across two U.S. states, 1,000 participants will be randomly assigned to receive $1,000 per month for three to five years. We began a small short-term pilot in 2016 and plan to launch the large-scale study in 2018.

We will conduct extensive quantitative measurement of outcomes related to individuals' economic, social, and physiological self-sufficiency and well-being. We will gather data on how individuals spend their time and money, as well as how a basic income affects their children and those in their networks. To ensure that our measurement strategies are accurate and reflect the latest research, we are partnering with state and local agencies to collect objective administrative outcomes and with leading experts in economics, public health, and other fields.

By delving deeper than the labor market participation of recipients, the study seeks to bridge the divide between economic and social analyses, generating a nuanced understanding of the effects of cash transfers. In addition to quantitative analyses, we will conduct interviews to better understand the mechanisms of impact, individuals' experiences, their decision-making processes, and the constraints they face. We want to know how the cash generates the observed outcomes and why the effects may vary across participants. This holistic approach to understanding the individual-level effects of basic income will create data that can be broadly applied to help policymakers and academics improve the effectiveness and efficiency of future social policies and programs.

Removing All Perverse Incentives

Mike Lee, U.S. Senator (R-Utah)
Scott Winship, Director of the Social Capital Project, U.S. Congress Joint Economic Committee, Office of Senator Mike Lee

It is an unfortunate truth that many of the most influential critics of today's safety net are motivated by incorrect diagnoses of its weaknesses. To some, our policies are wholly inadequate because advances in technology are destroying jobs. According to them, it will no longer do to rely on a safety net that is premised on the availability of work for most who seek it. Instead, these critics say, we need a universal basic income—a government-provided guarantee that no one will fall below a certain income floor.[1]

Others believe that the safety net has simply become too stingy. These critics think that work-oriented welfare reforms have gone too far, pushing many into deep poverty.[2] They would give more generous benefits to the poor and make it easier for them not to have to work. Because they agree with universal-basic-income supporters—the two groups overlap considerably—that the American jobs machine is broken, they are skeptical of work requirements unless the government guarantees work.

In truth, far from increasing hardship, work-focused safety net reforms over the past 25 years have done more to reduce poverty among the non-aged than the expansion of unconditional welfare programs in the preceding 25 years. And the belief that technology is producing mass joblessness is wholly unsupported by evidence. The future of the safety net lies in expanding contemporary reforms to encourage work.

Consider, first, the calls for a universal basic income. If technological changes are resulting in fewer jobs for those whose skills can be automated by robots, we should see soaring productivity growth and high levels of involuntary joblessness as machines replace humans. Instead, the economy is characterized by anemic productivity growth and declining innovation and entrepreneurship.[3] The unemployment rate, after exceeding 10 percent during the depths of the Great Recession, stood at 4.1 percent in October 2017—back to pre-recession levels, and lower than in any of the months between February 1970 and September 1999.

Some doomsayers argue that the unemployment rate no longer reflects the strength of job markets.[4] But the unemployment rate trends the same way as rates of joblessness that add to the officially unemployed those who have dropped out of the labor force despite wanting a job. In part, that is because many who are out of the labor force are retirees, students, homemakers, and people with disabilities. But even among prime-working-age men, most of those out of the labor force tell government surveyors that they do not want a job.[5]

In 1996, when the nation's cash welfare program for the non-disabled was reformed, critics insisted that there were no jobs available for former welfare recipients. However, the employment rate of never-married mothers jumped by 15 percentage points in the three years from 1996 to 1999, after rising by only 10 points over the previous *16 years*. Employment in this group fell a bit after 2000, but it remains more than 10 points higher than in 1996. Meanwhile, employment among married mothers rose only modestly, and it was flat among single childless women.[6]

Many anti-poverty proposals focus on simply increasing spending on our current policies or making them more generous by rolling back work requirements and time limits imposed since the early 1990s. But giving poor families more money can actually leave them worse off if it causes more of them not to work. Federal and state governments spent trillions of dollars on poverty reduction from the late 1960s to the early 1990s, but poverty among children of single mothers failed to decline (and single parenthood became more common).[7] A universal basic income scheme could have similar consequences, but on a larger scale. One surefire way to lower economic growth rates is to reduce work.

Welfare reform revealed that the perverse incentives built into our safety net programs—incentives not to work, marry, delay childbearing, or save—cause many poor families to act in ways that are detrimental to upward mobility out of poverty. Changing some of those incentives to promote work and self-sufficiency predictably led to more employment and independence. Poverty rates among the children of single mothers fell after the early 1990s and remain well below early 1990s levels. Deep poverty rates are no higher than before welfare reform.[8]

Rather than more generous funding of existing anti-poverty programs, fewer obligations for their beneficiaries, or basic-income entitlements, what low-income Americans need is a safety net that helps them to become self-reliant and restores dignity to their lives. Welfare reform was a huge success in this regard, as one of us—the one who is not a United States senator—has shown in previous research.[9]

But most of our safety net programs retain perverse incentives. The one of us who *is* a United States senator has introduced legislation to build on the lessons of welfare reform.[10] The Welfare Reform and Upward Mobility Act would tighten work-oriented requirements for able-bodied adults receiving benefits from the Supplemental Nutrition Assistance Program (SNAP, commonly known as the "food stamp" program).

The bill would also create and fund work-promotion programs for able-bodied adults with dependents receiving SNAP benefits and recipients of cash benefits from the Temporary Assistance for Needy Families (TANF) program. These work programs would surround beneficiaries with resources like vocational education, job training, community service programs, and job search assistance but would require participation in these programs for most nonworking beneficiaries. States would be required to have three-quarters of eligible recipients participating. Single parents would be exempt from penalties if they have a child under age 6 and cannot find appropriate child care. All single parents with children under the age of 1 are exempt from work requirements.

Finally, the Welfare Reform and Upward Mobility Act would block-grant nine federal housing programs and allow states greater flexibility to spend the funds on housing. It requires federal evaluation of state best practices to promote effective programs. Through state experimentation, we can discover the best ways to help low-income Americans, just as state flexibility in the early 1990s informed federal welfare reform.

Other policymakers and thinkers have proposed additional ideas to reform the safety net in ways that encourage work, family, responsible childbearing, and saving, including reforms of the Earned Income Tax Credit. States should be allowed to experiment with these approaches so that we can discover what works best to reduce poverty and promote upward mobility. Returning to the unconditional policies of the past would do more harm than good, as would guaranteed incomes or jobs that would hurt their intended beneficiaries even as they exacerbate unsustainable federal deficits. The evidence is unfavorable for these approaches, and their advocates ignore the facts at the risk of making things worse for those who need our help.

Notes

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