Tuesday Money - Model UBI Rules and Impact Estimates

updated 2019-05-01 by Stu Btwotwo

Overview: This model policy analysis consists of 7 sections. The first three sections define a model Universal Basic Income (UBI) program for the U.S., in terms of I) Stipend Eligibility Rules II) A hypothetical bank called CMB (similar to a Postal Bank) and III) Stipend Budgeting Rules. Section IV) identifies monetary and fiscal offsets that may be used to finance the UBI program. The following two sections analyze the impacts of the proposal, in terms of V) Aggregate impact on US economy and VI) Impact on US households. The final section VII) describes our methods of modeling and evaluation.

Principal Goals guiding our model structure and evaluation, phrased as desired outcomes:

PG1) Broad prosperity and sharing in national economic success
PG2) Personal freedom to move, work, invest and innovate
PG3) Reduced carbon emissions from thriving Main St. economy
PG4) Stability of expectations for consumers and markets
PG5) Simplified federal government and reduced bureaucracy
PG6) Empowerment of individual choice and state+local discretion
PG7) Policy tuning using adjustable parameters, rather than rule revisions

I) Stipend Eligibility Rules

1) Unconditional stipend is offered to all U.S. legal residents living in private households. People receiving other direct federal support payments may have different choices, discussed in paragraph 5. Restrictions apply in cases of people living outside the U.S. (paragraph 6 below), and in institutions such as prisons and some hospitals (paragraph 7 below).
2) U.S. residents receive automatic **weekly** stipend each Tuesday, (unless it is a bank holiday, then the next day) as either:
    a) Direct Deposit ACH payment to a verified U.S. bank or credit union account.
    b) Direct Deposit to a CMB account (see section II below).
3) Regular weekly stipend amounts:
    a) U.S. resident citizen adults each receive a full share, called Tuesday UBI 100%.
    b) The amount of the weekly Tuesday UBI 100% payment is determined by the federally appointed CMB oversight board (described in section II below) in accordance with Stipend Budgeting Rules (described in section III below).
    c) U.S. resident children (regardless of citizenship) receive a share of up to 60% paid to their parents (= 2 X 30%) or household guardian(s).

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i) To limit unintended family size incentives (Search "Welfare Family Cap" issue), household payments for kids increase in a tapered fashion as household size grows: 1st kid 60%, 2nd kid 55%, 3rd kid 51%, 48%, 46%, 45% for 6th and additional kids).

d) U.S. legally resident adult noncitizens (i.e. "Green Card" holders) receive a weekly UBI stipend of 70%.

   i) Note, as mentioned in "b)" above, all resident households receive UBI for children at the same rates, regardless of status of children or parents.

4) No Taxation or Garnishing of UBI stipends

   a) Tuesday Money UBI stipend payments are generally **not** taxable by federal, state, or local governments.

   b) Stipend payments are reported as a separate line item of income on IRS form 1040, but this income is not subject to any federal taxes.

   c) Tuesday Money stipend payments made to a CMB account are not subject to withholding or garnishment by any authority.

5) Adjustment for other federal support benefits payments received.

   a) Persons already receiving certain other statutory federal benefits such as SSA retirement benefits may choose to keep those benefits or to switch to the UBI program. Since UBI will pay less than existing SSA retirement benefits for most people, we would not expect a large number of retirees to want to switch, or to be directly affected.

   b) For those over 40 but not yet retired, a new SSA supplementary benefit program option is defined for retirement under SSA rules to allow them to keep UBI as well as that SSA supplementary benefit into retirement. This combination will provide slightly more than the regular SSA benefit, which will also remain an option during a transitionary period of 7 years.

   c) The following benefits programs are not directly modeled in this proposal, and are presumed unchanged, by default: Disability benefits, Veterans benefits, HHS, HUD, TANF.

      i) It is assumed that all these program recipients will sign up for UBI as well as remain registered in their current benefits programs.

      ii) These other benefits could potentially be reduced for those who are also receiving UBI (most recipients). This step could be taken as a federal spending reduction measure, as discussed under Section IV below. In our view, such offsetting reduction is preferable to having different sizes of UBI. It is important to the UBI program stability that all citizen/resident adult shares of Tuesday Money be equal as discussed in para 3) above.

6) Ineligible while living outside U.S.

   a) People living outside the U.S. for periods of longer than 30 days, or totalling more than 120 days in a year are deemed ineligible for Tuesday Money stipends during their time away from the U.S.

7) Imprisoned and Institutionalized Persons

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a) While serving prison time for a conviction, payments to an adult are generally subject to additional regulations, not modeled further in this analysis.
    i) Adults in supervised release programs receive their full regular UBI share.

b) UBI payments allocated for children living in a private household are never reduced. In cases of multiple households, existing child welfare rules would apply.

c) Payments in support of adults and children living in institutions are subject to additional regulations, not modeled further in this analysis.

II) US CMB : Charter Money Bank

1) Tuesday Money stipend payments are made through a hypothetical independent agency of U.S. Gov, called US CMB - Charter Money Bank.
    a) CMB is a placeholder entity for our modeling purposes. By assigning responsibility to it, we are able to shorten our model description, without loss of precision.
    b) In our model, CMB is described as having both public-facing personal banking and central banking functions.
    c) Most importantly, CMB is assigned responsibility for deciding, announcing and implementing UBI rate increases.
2) CMB operates in cooperation with U.S. Treasury, Fed Reserve Banks, SSA and IRS.
3) The majority of CMB payments are made as ordinary electronic ACH payments into personal bank accounts of U.S. residents.
    a) Crediting of these personal bank accounts is an ordinary deposit transaction, which creates bank reserves.
4) In support of residents without access to ordinary bank accounts, any U.S. resident may open a simple account directly with CMB, which will supply them with a low-fee ATM debit card.
    a) This provision is intended to emphasize that UBI payments are defined to be permanently and universally accessible to all U.S. residents. The details are not otherwise important to our model, but are listed here as suggestions for envisioning a complete, working UBI disbursal system.
    b) CMB personal banking services are comparable to, and sometimes colocated with Post Office (e.g. in small towns).
    c) What are the best rules regarding CMB debit card use outside of U.S?
        i) Candidate: Use of a CMB debit card outside the U.S. is permitted, but repeated long-term patterns of use outside U.S. might call into question whether account holder is in fact a resident entitled to UBI.
5) CMB is governed by an oversight board, serving staggered terms, appointed by U.S. president and confirmed by U.S. Senate.
6) CMB oversight board is responsible for determining UBI stipend increases, as discussed in more detail in section II below.

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7) Semi-independence of CMB serves these functions:
    a) Credible impartiality of quarterly stipend increase decisions.
    b) Ability to efficiently serve simple retail banking needs, within a limited administrative budget.

III) Stipend Budgeting Rules of US CMB

1) UBI 100% weekly stipend amount is determined by an appointed CMB oversight board, subject to the general rules in this section.
2) By law, weekly stipend rates may **never** be *decreased*.
    a) Weekly stipend rates may be held constant by CMB for any number of quarters or years, depending upon overall economic conditions.
3) By law, CMB is **not** permitted to make *temporary* increases in UBI rate.
    a) If the U.S. congress and president create laws and appropriations authorizing additional payments to particular US residents, they may use CMB as a vehicle for such payments, but this payment may not be defined as or commingled with Tuesday Money UBI. Preferably, any such payment should be made on a different banking day (not on Tuesday).
4) Announced quarterly increases in UBI 100% weekly payment rate take effect on the first Tuesday payments in February, May, August, and November.
    a) The rate increase (possibly 0) for following quarter is announced on a Wednesday exactly 41 days before the increase becomes effective (i.e. in mid-Dec, Mar, June, Sept).
5) CMB cooperates with Federal Reserve governors in pursuing targeted rates of money supply growth, real GDP growth and related inflation metrics.
6) While maintaining currently presumed inflation targets at about 2% annual (~= 0.5% per quarter), it is expected that the Tuesday Money weekly UBI rate may (at CMB's policy discretion) initially grow by up to 1.5% in a quarter, up to 5% total in a year, and up to 18% total over 5 years.
    a) In a period where measured inflation is above targets, UBI increases will be smaller, possibly 0%, but never negative.
    b) In a period where measured inflation is below targets, UBI increases will be higher, but usually not more than 2% in a quarter and no more than 5% annually.
7) It is proposed that the initial 100% UBI rate beginning on Tuesday May 4, 2021 be set at a payment of $______ per week, based on the calculations of expected aggregate and household impacts discussed in sections III and IV.
8) CMB is funded as a legally **mandatory** spending obligation of the US Federal Treasury, not subject to congressional appropriations process.
9) UBI spending by CMB is treated as an ordinary budgetary expense of the U.S. federal government, and thus contributes to federal budgetary "deficits" under federal budget accounting rules as of 2019-Q1.

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IV) Offsetting Monetary Accommodation and Fiscal Budgeting

1) Generally sovereign money (i.e. federal only) spending on UBI is modeled as supportive of individuals, economy and society, with real support increasing with stipend size, up to an equilibrium region of economic dynamics.
    a) Once stipend levels reach this zone, then UBI should increase only slowly, in real terms, at roughly the same rate as growth in productivity of the total economy.
    b) Excessive rapid increases to UBI would likely lead to excessive undesirable inflation of various prices, commonly described as "too much money chasing too few goods".
    c) We leave plenty of room for disagreement about how large the initial UBI amount should be, and what its growth rate should be. Modeling factors of this decision is a primary purpose of our work.
    d) Larger sizes of offsets applied in subsection 2 (next) will mean the UBI can (and should) grow more rapidly without causing excessive inflation. For example, larger carbon fees would mean UBI payments should grow faster.
2) Since inflation is the main constraint on the size of federal UBI, we view all other incremental fiscal or monetary restraint by the central bank or federal government as to some extent offsetting the expansionary impact of UBI. Each of the following actions can serve such an inflation-reducing offset to UBI.
    a) Collection of excise carbon fees, starting at a fee of $________ per ton.
        i) Carbon fees increase consumer prices for carbon-intensive goods, but also progressively shrink the carbon-dependent share of the economy, while pulling money into the federal treasury (deflationary).
        ii) Carbon fees per-ton are expected to increase over time, but further details of that policy are not defined in this model.
        iii) The combination of carbon fees with UBI is often referred to as "Carbon Fee and Dividend". In our model both these elements are present, without any assumption that these amounts should fully cancel each other (i.e. no assumption that the combined Tuesday Money program is budget-neutral).
    b) Monetary policy adjustment by Federal Reserve, through interest rates and reserve requirements.
        i) The Tuesday Money stipends may be partly funded in terms of "Quantitative Easing for People".
        ii) We expect this investment to lead to growth in both real GDP and productivity.
        iii) Depending on all the choice-parameters in this model, there could be net inflationary (or deflationary) pressure on the national economy. The Federal Reserve is expected to maintain its own policies of tightening and accommodating in order to mitigate such pressure.
    c) Reducing SSA payments to future SSA retirees.

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i) As described in subsection I.5 above, future SSA retirees will transition to receiving a supplementary payment in addition to UBI. This act lowers the long term cost of the SSA benefit program (which will no longer be funded using the separate payroll tax and trust fund), while increasing the retirees total monthly support.

d) Reduction in federal spending on social assistance programs.
   i) Eliminate federal unemployment benefits and FUTA taxes.
   ii) Reduce or eliminate EITC and other low income tax credits.
   iii) Reduce federal spending on targeted and means-tested social assistance under HHS and HUD programs.

e) Replace current Income Tax and FICA systems with a simple, fair, progressive income tax system.
   i) Below a threshold annual income of $_A_ there is no income or payroll tax collected.
      (1) Eliminate 1040 filing requirements for 80% of the adult population.
   ii) Above the minimum threshold, all forms of personal income are taxed at the same marginal rate, including wages, business and rental income, interest, dividends, and capital gains. The marginal tax rate is progressive with income level, as follows:
      (1) From $_A__ to $__B__ is taxed at _ Rab__%
      (2) From $_B__ to $__C__ is taxed at __Rbc__%
      (3) [continue here in traditional tax bracket format].
   iii) Eliminate FICA taxes and trust fund accounting gimmicks
   iv) Eliminate mortgage interest deductions and most other deductions.

3) In crude terms all these actions in subsection IV.2 may be said to help finance or "pay for" UBI spending, although we recognize the following caveat:
   a) Like UBI itself, each such change in spending, taxation, and monetary policy may have its own impacts on demand, wages, employment.

4) Overall these revisions to federal spending and revenue are intended to result in a federal government that is both simpler and more effective in serving the people.

Evaluating the Tuesday Money Proposal

The above four sections define a set of rules for a proposed Tuesday Money UBI program, administered through a hypothetical US CMB independent agency.
The following two sections give a list of impacts we intend to estimate using our methodology, discussed in the last section..

V) Aggregate impacts of Tuesday Money UBI

1. Impact on aggregate demand
   a. Increased demand for local services supplying food, childcare.
   b. Increased demand for low-carbon transportation services.

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    c. Decrease demand for carbon-intensive products and fuels.
    d. Decrease demand for income-tax preparation and related accounting services.
2. Impact on money supply and velocity
3. Impact on real GDP and employment
4. Impact on other federal spending, including funding of state programs
5. Impact on revenues to federal government and federal budget deficit
6. Impact on interest rates for public and private lending
7. Impact on tax revenues to state and local governments
8. Impact on international trade
9. Impact on ecology and environment
    a. Paragraph IV.2.a identifies carbon release excise fees as a primary offset for Tuesday Money spending.

VI) Household impacts of Tuesday Money UBI

1. Composition of eligible households
2. Expected household participation rates
3. Expected household uses of funds
4. Impact on mobility and housing affordability
5. Impact on education and childcare
6. Impact on food security, health, and fitness
7. Impact on employment and small business creation
8. Impact on household debt and savings
9. Wealth distribution effects

VII) Evaluation Methodology

1. Our proposed model policy in sections I-IV is defined as a set of specific numbered rules, with numeric parameters highlighted.
2. From this text form, we derive a condensed set of model equations, suitable for quantitative analysis.

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