

**Banks, Credit Cards, Loans and other "Natural Predators" of your UBI:  
Some concerns for Lawmakers**

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**ABSTRACT:** My presentation aims to demonstrate the importance of making an overall review in several, already in forced, legal frameworks, namely in the financial sector, due to its potential for predatory actions if/ when a Universal Basic Income (UBI) is put in place.

The implementation of a UBI as a National (or big enough Regional) level might be a reality soon. And, subsequently, Policy and Lawmakers need to define the legislation that will influence, directly and indirectly, how effective that UBI Policy will be in its aspirations and goals, may they be ending abject poverty, or a number of other social results.

This should encompass worrying about possible “natural predators” of UBI through the recipients of that UBI. One, maybe the main, type of predatory behavior may come from the financial sector. Banks, Credit Cards, Loans and other financial or liquidity tools need to be altered and tweaked in a way that both recognizes but does not take unwanted advantages from the fact that a UBI Policy is enacted.

A UBI is considered a simple idea, with a direct answer to a lot of financial stress in Society with minimal Public intervention, that may unlock the type of sustainable and productive future that is desirable, nevertheless there are a number of legal changes that can “make or break” the UBI Policy, and financial markets, in a capitalism based system, must take precautionary actions to have a Policy that does not fail because of details, like predatory overtaking of the UBI generated cash flow.

**Keywords:** Universal Basic Income; Financial market regulation; Collateral.

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## 1. Introduction.

If a Universal Basic Income (UBI)<sup>2</sup> were to exist in any national, or big enough regional, level it would want to have the effect of making people less poor, or less miserable, and better off in several areas, including stress and depression, nutrition, housing, education, health and so on.

But, to implement a UBI, even one that is completely added on top to any existing Social Safety Net, we will have to adapt some (or a lot of) legislation. Not just to implement it directly, like budget and tax questions, we will have to adapt the market system to this new reality, because, in every capitalism based system, the opportunity and availability makes the market adapt and its objective may just be contrary to the set of objectives put forward by the policymakers that want to endorse and implement a UBI.

It is my view that there is a particular part of the market that is, border line, pre-designed, in a way, that it is/can be a natural predator for the common UBI recipient. It is the Financial Market.

## 2. UBI Predation by Financial Markets

The advantages in a UBI scheme are linked to it being a financial asset that is fully capable of adding power to the recipient precisely because it can be used for any individual need, at least any need that can be traded for money, and those are most needs, even if indirectly like health, be using it for healthcare, food, clothing etc... you can not buy it, but you can buy means to promote it or soften the aspects of many pathologies.

In the financial market what is usually done is that the Banks, the direct loan companies, the credit card or credit institutions, use the lack of income or lack of liquidity of an individual that will, probably and in the future, pay them back, and then they profit with the interest rates. It is not always fair, but it is mostly a legal form or process that has some societal advantages.

This reality does not change just because people now have a UBI.

What changes, however, is the ability for the creditor to get paid back from his loan or other financial instrument.

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<sup>2</sup> We are using the term UBI, adopting the wording that we see more broadly used, defining it as “*a periodic cash payment unconditionally delivered to all on an individual basis, without means test or work requirement*”, the definition chosen by BIEN in its website.

On a day to day basis, because the UBI recipient is more likely to have the financial capacity to pay they will pay it. Here there is also no “perverse” effect of having a UBI scheme, the problematic part is in two moments of the “birth and life” of a debt relation.

Nowadays, in most places, the company that is granting the loan makes an assessment based on your income and wealth, which in most cases is work, a house, a vehicle or others. They review how much effort you have on paying back the capital and the interest, and what is your property or financial assets, for them to use as collateral, meaning, they make sure they don't end up losing in the transaction.

Because of this evaluating process, usually a proper use of loaning can still be a huge problem when somebody gets suddenly unemployed, when they get sick or when they, consciously or not, make a loan based on an influx of income, or asset evaluation, that will not be a continued stream in the future. When this happens, and there is defaulting on the debt, the lender, be it a bank or other financial institution, uses the legal means and procedures to get paid back. Using the property and even income as collateral, depending on the legal means provided by each State.

When having a UBI implemented there are two major scenarios that, viewed in this perspective, lawmakers can not have the market manage without proper legislation:

- The First, is that the calculations of “whom” and “how much money” can be lent can not take into consideration the UBI part of their income (the birth of the loan or credit relation). It can be used to consider that the financial effort in paying is lower, because other income (the UBI) is being used for the basic needs of that individual, but they may only loan, and the same here stands for credit card ownership and use (even more, i would say), to someone who has other forms of income to pay those loans;
- The Second, (in the death of the financial relation) assuming that UBI can be used voluntarily (by way of a contract when making the loan or after a default, during a possible mediation process) or by law (because it is included, or because it is not excluded), it may be used as collateral for the payment. Being the difficulty or problem that, otherwise, we can have a predatory campaign from the lenders to make the State (or Region), indirectly, finance their activities, by making people able to buy, with credit, things and services that they would not otherwise have the means to, with the notion that their UBI will guarantee that, unless they die, there will be steady stream of income.

That income should be a relief to them, but not become, by proxy, a relief for the financial operators.

Being the purpose of UBI a "guarantee" of freedom<sup>3</sup>, or even a way to end abject poverty, we can not leave open a tool for exploiting the UBI scheme by the financial system. In many ways this predatory behavior is already part of the Western Culture. As seen by the amount of consumer debt that is present in these countries. And, in that data, viewing how much more the lower middle class and the poor are "dependent" on the use of credit, for more than homes or a car, using it for things like vacations, T.V.s, iPhones and other consumer goods that can "qualify" as a "misuse" of the credit system. That use is a use of their freedom and should not be restricted, but the use being a tool from the lenders to be themselves UBI recipients from the State is dystopian.

Even by considering the UBI as a way to live free of indenture to the Welfare State , by showing again and again our need or using their over bureaucratic channels (and other bureaucratic obligations), or a inescapable Boss (employer), for your livelihood, or basic needs, and calculating that someone can have a bigger loan or bigger credit card ceiling because of UBI, means that the money that we are using to free people may be concentrated in the financial system, which does not sound like the UBI aspirations that any/most activists and political leaders have. And even for investments this is/can be a problem because with a UBI, assuming that more people will increase their cash on hand than without it, the probability of Ponzi and Pyramid schemes being attractive surges, unless proper legislation is put into place.

This is but a single nuance that can, in my opinion, make or break the UBI Projects that many well-meaning people have.

UBI is a simple idea, it's even simple<sup>4</sup> (not easy, but simple) to apply, but the notion that this is a simple idea does not mean we do not have to see what parts of our modern complex legal system need to be tweaked so that it can be as effective in its goals as proposed.

Although there is some evidence that could be observed in pilots and studies of cash transfers, this effect, it's problems and consequences have not been particularly felt or focused on. Rebecca Hasdell, in 2020, on a cross-synthesis review writes that "*less of an*

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<sup>3</sup> In the sense that it provides "*the ability to make career and related choices, or the ability to exercise political rights because of a degree of economic security.*", as Philip Alston concludes in the article ALSTON, Philip, *Universal Basic Income as a Social Rights-based Antidote to Growing Economic Insecurity*, New York: Public Law & Legal Theory Research Paper Series, n.º 17-51, 2017, p. 29.

<sup>4</sup> On this subject we call attention to the considerations brought up in WISPELAERE, Jurgen De; STIRTON, Lindsay, *A disarmingly simple idea? Practical bottlenecks in the implementation of a universal basic income*, Québec: International Social Security Review, Vol. 65, 2, 2012, pp. 103 - 121.

*impact is observed for the purchase of productive assets/capital” and that “impacts are more mixed for savings and investment with several studies indicating no significant result. Treatment effects may differ because of the varied constraints that people living in poverty face, indicating that cash transfers alone are unlikely to alleviate any one constraint on savings”*<sup>5</sup>. The scale that a pilot would have to achieve to get targeted by the financial market is, fortunately for the researchers and subjects, of another scale or dimension to most experiments or direct cash programs.

The pilots, no matter how large, did not have the ability to test for an effect, that is only going to be an effect, after the “system” itself has the opportunity to make a profit out of UBI recipients reality, like changing houses, getting a second car, student loans, even directly with companies that sell their products in installment payments, if they don't have to verify that the buyer has other incomes, that are not their UBI, they are, actually, counting on a collateral that makes the financial systems and mechanisms a way to make real poverty reappear, in a long term way, even in a UBI implementing community.

A dystopian ending is, in my view, the most probable scenario for a well-meaning but ill prepared structural change. Being so, better if we prepare for the best and prepare for the worst, by having a well-meaning and well prepared structural Social Safety Net enhancing.

### **3. Final Remarks.**

In conclusion, in a preliminary way that needs more specialist assessments and that needs to have input into it the particularities of each State financial system, we must prepare legislation that is implemented side by side with a UBI. It is not just a matter of making tax capabilities or adapting the Social Safety Net. We would risk saying that most social exchanges will improve because the UBI is cash on hand, but some get more dangerous, precisely because it is cash on hand.

And so, to activists, policymakers and lawmakers, I think there is a list of Concerns that should guide the future implementation (hopefully sooner than later) of a UBI, just in this segment of the legal system, and with that this presentation finishes:

- 1.** UBI can/should not be considered as collateral, by law;
- 2.** UBI can/should not be used in calculating loans, applying to a credit card or to calculator the limits of credit cards;

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<sup>5</sup> HASDELL, Rebecca, What We know about Universal Basic Income: A Cross-synthesis of Reviews, Stanford: Basic Income Lab, 2020, p.15.

3. UBI may be considered, but only if not the main income, for the calculating of how much financial effort you have in loan simulations;
4. installment payments will be only possible if the buyer has another proven regular source of income;
5. Even the Courts may only use the money given by UBI to reimburse for value owed to the state for not paying taxes or other contributions, or because of administrative offenses (misdemeanors), and when used, should do it by diluting the payments on as many UBI “payments” as viable;
6. If a person is having to use their UBI in a continuous way to pay their loan, the financial institution will have to foreclose on the asset or forgive the interest, making sure that the situation does not keep going for more than 2 years, for example;
7. Make Ponzi, Pyramid Schemes, and other abusive lending, advancing goods and financial techniques a criminal offense with the obligation of making the State hold for the UBI recipients' predation (or make punishments harder if they are already in place);
8. The State (or Region) should have the power to demand from the financial system all the necessary data to study if the Financial markets are diminishing the objectives set for UBI in the community; and
9. Punish with administrative offenses the Financial Institutions that do not comply with the legislation, in a harsh enough way, making the people directly involved in the human interaction liable.

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