

Creative Destruction for All: How UBI Can be a Capitalist's Dream

The Implications of Automation

Joseph Schumpeter's concept of 'creative destruction,' a cornerstone of capitalism, has been proven time and again. New innovations constantly replace old technology, leading to increased productivity and economic growth at the cost of destroying old industries.

Simultaneously, though, automation increases inequality as its gains are realized in a greater portion to capital owners than to wage workers. AI-driven automation will soon bring unprecedented productivity growth alongside accelerated job displacement, changing the meaning of 'work' forever. To address resulting technological inequality, I propose examining a government funded Universal Basic Income (UBI), to cover basic needs regardless of employment status.

A UBI could reduce inequality in at least three ways:

1. Income Redistribution

UBI represents a larger share of income for poorer households than for richer ones, regulating inequality through redistribution, especially if funded through a progressive wealth or data tax. By redistributing wealth to lower-income households with a higher marginal propensity to consume (Fisher et. al, 2019), consumption increases and multiplier effects boost economic growth, expanding available jobs and potentially slowing automation-driven unemployment. Recipients of GiveDirectly's Kenyan BI program¹ consumed 25% more than the control group (Haushofer & Shapiro, 2018).

One survey revealed the largest concern against UBI is that recipients would spend transfers unwisely, on "temptation goods," such as alcohol or tobacco (GiveDirectly, 2023). This is unsupported, as recipients saw "fewer of their neighbors drinking daily, and were less likely to perceive drinking as a problem" (GiveDirectly, 2023). Throughout Africa, transfers instead increased consumption of quality food and durables (Haushofer & Shapiro, 2016; Tiwari et al., 2016).

Some worry UBI will spur inflation, locking UBI into a vicious cycle where decreasing purchasing power necessitates ever-higher funds. However, insofar as UBI is funded using money already in circulation—such as taxes and dividends—and not by expanding money supply, it is unlikely to cause destabilizing inflation. Heightened consumption will not lead to demand-pull inflation, as the accelerated pace of automation boosts production, helping supply readjust to demand.

2. Pursuit of Human Capital, Innovation, and Alternate Forms of Work

UBI guarantees income security, awarding poorer households flexibility to pursue different forms of labor, such as investment in human capital (trading short term income for long-term skills), entrepreneurship, or informal work, such as caretaking or community service. In Latin American,

¹ This Unconditional Cash Transfer (UCT) program for Kenyans living in poverty since 2011, is "the world's largest and longest basic income study" (GiveDirectly, n.d.). This program, unlike other welfare programs, does not dictate how or when recipients must use their cash, allowing studies into the behavior of potential BI recipients. The program utilizes 5 randomized controlled trials (RCT) in addition to their 9 Kenyan counties receiving aid in order to study the impact of their BI. It is worth noting that this experiment studies only people in poverty in a lower-middle income country.

Caribbean, and Sub-Saharan African experiments², cash transfer recipients invested in human capital: “transfers boosted school enrolment, especially for girls, and healthcare spending, especially on children” (Stanford Basic Income Lab, 2020; Barrientos & DeJong, 2006; Davis et al., 2012; Fiszbein et al., 2019)

As UBI guarantees basic needs, entrepreneurship risk becomes non-existent, increasing propensity to innovate and driving economic growth. Since financial scarcity increases cognitive load and limits long-term planning ability, UBI’s provision of financial security increases flexibility, thus enabling innovation (Mullainathan and Shafir, 2013; Cheung 2025). This is superior to other forms of welfare, which only account for partial costs and/or provide welfare to a subset of the population. For example, the expansion of U.S. food stamp³ programs elevated the chance that “eligible households would own an incorporated business by 16%” (Frick, 2015). Furthermore, recipients of GiveDirectly’s Kenyan BI “started 19% more enterprises with 80% higher revenues,” suggesting that innovation helps grow wealth among the poor (Cheung, 2025).

Critics argue that decoupling income from employment will disincentivize work, making UBI unsustainable. However, evidence in both mid-⁴ and high-income⁵ countries contradicts the idea that UBI incites destabilizing disincentive effects. For example, child labor decreased thanks to a Kenyan Cash Transfer Program⁶, while adult labor supply increased, suggesting UBI incentivizes work by removing welfare traps and increasing time flexibility to reskill or search for employment, all while providing a safety net for children (Asfaw, 2013).

Finally, UBI will potentially broaden what counts as productive work, empowering unwaged and socially undervalued laborers such as caregivers and community workers. It may “alter a rigid gendered division” of full-time caregivers and employees, allowing more people to commit to both activities part-time (Stanford Basic Income Lab, 2020). A high UBI will transform the meaning of labor: from a money-earning necessity to an expression of personal value. Importantly, though, none of this is possible if a UBI cannot guarantee basic needs. A UBI set too low could increase economic inequality between income-earning and informal laborers.

3. Access to Capital: Investments and Assets

UBI increases disposable income. Since it provides for basic needs, supplemental income allows households that previously could not, to invest and own capital. Unlike other welfare systems, UBI is universal for all incomes, meaning it will not create a welfare trap.

² These studies examine a number of cash transfer programs throughout Sub-Saharan Africa, Latin America, and the Caribbean, such as but not limited to the Child Support Grant in South Africa, the PROGRESA program in Mexico, and old-age pensions in South Africa, Botswana, and Namibia.

³ Although food stamps target only a portion of the population, it is a reasonable demonstration of how welfare generally encourages innovation by providing a safety net. We can presume that, as a larger and more flexible welfare than food stamps, UBI will have an even larger effect.

⁴ Minimal labor supply effects in programmes in Namibia (Haarmann et al., 2009), South Africa (Samson, 2004), Kenya (Asfaw, 2013).

⁵ Minimal labor supply effects in an experiment in Finland (Kela & the Ministry of Social Affairs and Health, 2019).

⁶ This program, Kenya’s Cash Transfer for Orphans and Vulnerable Children (CT-OVC), was conducted by the Kenyan Ministry of Home Affairs, Department of Children’s Services. It began in 2004 and is ongoing, targeting ultra-poor households with Orphans and Vulnerable Children (OVC). It is otherwise unconditional.

Evidence suggests that a large portion of cash transfers are invested into productive assets, providing financial benefits far beyond the initial sum of cash provided. For example, in Kenya's GiveDirectly UBI, recipients still held 40% "more assets and financial savings than non-recipients three years after the transfer" (Stanford Basic Income Lab, 2020; Haushofer & Shapiro, 2016; Gertler et al., 2012).

This third effect is most significant, as it has the potential to moderate the wealth gap between capital owners and wage workers by providing everyone a path to capital ownership, thus reducing inequality and enabling all to share in economic growth. For example, providing individuals a BI at birth allows it to accumulate over time and creates a path to capital ownership when transferred at the age of majority.

Societal Responses and Challenges

In previous parts, we made a macroeconomic case for UBI. However, a complete evaluation must also address the responses of the people affected, as their behavior has a strong influence on the policy's success.

Once implemented, UBI could cause unrest if perceived as either too generous or too scant. For example, if UBI becomes an excuse for employers to pay lower wages or to lower other employee benefits, workers could feel cheated by a policy that was meant to benefit them, but ended up making their lives more difficult. Similarly, if the benefits of UBI for the economy and society as a whole are not understood, wealthier households could feel exploited, as they would receive little direct benefit in comparison to their poorer counterparts. Without the support of the high-income class, who hold significant political power, a generous UBI initiative is unlikely to pass. Hence, a proposition must highlight the benefits to the aggregate. Indeed, by reducing inequality, UBI will also reduce crime (Kelly, 2000), bad health (Pickett & Wilkinson, 2015), and low happiness (Layard, 2003).

Since wealth and capital are highly mobile, there is a risk of pushing capital owned by wealthy individuals away from a UBI state with high taxes into a state with lower taxes. On a large scale, tax competition could disrupt equal burden-sharing and make UBI unsustainable. Hence, the implementation of UBI necessitates international coordination and data exchange.

Although UBI's push effect of high-income capital flight is an important concern, evidence of its pull effect on low-income migrants—which would burden a generous UBI state—is insubstantial. Experiments show limited effects of increased welfare on migration. In the case of four U.S. states, no migration effects occurred following expansions to Medicaid (Schwartz & Sommers, 2014). Cash transfers even allowed people to stay within their countries despite poor economic prospects in Ethiopia, Malawi, and Mexico (Deshingkar et al., 2015; Stecklov et al., 2005).

While high-income countries will have greater capacity to fund and implement UBI over lower-income counterparts, countries with less developed welfare systems may face an easier transition and a more positive response to UBI. Adoption of UBI in a state without previous welfare will be much smoother than replacing an initially sophisticated welfare network with UBI. Since UBI experiments are minimal for high-income countries, further research is essential to fully understand social responses.

Conclusion

Despite these challenges, the current need for a UBI-like safety net outweighs required investments. The AI automation boom, although expanding the total economic pie, distributes these gains unequally. UBI directly corrects this market failure through its three inequality-reducing effects, the most significant of which is the third: providing a path to capital ownership. When every member of the economy benefits from the growth of a nation's enterprises, citizens can rally behind the common goal of economic growth. This increases social cohesion and aligns incentives to make the most productive use of human resources.

UBI is no magic bullet, requiring thoughtful research, domestic design, and international coordination to mitigate undesirable side-effects. It may come in different forms for countries at varying levels of pre-existing welfare development. Nevertheless, UBI is a promising solution.

Capitalism, like any human system, is imperfect. To survive, our system must evolve from one that exploits wage workers for the benefit of the capital-owning elite, to one that allows every person to become a capitalist. UBI applies creative destruction to our contemporary form of capitalism: partially destroying the relationship between employment and income to increase innovation, empower informal sectors, and increase growth as everyone shares in the capitalist dream.

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