Restoring Economic Mobility in the Automation Age

Policy Frameworks for Universal Basic Income & Student Debt Reform

PIVOT Think Tank

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Executive Summary

As of late 2025, the U.S. economy faces a dual threat to household solvency: the rapid displacement of labor by artificial intelligence and the stagnation of consumption due to historic debt burdens.

This publication departs from single-issue analysis to present a Dual-Lever macroeconomic framework. We argue that you cannot secure the future of work without correcting the financial overhang of the past. This brief evaluates how a National Income Floor (UBI) and Targeted Debt Cancellation can be implemented simultaneously. The goal is simple: prevent a consumption crisis and accelerate human capital development over the next decade.

Lever 1: A Universal Basic Income establishes a floor to protect workers against the volatility of the automation age.

Lever 2: Student Debt Reform removes the ceiling on risk-taking, allowing a generation to transition from debt service to asset formation.

Policy Brief 1: The National Income Floor

TO: The Joint Economic Committee & House Committee on Ways and Means

SUBJECT: Universal Basic Income (UBI) as Labor Market Infrastructure in the Age of AI

I. Overview

As the United States moves toward a mature, AI-driven economy, our traditional safety nets are becoming obsolete because they were originally built to handle 20th-century unemployment patterns rather than modern shifts.

This brief proposes the implementation of a National Income Floor (Universal Basic Income). Drawing on data from the seminal 2024 OpenResearch pilots and fiscal modeling from 2024-2025, we argue that an unconditional cash transfer is the most efficient mechanism to stabilize the 39% of the workforce engaged in gig labor and to counter the task displacement effects of automation.

II. The Strategic Context

A. The Automation Inflection Point

By late 2024, the labor market began to exhibit signs of productivity decoupling, where corporate efficiency gains from AI did not translate into wage growth for entry-level roles.

- **Job Creation vs. Destruction:** The nature of work is changing even though mass unemployment hasn't hit the overall economy yet. For context, AI contributed to roughly 119,900 new jobs in 2024, compared to only 12,700 direct layoffs.
- **Task Replacement:** Automation is increasingly replacing tasks rather than jobs, leading to income instability for workers whose core functions are 60-70% automatable.

B. The Failure of Conditional Welfare

Current welfare systems (SNAP, TANF) impose high marginal tax rates on work. A recipient earning an extra $1,000 often loses *more* than that amount in benefits, creating a benefit cliff that disincentivizes transition into the workforce. In contrast, UBI provides a stable foundation that remains constant regardless of earnings, acting as venture capital for the people.

III. Empirical Evidence

We now have access to high-fidelity data from the OpenResearch pilot, which distributed $1,000/month to thousands of participants. This data debunks the primary arguments against UBI regarding labor withdrawal.

1. Labor Supply Elasticity

Opponents have long argued that UBI would cause a mass exodus from the workforce. The 2024 data refutes this:

- **Employment Impact:** Recipients were only 2.0 percentage points less likely to be employed compared to the control group.
- **Hours Worked:** The average reduction in labor was merely 1.3 hours per week.
- **Allocation of Time:** This lost labor time was not spent on idleness. Recipients under age 30 were 3.3% more likely to pursue higher education or job training. Single parents, who saw the largest reduction in hours (approx. 2.8 fewer hours/week), reallocated that time almost exclusively to childcare, effectively substituting unpaid care work for paid market work.

2. Health and Agency

The Income Floor acts as a preventative health intervention. In the Austin, TX pilot, housing security improved substantially for recipients relative to the state average, and participants reported significant relief from depression and anxiety. This creates downstream fiscal savings for the state by reducing emergency room utilization and chronic stress-related ailments.

3. Entrepreneurial Activity

Perhaps the most critical finding for a capitalist economy is the boost in business formation. The OpenResearch pilot recorded a 26% increase in Black participants starting or supporting entrepreneurial ventures during the program's third year. This evidence suggests that a lack of available cash, rather than a lack of ambition, is the main obstacle preventing Americans from starting new businesses.

IV. Fiscal Design

A national UBI of $1,000/month would have a gross cost of roughly $3 trillion. However, the *net* cost is significantly lower when accounting for tax consolidation and new revenue streams.

A. The Carbon Dividend Model

To avoid deficit spending, we recommend financing the UBI via a Federal Carbon Tax.

- **Revenue Potential:** A tax of $50 to $100 per tonne of carbon emitted could raise approximately $2.3 trillion annually.
- **Distribution:** This revenue would be returned directly to citizens. This effectively makes the UBI a resource dividend, similar to the Alaska Permanent Fund, rather than a welfare transfer.
- **Global Impact:** Studies estimate that a basic income funded by environmental taxes could boost global GDP by 39% to 130% by unlocking the economic potential of the lower class while simultaneously penalizing pollution.

B. Tax Consolidation

We propose consolidating the Standard Deduction and the Earned Income Tax Credit (EITC) into the UBI payment. The EITC, while effective, is lumpy (paid once a year) and has a high error rate. Converting this into a monthly stream smooths consumption for low-income households without increasing the aggregate fiscal burden.

V. Legislative Recommendations

1. The Workforce Resilience Act (Draft Proposal)

- **Benefit Structure:** A guaranteed monthly payment of $500 for all adults earning under $75,000, phasing out at $0.05 for every dollar earned above that threshold.
- **Funding Mechanism:** Implementation of a Level 1 Carbon Fee starting at $50/ton, escalating by 5% annually.

- **Interaction with Aid:** The bill must explicitly state that UBI payments are *exempt* from income calculations for Federal Financial Aid (FAFSA), ensuring that students do not lose Pell Grants due to the new benefit.

2. State-Level Automation Zones

- Direct the Department of Labor to identify ZIP codes with the highest AI Exposure Score (e.g., call center hubs, data entry centers).
- Launch a targeted Enhanced UBI in these zones ($1,000/month) to serve as a Retraining Stipend, allowing workers to upskill without falling into poverty.

VI. Addressing Structural Risks

- **Inflation:** The primary risk is demand-pull inflation. However, because the Carbon Dividend model extracts money from the economy (via taxes on polluters) *before* redistributing it, it is functionally revenue-neutral and less inflationary than printing new money. Furthermore, by increasing the bargaining power of labor, UBI may drive wages up, but the increased automation (encouraged by higher wages) will likely keep unit costs of production low.
- **Work Disincentives:** The 2% reduction in employment observed in 2024 is economically negligible. A labor market where workers have the power to say no to exploitative conditions is a more efficient market, as it forces capital to allocate resources toward productivity-enhancing technology rather than relying on cheap, desperate labor.

Policy Brief 2: The Solvency Solution

TO: The Senate Committee on Health, Education, Labor, and Pensions (HELP)

SUBJECT: Student Loan Forgiveness: Correcting Market Failure and Closing the Racial Wealth Gap

I. Overview

The federal student loan portfolio currently stands at $1.66 trillion, with over 42.5 million borrowers. This debt burden has become a structural drag on the US economy, depressing homeownership rates and exacerbating racial inequality. This brief argues that Targeted-Broad forgiveness is not merely a social expenditure but a high-ROI macroeconomic stimulus that corrects for three decades of tuition inflation and predatory lending.

II. The Scope of the Crisis

A. The Debt Trap Demographics

The student loan crisis is not evenly distributed. It is a crisis of the marginalized:

- **The Racial Wealth Gap:** Black borrowers are significantly more likely to borrow than white peers (53% of Black women vs. 46% of white women). More damningly, 20 years after entering school, the median Black borrower still owes 95% of their original balance, whereas the median white borrower has paid off 94% of theirs.
- **The No-Degree Trap:** Approximately 40% of borrowers never completed their degree. These individuals face the highest default rates because they carry the debt without the wage premium of a diploma.

B. Market Failures in Higher Education

The original premise of student loans, which assumes that debt leads to higher earnings that then pay off that debt, is no longer functional. Over the last two decades, tuition at public universities has risen by 179%, a rate that far outpaces general inflation. At the same time, stagnant wages in non-STEM fields have caused the Return on Education (ROE) to turn negative for millions of borrowers.

III. Economic Impact Assessment

1. Housing Market Stagnation

Student debt is directly cannibalizing the housing market. Research indicates that a $1,000 increase in student loan debt lowers the probability of homeownership by 1.8 percentage points for borrowers in their mid-20s. This translates to a delay in homeownership of roughly 4 months for every $1,000 owed. In aggregate, this has removed millions of millennial and Gen Z buyers from the market, stalling household formation.

2. Public Service Hollow-Out

The Public Service Loan Forgiveness (PSLF) program, designed to encourage careers in teaching and nursing, has historically failed. As of late 2025, the overall approval rate for PSLF applications remains a dismal 5.48%. While recent reforms have improved this, the administrative burden effectively taxes our most essential workers.

3. Macro Consumption Effects

Forgiveness acts as a liquidity injection. While some argue this is inflationary, the NBER estimates that for every dollar forgiven, borrowers increase consumption and deleverage other

high-interest debt (like credit cards) by 9 cents. This suggests a wealth effect that strengthens household balance sheets without causing runaway demand shocks.

IV. Strategic Policy Recommendations

We recommend a Triad Approach to forgiveness that balances immediate relief with long-term accountability.

Recommendation 1: The Interest Detox (Retroactive & Future)

- **Policy:** Cancel all accrued interest that exceeds the original principal balance.
- **Rationale:** Many borrowers have paid their original loan amount in full but still owe thousands due to negative amortization.
- **Mechanism:** The Department of Education should re-amortize all existing loans such that no borrower ever owes more than they originally borrowed, provided they have made 10 years of payments.

Recommendation 2: Automated PSLF

- **Policy:** Eliminate the PSLF application form.
- **Mechanism:** Instruct the IRS to cross-reference W-2 data with the Department of Education. Any borrower employed by a 501(c)(3) or government entity (verified via EIN) should automatically receive credit toward forgiveness. This would immediately assist the 38% of eligible applicants who work for non-profits but are currently bogged down in paperwork.

Recommendation 3: The Skin in the Game Rule (Accountability)

- **Policy:** To prevent moral hazard, any institution where >30% of graduates default or fail to pay down $1 of principal within 5 years must risk-share.
- **Mechanism:** These colleges would be required to pay a Risk Premium fee to the Department of Education equal to 10% of the defaulted volume. This incentivizes schools to lower tuition and improve job placement outcomes.

V. Addressing the Moral Hazard Argument

Critics argue that forgiveness encourages future borrowing. This is why Recommendation 3 is vital. Forgiveness must be paired with Title IV Reform that caps the amount a student can borrow for degrees that have historically low returns (e.g., graduate degrees in fine arts). We cannot continue to issue unlimited Grad PLUS loans for programs with a debt-to-income ratio of 4:1.

VI. Fiscal Implications

- **Cost:** Broad forgiveness of $10,000 per borrower would cost approximately $370 billion.
- **Offset:** This cost can be partially offset by the economic multiplier of unshackling 43 million consumers. Additionally, ending the administrative costs of servicing defaulted loans (which the government rarely collects anyway) saves billions in contractor fees annually.
- **Deficit Neutrality:** We propose funding the one-time forgiveness action via a 0.1% Financial Transaction Tax (FTT) on high-frequency equity trading, ensuring that the financial sector helps stabilize the consumer base it relies upon.

VII. Conclusion

Student loan forgiveness is not a handout; it is a bailout of the American middle class comparable to the corporate bailouts of 2008. By erasing the negative equity of a generation, we can unlock billions in housing demand, close the racial wealth gap by nearly 20%, and restore the promise that education is a ladder, not a trap. The consequences of failing to act, such as the creation of a permanent renter class and the decline of the public sector, are far more expensive than the actual cost of providing relief.

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