

## A US Basic Income Experiment that Wasn't

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In July 2024, the National Bureau of Economic Research issued a report from the researchers on an income-transfer project conducted in Illinois and Texas. It has generated global attention, with some commentators saying it undermines the case for basic income, others that it supports the case for it.

This note is a critique of the project, and one point should be made very firmly at the outset: *This experiment was not a test of basic income*. Anybody claiming otherwise is either unfamiliar with the concept of basic income or is being disingenuous.

To be fair on the researchers, the title of their main report refers to a 'guaranteed income', not a basic income. But as far as I can see none of the researchers has rebutted the interpretation by critics. Moreover, as this writer knows, having been involved in the initial discussions of the project in Stanford University, the initial researchers knew they could not do a proper basic income pilot.

Nevertheless, it has not stopped critics from using it to pan universal basic income (UBI). One hostile interpretation was presented by the Financial Times economics commentator Chris Giles who, hardly for the first time, dismisses 'universal basic income' as a 'bad idea that never quite dies'.<sup>1</sup> He bases his disdain largely on the study that he says shows a basic income would reduce labour supply and not do any good for health.

He claims that this is the first very large-scale scientific study of basic income. That is not true. Let us unpack his claim. First, it is not the first study claiming to be a pilot of basic income. There have been over 100 experiments, some larger and some lasting for longer. This is less a test of basic income than many of those.

Second, it is not the first 'large-scale' experiment. One we conducted in India was four times as large, with six times as many recipients. Unlike this experiment, it was a genuine basic income pilot, in which every man, woman and child in nine communities received the basic income, and nobody in 13 others did so.<sup>2</sup> One conducted in California had three times as many recipients, with a control group that was also three times as large. The biggest basic income project is in South Korea, where 125,000 young people have been receiving a basic income. The longest lasting experiment is ongoing in Kenya, scheduled to last for twelve years. Across 50 US cities experiments of various sizes have been conducted in recent years.

This false claim would not be so bad were it not that Giles claims this study adds 'facts to a debate that has in the past pitted maths against ideals'. In other words, the FT's Economics Commentator says there have been no empirical studies up to now.

Third, he lays emphasis on this being the first ‘high quality’ experiment. This is subjective. Presumably, he calls it that because it uses ‘randomised control’ methodology, the currently fashionable state-of-the-art statistical technique. However, as at least two Nobel Prize winning economists have shown, use of this technique in applied economics is controversial and not really reliable.<sup>3</sup>

It is the preferred scientific method in medical research, where three options are used – treatment, non-treatment and placebo. One cannot devise a placebo for a social policy. Moreover, the bigger problem is that one cannot randomise for non-measured or non-measurable variables. One should surely conduct policy experiments using control groups. But they are not magic bullets.

As RCT critics have rightly argued, the best method is the one that yields the most convincing and relevant answers in the context at hand.<sup>4</sup> And for basic income pilots RCTs are rarely applicable in their pure form because selection of random individuals to receive a basic income runs against key features of a basic income, including universality and community effects.

In short, one should use a mixed methods approach, as in fact this project has done, having useful qualitative data from personal experiences. What is interesting is that various ‘findings’ from the statistical testing are left unexplained while some are at odds with reports from individual recipients.

This highlights a characteristic failing of the whole exercise – the sophisticated statistical analysis has run ahead of the quantitative data, probably because insufficient time and human resources were devoted to refining and testing out the fieldwork instruments before the experiment was launched.<sup>5</sup>

Fourth, and rather importantly, what this experiment tested was nothing close to being a basic income. This writer has some sympathy with the researchers, having interacted with them when they were designing the experiment, which went through a series of modifications, due partly to administrative obstacles.

By definition, a basic income would be a modest amount paid regularly to all usual residents, paid individually, without means-tests or behavioural conditions, regardless of income, gender, marital status or work status. It would be an equal amount paid to each adult and be non-withdrawable.

The trouble with this study is that it does not even pretend to respect that definition. Indeed, several limitations make the results almost irrelevant for assessing the impact of basic income.

First, in effect, it was a means-tested benefit paid to 1,000 individuals spread across 19 counties (ten in Texas, 9 in Illinois), that is, about 50 per county, or much less than 1%, which is hardly universal. It was stipulated that recipients had to belong to households

that had a total household income of less than 300% of the Federal Poverty Level in the preceding year. That is neither universal nor random.

Related to that was a special *poverty trap* that does not seem to have been taken into account in the analysis. Many of the recipients would have been in receipt of means-tested benefits. If a household's income increased above a threshold, it lost such benefits.<sup>6</sup> We will come back to that point in considering the scheme's impact on employment and labour supply.

Second, the individuals were mostly (87%) self-selected. That is, they volunteered. One cannot presume that those who volunteer to take 'free money' are purely random, that is, just like those who do not do so.

Third, it was only paid to individuals aged between 21 and 40. You cannot legitimately generalise any finding for that age group to all other age groups. This young age cohort is relatively likely to be able to make inter-temporal shifts in behaviour, for instance.

Fourth, the cash transfer was only paid to one individual per household, and even then was only paid if nobody in the household was receiving disability benefits and if they were not in publicly-subsidised housing. Strangely, if someone was selected who knew someone else in the immediate vicinity who was also selected, they were de-selected.

What this procedure meant was that recipients in effect received different amounts, which is contrary to any basic income scheme. For instance, if the individual was a member of a household of four people, it was highly probable that the \$1,000 was shared between all members of the household, giving \$250 each on average. If the person was a single-person household, they received \$1,000. Then, in the analysis, one is clearly not comparing like with like. Indeed, without knowing what sharing took place, one cannot guess what any recipient actually received.

Fifth, the experiment deliberately over-sampled individuals from minority groups, presumably because of concern that sub-sample sizes would be unreliable. But minorities may not have similar behaviour or reactions to other groups.

Taken together, those five features invalidate any claim to randomness, unconditionality or universality. Although useful and interesting, the project was not a test of basic income.

Incidentally, there is one other major factor scarcely taken into account. The experiment began in the height of Covid, in a month when four million cases were recorded across the United States. In those circumstances, it would surely be a marvel if a cash transfer only resulted in a drop of just over an hour a week in paid labour. That is what is claimed. But, as will be shown below, here is where critics such as Giles should be ashamed

So, the definition of basic income has not been applied, and the design of the experiment is such that it cannot assess the impact of a basic income. Now consider some of the claimed findings.<sup>7</sup>

### **Impact on Employment and “Work”**

Giles and other critics eager to attack basic income have interpreted the study as showing that basic income reduces employment and work. Giles asserts, ‘*Time at work went down for both the recipients of the \$1000 and their partners.*’ Another review said it ‘*slightly reduced employment rates and work hours*’.<sup>8</sup>

In the light of such remarks, one should be clear: *Employment went up for the recipients of the unconditional cash transfers.* You would not guess that from reading Giles’ diatribe. Up is not the same as down.

The puzzle starts with the fact that the control group had higher employment than the recipient group at the outset of the experiment, which incidentally adds to the dubious claims of randomisation. During the course of the three years of the experiment, the employment rate of both groups rose, leaving a slight difference between them at the end.

A second factor is that differences were only observed for the younger age group, those aged between 21 and 30. There were no significant differences for those aged over 30 and for childless adults of both age groups. As the report made quite clear,

*‘For recipients who were not single parents at enrolment, we do not find statistically significant effects on employment or hours worked.’*

It is unfortunate that the study uses the sexist notion of ‘work’, meaning that all work looking after children or sick or elderly relatives are defined away as non-work. But that does not offer any comfort to the critics. Giles said the study showed recipients employment went down. It went up quite considerably. Up is not down.

It is also worth mentioning in passing that two other experiments reported at about the same time as the NBER report was issued, both of which were mentioned in it but not mentioned by Giles. One was slightly bigger than the Open Research experiment in terms of recipients.<sup>9</sup> Both found no negative effect on employment or hours ‘worked’.

In considering the impact on employment, there is an intriguing correlation from the statistical analysis, which the report states as follows,

*‘Receiving unconditional cash transfers made recipients more likely to search for a job and apply for a job.’<sup>10</sup>*

This suggests the unconditional cash transfer did not deter labour supply by those on the margins of the labour market. Indeed, it could be interpreted as showing that the cash

transfer enabled them to search for a more suitable job, and thus improve labour market efficiency.

There is one other speculative point worth making. The overall analysis claims that at the end of the project cash recipients were ‘working’ (sic) 1.3 hours less than the average in the control group. That works out to be about 12 minutes per day. That must have been just about the time recipients were required to use in filling out the 24-hour time diaries each week providing data for the researchers.<sup>11</sup> Work comes in many guises.

### **Education**

This leads to the key finding. While observing that on average cash recipients in their 20s were less likely to be employed and on average to ‘work’ 1.8 fewer hours a week compared to control participants, the researchers concluded,

*‘We also observe larger effects on formal education among those in this age group, suggesting younger adults may be more likely to use the money to enrol in post-secondary education and work (sic) fewer hours while in school.’*

Recipients during the final year of the experiment were 14% more likely to be in education or job training than the average control participant, and ‘the effect was greatest for recipients who had the lowest household income at enrolment’. They were 34% more likely to be participating in education or training than the control group.

Surely, this is a powerful positive effect. But by itself it understates the likely impact. Previous studies – incidentally, large-scale, high quality and long-term – have shown that cash transfers tend to reduce the labour force participation of youth by leading to less drop-out from school and some return to full-time education. But precisely because they go on to gain more schooling and job training, the effect is a much higher labour force participation in the many succeeding years, dwarfing any short-term reduction in labour supply and almost certainly raising the productivity of those people as well.

Many other pilots and experiments closer to testing basic income have found that among the biggest effects is that the children of recipients of basic income or other cash transfers attend school more and perform in school better. This was one of the outstanding findings of what must be the longest pilot, one I have called ‘the accidental pilot’, conducted over nearly two decades in North Carolina, which showed that after sixteen years children in families receiving the cash transfers were on average one year ahead in performance.<sup>12</sup> There is no way this latest experiment can come close to testing such long-term outcomes.

### **Entrepreneurship**

Another aspect of the study that is intriguing is the apparent impact on recipients’ efforts to start a business or indulge in more self-employment. As usual Giles is categorical:

*'The most that could be said was that the recipients spent some of their extra leisure time thinking about starting a business without actually doing it.'*

He added for good measure that the results were much worse than a group of experts had predicted. Actually, the survey results are more nuanced. They do show that recipients were more oriented to taking financial risks and were more likely to report an intention to start a business. But in addition what is clear is that recipients who were black or who were women were significantly more likely than those in the control group to have actually started one. This is what the researchers state:

*'In the third year of the program, Black recipients were 9 percentage points more likely to report ever starting or helping to start a business – a 26% increase from the average for Black control participants.....female recipients were 5 percentage points more likely to report ever starting or helping to start a business – a 15% increase from the average female control participant.'*<sup>13</sup>

I am sure Chris Giles just missed that bit. It happens. The research also showed that even in the first year, recipients were more likely to have purchased materials with the objective of starting a business. All of this replicates the results we found in our large-scale Indian basic income pilot. But contrary to what Giles states, there were entrepreneurial actions.

## **Income**

Let us now focus on one of the most limiting aspects of the experiment as a test of basic income, the impact on income itself.

First, one of the tested claims of basic income proponents over recent years is that by providing everybody in the community with an equal basic income, the total effect is to raise total and average incomes by more than the monetary value of the basic income itself. There is a *multiplier effect*. As summarised elsewhere, some cash transfer schemes in other countries have found that for every \$100 spent an extra \$200 has been generated.<sup>14</sup>

Second, the experiment does not model tax and welfare benefit changes. By selectivity, many of the recipients had been receiving means-tested benefits. Receipt of \$1,000 a month must have moved some of them beyond the income threshold, so that they lose entitlement. This is a classic *poverty trap*. This means it would actually pay to reduce labour supply and hours of labour. So, one cannot fairly attribute any cut in labour supply to the basic income.

In addition, there is what I have called a *precarity trap*.<sup>15</sup> If someone loses a means-tested benefit it would take quite a lot of time to apply for its return, which would put someone off risking losing it in the first place. This is a major reason for people on means-tested

benefits not taking short-term casual jobs. It is the fault of means-testing and complex administrative processes, not the cash transfer.

## **Health**

The study focused on the possible impact on health. Here again, Chris Giles is categorical, asking rhetorically,

*‘Did universal support make recipients healthier than the control group? Again, the answer was no. Surveys and blood tests of recipients and the control group shows no improvement in physical health, and mental health improved only in the first year. There were more visits to medical facilities and more alcohol consumed, although less problematic drinking.’*

To call this paragraph churlish would be an understatement. First, there was not universal support, or anything like it. Universal means everybody. The small group of youngish recipients were a tiny minority in their communities and precluded those with serious illnesses or disabilities receiving disability benefits. For Giles to call this ‘universal’ is disingenuous. Second, surely an improvement in mental health is an improvement in health. A simple reason for mental health not improving in the second and third years was that it had already improved. Perhaps they did not get better than better!

What about the actual results? Remember that this was for a very selective group, aged between 21 and 40. The first finding was that income recipients made more visits to dentists and doctors. So, one should say they were taking more preventative measures, which any medical expert could tell you is advisable for long-term health.

Second, for men, the study found recipients were 41% less likely to be under the influence of dangerous substances and 45% less likely to be drinking to excess, and had an almost incredible 81% lower probability of using painkillers not prescribed to them. Anybody thinking those findings do not indicate an improvement in health is either ignorant of basic medical knowledge or is prejudiced.

What we do know is that the United States is afflicted by a virtual pandemic of substance abuse that is contributing to the well-documented phenomenon of deaths of despair. Inducing people to take fewer drugs is surely an indicator of improvement to long-term health.

## **Concluding Reflections**

Pilots and experiments that are less than proper pilots can be valuable. The one discussed here, which Scott Santens generously calls ‘Sam Altman’s Basic Income Experiment’ is far from ideal, but is valuable nonetheless, done by serious academics well versed in statistical techniques. However, we should not forget that a pilot is better suited to uncovering how and why an intervention does or does not work, rather than whether it is the right thing to do.<sup>16</sup> Their usefulness also depends crucially on the type

and quality of data gathered. Sadly, one should suspect that most of the scholars involved in the design and analysis were not steeped in knowledge of basic income or the manifold findings and hypotheses generated by the many pilots and experiments before they conducted theirs.

However, there is one fundamental point that is the most important of all. Most advocates of basic income justify their advocacy on ethical or philosophical grounds. Moving towards a basic income for every resident citizen is a matter of common justice, freedom and basic security. As economists have shown, contrary to the back-of-the-envelope calculations by prejudiced critics such as Chris Giles, it is affordable without raising income or consumption taxes.<sup>17</sup>

And opinion polls show it now has majority support in many countries. What is becoming clearer is that it is also an ecological and political imperative. But such issues are for another occasion. The Open Research project is interesting and provocative. But it is no test of the value of basic income.

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<sup>1</sup> C.Giles, 'Universal basic income: the bad idea that never quite dies', *The Financial Times*, July 26, 2024.

<sup>2</sup> S.Davala, R.Jhabvala, S.K.Mehta and G.Standing, *Basic Income: A Transformative Policy for India* (London and New Delhi, Bloomsbury, 2015).

<sup>3</sup> A. Deaton, 'Instruments of development: Randomization in the tropics, and the search for the elusive keys to economic development', The Keynes Lecture, British Academy, 9 October 2008; J.J. Heckman and J.A. Smith, 'Assessing the case for social experiment', *Journal of Economic Perspectives*, 9(2), 1995, pp. 85–115.

<sup>4</sup> M. Ravallion, 'Should the randomistas (continue) to rule?', Working Paper No.27554, National Bureau of Economic Research, July 2020; also A. Deaton, 'Randomization in the tropics revisited: A theme and eleven variations', in F. Bédécarrats, I. Guérin and F. Roubaud (eds), *Randomized Control Trials in the Field of Development: A Critical Perspective* (Oxford University Press, 2020).

<sup>5</sup> For a review of what is required for a legitimate basic income, based on two decades of applied experience, see G.Standing, 'Basic income pilots: Uses, limitations and design principles', *Basic Income Studies*,

<sup>6</sup> The researchers state that 'extensive effort was taken to protect eligibility for public assistance programs', but admit that major ones were not protected in Texas. E.Vivalt et al, *The Employment Effects of a Guaranteed Income: Experimental Evidence from two US States* (Cambridge, Mass., NBER, Working Paper 32719, July 2024), p.7.

<sup>7</sup> While working on this critique, my colleague Scott Santens was doing the same, and has produced an excellent assessment, with points that are also made here. See S.Santens, Did Sam Altman's basic income experiment succeed or fail?(UBI Guide, 2 August, 2024). <https://www.scottssantens.com/did-sam-altman-basic-income-experiment-succeed-or-fail-ubi/>

<sup>8</sup> M.Gort, 'If you offer people universal basic income, they work less but have more choice, study finds', *Workplace Insight.net*, 23 July 2024.

<sup>9</sup> J.Liebman et al, *The Chelsea Easts program: Experimental impacts*' (Boston, Rappaport Institute for Greater Boston Working Paper, 2022); M.Sauval et al, 'Unconditional cash transfers and maternal employment: Evidence from the Baby's First Years study', *Journal of Public Economics*, 236, 2024.

<sup>10</sup> Vivalt et al, 2024, op.cit., p.18.

<sup>11</sup> The employment report mentions '24-hour time diaries delivered through a mobile phone app'. The technique is dubious in itself, as I have argued elsewhere. There is a tendency to record normal actions and what is respectable. Such time use instruments rarely if ever find anybody having an affair or indulging any activity deemed illicit.

<sup>12</sup> Standing, 2017, op.cit., pp.258-59.



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<sup>13</sup> Open Research, *Key Findings: Entrepreneurship* (21 July, 2024).

<https://www.openresearchlab.org/findings/entrepreneurship?>

<sup>14</sup> G.Standing, *Basic Income: And how we can make it happen* (London, Pelican, 2017).

<sup>15</sup> *Ibid*, pp.77-78.

<sup>16</sup> This point is made forcefully by Angus Deaton in a critique of randomised control trials, and by his fellow Nobel Prize-winning economist Jim Heckman. Deaton, 2008, *op.cit.*; Heckman and Smith, 1995, *op.cit.*

<sup>17</sup> This writer proposes that moves towards a meaningful basic income should be funded by eco-fiscal policy and a Commons Capital Fund. For a related excellent costed proposal for the UK, see S.Lansley and H.Reed, *Universal Basic Income: An Idea whose time has come?* (London, Compass, 2019). See also H.Reed et al, *Universal Basic Income is affordable and feasible: evidence from UK economic microsimulation modelling* (Bristol, Policy Press, 2023).