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The Pros and Cons of a Guaranteed National Income

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EXECUTIVE SUMMARY

There is a growing consensus across the political spectrum that our current welfare system is not working as intended. Although federal, state, and local governments spend nearly $1 trillion annually on at least 126 anti-poverty programs, we are doing little to help the poor get out of poverty or become self-sufficient. It is not surprising, therefore, that there is a search for a better alternative.

Among the ideas that have been gaining traction recently are proposals for some form of a guaranteed national income (GNI). Those proposals can take a variety of forms, including a universal grant, a negative income tax (NIT), or a wage supplement.

The case for replacing the current welfare system with a guaranteed national income is intriguing. It promises an anti-poverty effort that is simple and transparent, that treats recipients like adults, and that has a better set of incentives when it comes to work, marriage, and savings. In theory such an income could be set high enough that no American would live in poverty.

But what sounds good in theory tends to break down when one looks at implementation. There appear to be serious trade-offs among cost, simplicity, and incentive structure. Attempts to solve problems in one area would raise questions in others.

As strong as the argument in favor of a guaranteed income may be, there are simply too many unanswered questions to rush forward with any such plan. Opponents of the welfare state have long criticized its supporters for believing that even good intentions justified failed programs. In considering some form of a universal basic income, we should avoid falling into the same trap.

Instead we should pursue incremental steps: consolidate existing welfare programs, move from in-kind to cash benefits, increase transparency, and gather additional data. This would allow us to reap some of the gains from a universal income without the costs or risks.

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INTRODUCTION

Over the past 50 years, the United States has created an enormous, complex, and costly welfare state. The federal government currently funds and operates some 126 separate anti-poverty programs. Almost 110 million Americans receive benefits from one or more of these programs at a cost to taxpayers of more than $688 billion in 2013.[1] State and local governments provide additional funding for some of these programs and operate additional programs of their own. State and local funding added an additional $255 billion in 2013, bringing the total cost of our welfare system to nearly $1 trillion.[2] Overall, federal, state, and local governments have spent more than $20 trillion on such programs since the start of the War on Poverty in 1965.

Yet this massive spending, and the accompanying welfare bureaucracy, have been remarkably unsuccessful. They may have modestly reduced material poverty, although we have clearly reached a point of diminishing returns. In recent years we have spent more and more money on more and more programs, but seen few, if any, additional gains. More important, the current welfare system has failed to make the poor independent or to increase economic mobility among the poor and their children.

The question naturally arises whether there is a better alternative. It should not be surprising that many advocates of the welfare state have called for government to guarantee a minimum income for every citizen. For example, in 1966 Frances Fox Piven and Richard Cloward spelled out their strategy to bring an end to poverty “by establishing a guaranteed annual income.”[3] More recently, former U.S. Labor Secretary Robert Reich called a basic income guarantee “almost inevitable.”[4] Jonathan Gruber and Emmanuel Saez have argued that the optimal policy for redistributional purposes would be something akin to a negative income tax.[5]

More surprising, however, numerous free-market and libertarian economists have also backed some form of guaranteed national income (GNI). For example, F. A. Hayek noted that “I always said that I am in favor of a minimum income for every person in the country.”[6] In *Law, Legislation and Liberty*, he wrote:

> The assurance of a certain minimum income for everyone, or a sort of floor below which nobody need fall even when he is unable to provide for himself, appears not only to be wholly legitimate protection against a risk common to all, but a necessary part of the Great Society in which the individual no longer has specific claims on the members of the particular small group into which he was born.[7]

Milton Friedman famously favored a form of the negative income tax.[8] Robert Nozick likewise favored a “social minimum” as a remedy for past violations of rights or other historical injustices.[9] In his book, *In Our Hands: A Plan to Replace the Welfare State*, Charles Murray proposed scrapping the entire welfare state and converting it into a single, universal cash payment.[10] More recently, Matt Zwolinski made the “pragmatic libertarian case for a basic income guarantee” in the August 2014 issue of *Cato Unbound*.[11]

Any guaranteed income proposal would, of course, involve both coercion and redistribution. It would also represent a federally imposed one-size-fits-all approach. As such, it should be approached with caution and skepticism. In an ideal world, private charity would be the primary mechanism for assisting the poor. Certainly private charity has a much stronger track record of providing the type of assistance that offers a route out of poverty. And, because charity is voluntary, it comes without the moral questions inherent in any redistribution scheme.

At the very least, welfare should be a function of state and/or local governments, not the federal government. States can, in Justice Brandeis’ words, “serve as a laboratory; and try novel and social experiments without risk to the rest of the country.”[12] Putting states and localities in charge of welfare, as was the case for much of this country's history, would allow greater experimentation and competition.

However, that is not the world in which we currently live. Government efforts to fight poverty are likely to be with us for the foreseeable future, including federal programs. Therefore it is worth asking whether a guaranteed national income would be a more efficient and effective method of helping the poor than what exists today.

TYPES OF GUARANTEED NATIONAL INCOME

The term "guaranteed national income" is a catchall phrase that encompasses a variety of approaches, some universal in nature, some more targeted, including cash grants, tax credits, and wage supplements. Some are designed to replace the current welfare state, and others are designed to work in conjunction with it. The fundamental characteristics of a guaranteed national income are: 1) It is paid in cash, unlike in-kind welfare programs that provide specific services or benefits targeted to specific needs such as food, housing, or health care; and 2) unlike traditional welfare programs there are few—and in some cases no—eligibility requirements. The goal is to provide every citizen with a minimum level of income regardless of their circumstances. While some on the left foresee a guaranteed national income working in conjunction with traditional welfare programs, most plans envision it replacing all or most such programs.

The most commonly discussed variations include:

Universal Basic Income (UBI): As the term suggests, the universal basic income is a cash grant provided to every citizen (or in some versions every adult citizen) without any other eligibility requirement. In particular, there are no work requirements. Moreover, the benefit is not reduced as earned income rises. Bill Gates and the poorest American will both receive the same benefit. Similarly, the UBI is not adjusted for family size. That is, if children are eligible, each child receives the same benefit. In most variations this benefit would be the same as for an adult.

Negative Income Tax (NIT): The Negative Income Tax is designed to work in conjunction with the current progressive income tax system, whereby people whose income falls below a specified level receive payments from the government. As Friedman explained it, a negative income tax would "use the mechanism by which we now collect tax revenue from people with incomes above some minimum level to provide financial assistance to people with incomes below that level."[13] Like the UBI, there would be no strings attached to the benefit, and every citizen would qualify. However, unlike the UBI, a negative income tax can be explicitly adjusted so that benefits are phased out as earned income rises.[14] In some variations, benefits are also adjusted for family or household size, with each additional person receiving progressively smaller benefits. The Negative Income Tax is probably the most frequently discussed version of the guaranteed national income.

Wage Supplements: Wage supplements are designed to provide additional income so that no working person will earn less than a certain level of income. The government would provide the difference between whatever the individual earned and the established minimum. Payments can be made in a couple of different ways. Traditionally, wage supplements have been handled similarly to the way an NIT would function, using the existing tax system. The Earned Income Tax Credit (EITC), for instance, provides a refundable tax credit. Recently, Sen. Marco Rubio (R-FL), among others, has suggested that payments should instead be made in conjunction with each paycheck.[15] Unlike other forms of guaranteed national income, wage supplements are not completely universal; only people who have some level of earned income would be eligible. They have also been criticized by some liberals because they shift social costs from low-wage employers to taxpayers generally.[16]

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A BRIEF HISTORY OF AN IDEA

Some sort of guaranteed national income is not a recent concept. Some antecedents can probably be traced back as far as the free grain offered to Roman citizens. Thomas Paine, author of *Common Sense* and one of the inspirations for the American Revolution, called for a "national fund, out of which there shall be paid to every person, when arrived at the age of twenty-one years, the sum of fifteen pounds sterling."[17] In the depths of the Great Depression, Senator Huey Long gained some traction with his "Share Our Wealth" plan that sought to guarantee that each household had at least one-third of the average family wealth.[18]

The idea began to gather more intellectual backing in the 1950s, with growing support not just on the political left but increasingly on the right as well, perhaps reaching its apogee in the 1960s. In his 1962 book *Capitalism and Freedom*, Milton Friedman claimed that the arrangement for alleviating poverty "that recommends itself on purely mechanical grounds is a negative income tax," because it "made explicit the cost borne by society" and gives "help in the form most useful to the individual, namely, cash."[19]

Meanwhile liberal economists, including Paul Samuelson, John Kenneth Galbraith, and James Tobin were calling on Congress to adopt "a national system of income guarantees and supplements."[20] Martin Luther King Jr. also endorsed the idea, writing that "the simplest approach will prove to be the most effective—the solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income."[21]

By 1969, President Nixon had established the Commission on Income Maintenance Programs, which would recommend "the development of a universal income supplement program to be administered by the Federal government."[22] The Family Assistance Plan, as it was known, would have provided roughly $1,600 in 1969 dollars for a family of four with no earned income (the equivalent of roughly $10,320 in 2014 dollars), plus an additional $800 in 1969 dollars ($5,160 in 2014 dollars) in food stamps. There would have been a work requirement, and benefits would have been phased out as earned income increased.

Nixon's proposal actually passed the House of Representatives. However, it ran into stiff opposition in the Senate, both from liberals, who thought benefits were too low, and from conservatives, who objected to the program's cost. Eventually, the plan was killed on a 10–6 vote in the Senate Finance Committee.[23]

Nixon continued to press for his plan and included it as part of his 1972 reelection campaign. Interestingly, his opponent George McGovern also called for a guaranteed income program (guaranteeing a family of four at least $6,500), meaning that both major parties supported some form of guaranteed national income.[24]

Yet after Nixon's reelection, the idea faded rapidly from the public policy discourse, in part because the Vietnam War came to dominate politics. With the exception of a handful of academic articles, little was heard about a guaranteed national income throughout the 1980s and 1990s. Welfare reform was, of course, a major issue, but the focus was on limiting eligibility and imposing work requirements, not on making the program more universal. Following Clinton-era welfare reform passed in 1996, neither party seemed to have much appetite for further changes to the welfare system.

Recently, however, talk of a guaranteed national income has seen something of a renaissance. On the left, the idea was fueled by concern over inequality, and spurred by rising unemployment and poverty coming out of the Bush-Obama recession. A form of guaranteed national income, the argument goes, would raise nearly 50 million Americans out of poverty overnight.[25]

At the same time, conservatives and libertarians were searching for a cheaper and more efficient alternative to a welfare state, which grew larger with each passing year. A guaranteed national income would eliminate much of the federal leviathan and potentially reduce the harmful side effects of traditional welfare.

Still, most of this discussion has taken place at a very broad theoretical level. Even the few proposals, such as Murray's, that attempted to fill in some of the details have left many practical questions unanswered. If a guaranteed national income is to be more than an intellectual exercise, those questions of implementation, politics, and practicality will have to be answered.

AN INTERNATIONAL PERSPECTIVE

Of note, the idea of a guaranteed national income is increasingly becoming an issue in other countries as well. A number of developing countries have adopted variations of a cash minimum for low-income citizens. While not strictly speaking a guaranteed national income, these programs have a number of similar characteristics to a GNI, and can provide some insights. At the same time, several industrialized nations have begun to debate full-fledged GNI programs.

For example, in 2016 Switzerland will vote in a national referendum that would amend the country's constitution to guarantee every citizen a yearly income of 30,000 Swiss francs (roughly $31,700)—whether they work or not. The income would be disbursed in monthly benefits of 2,500 francs.[26] The referendum is seen as unlikely to pass—it must receive both a majority of the national vote and a majority of the vote in more than half of Switzerland's 26 cantons, and the Swiss Federal Council [a seven-member council that serves as the Head of State] has recommended a "no" vote.[27] Still, that the proposal has gotten this far, and that more than 126,000 Swiss citizens signed petitions calling for the vote, suggests that it could surface elsewhere, especially in countries with a less restrained political environment.

One of those might be Greece, where the government has begun experimenting with a six-month pilot program providing flat cash grants for middle- and low-income citizens. Greeks living in 13 municipalities meeting income and asset criteria will receive flat payments of €200 for a single person, plus an additional €100 per additional adult and €50 per child.[28] Greek politicians suggest that the program could eventually be expanded nationwide.[29] Obviously, this falls short of a true universal basic income, but it does represent a step in that direction.

There is also an active campaign in Canada to guarantee all citizens a minimum income of $20,000.[30] Although a long way from enactment, the idea has attracted a number of prominent supporters, including Quebec's Minister of Employment and Social Solidarity Francois Blais, and former Conservative Senator Hugh Segal.[31] Polls show that almost half of Canadians are open to the idea.[32] And a Canadian experiment with some form of guaranteed national income would not be entirely unprecedented. For three years starting in 1975, residents in Manitoba, Canada, were randomly assigned to a control group or one of several experimental groups who were given a guaranteed annual income.[33] All families with incomes under $13,000 (for a family of four) were eligible, and were given an annual benefit of $3,800.[34]

The British government has also taken small steps in the direction of replacing traditional welfare benefits with cash payments. In 2013, the British government announced that it would consolidate six major welfare programs (the Jobseeker's Allowance, the Income Support Allowance, the Employment and Support Allowance, the Child Tax Credit, the Working Tax Credit, and Housing Benefit) into a single cash grant. The benefits would be paid in a monthly lump sum, rather than weekly or biweekly, and they would be paid directly to the recipient in cash rather than to intermediaries like landlords.[35] However, there have been significant implementation problems with the proposal, notably in terms of information technology infrastructure and program management.[36] As a result, full implementation is not expected to be completed until 2019.[37] In the meantime, a smaller pilot project is underway and the Universal Credit will continue to be rolled out to more parts of the country.

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There has also been a proliferation of both public and private cash transfer programs directed toward lower-income recipients in Africa and Latin America. Studies have found that these programs do have an impact on reducing poverty and that recipients do not fizzle away the money on vices such as alcohol and tobacco. Instead, recipients in these countries are more likely to use benefits to build assets, improve their earnings capacity, or increase basic consumption of things such as food and clothing.[38]

Perhaps the country most often cited by advocates of a guaranteed national income is Brazil, where the *Bolsa Família* cash transfer program provides a monthly payment to approximately 12 million households with incomes below roughly $650 a year. The program gives a small unconditional grant to households in extreme poverty. Households with slightly higher incomes have to meet certain conditions related to school attendance and health care.[39] Some studies have found some measure of success in the secondary objectives related to school enrollment and health care utilization.[40]

The *Oportunidades* program in Mexico has a similar design: families are given conditional cash grants for each child within a certain age range who are enrolled in school. Initially started in rural areas, the program has since expanded to more than 5.8 million families, almost 20 percent of the population.[41] The percent of the population in extreme poverty (living below $2 a day) has fallen from 19.13 percent in 1998, when the precursor to *Oportunidades* began, to 5.76 percent in 2010, although it is difficult to know how much of that improvement can be traced to the *Oportunidades* versus NAFTA and other economic reforms over that period.[42] The program now plays a significant role in Mexico's welfare regime, as it represents almost half of the country's federal anti-poverty budget.

Several African countries have adopted similar, although more narrowly focused, programs. In Zambia, the Kalomo Social Cash Transfer Scheme has led to an increase in the ownership of goats among recipients from 8.5 percent of households to 41.7 percent. It also led to four times more households engaging in investment activity, and a doubling of the amounts invested.[43] Another study looking at the privately funded GiveDirectly campaign in Western Kenya found some positive effects of private cash transfers, as opposed to in-kind provisions: "Transfers allow poor households to build assets. Recipients increased asset holdings by purchasing power parity (PPP) USD 279, representing a 58% increase over the control group mean, and 39% of the average amount transferred. These increases occurred primarily through home improvements and increased livestock holdings."[44]

While there have been encouraging results from many of these cash transfer programs, recipients in these countries have some significant differences from potential recipients in a country like the United States. In these less-developed nations, benefits can be used to supply credit liquidity that allows recipients to pursue entrepreneurial activities or invest in assets such as livestock. In the United States, these opportunities are more limited, as human capital, in the form of education and employable skills, is more important for labor-market outcomes. As such, the causality between cash transfers and leaving poverty for good is less direct.

At the same time, the cost of cash transfer programs would naturally have to be significantly higher in higher-income countries. In order to provide benefits that would make a meaningful difference in the lives of the poor in the United States, benefit amounts would have to be multiples higher than in a country like Zambia. While the evaluations and evidence from programs in Africa do provide some insight and show that cash transfer programs can have a positive impact on poverty and in the lives of recipients, those programs are not a direct comparison to how an unconditional cash transfer program would function in the United States.

Each of these initiatives differs somewhat from a guaranteed national income. Most are either conditional cash transfers or are far more targeted to low-income households than a universal benefit would be. And GiveDirectly is privately funded, which may avoid much of the corruption and mismanagement that attends many government programs. Still, they give a sense of how established programs with similar designs and objectives have fared.

THE CASE FOR A GUARANTEED NATIONAL INCOME

All three of the most discussed approaches to a guaranteed national income—a universal basic income, a negative income tax, or a wage supplement—offer potential advantages over our current welfare system.

First, a guaranteed national income would be simpler and far more transparent than the current welfare bureaucracy. It could result in substantial administrative savings, while allowing for greater oversight. It would also help break up the entrenched constituencies that support the welfare state.

Second, a guaranteed income program would reduce paternalism and government involvement in the lives of poor people. It would also do more to bring participants into mainstream economic life.

Third, directly providing cash assistance, as opposed to in-kind aid, would more effectively alleviate poverty. It would also allow recipients to develop life skills (i.e., budgeting, deferred gratification, etc.) they will need when they get to the point where they are more independent.

Fourth, a well-designed guaranteed national income could provide better incentives—or at least fewer disincentives—for work and marriage than the current welfare system.

And finally, depending on the level at which it is set, a guaranteed national income could, in theory, significantly reduce poverty.

Simplicity and Transparency

A guaranteed national income would obviously be far simpler and more transparent than the current welfare system. Today, the federal government funds 126 separate and often overlapping anti-poverty programs. For example, there 33 housing programs, run by four different cabinet departments, including even the Department of Energy. There are currently 21 different programs providing food or food purchasing assistance.[45] These programs are administered by three different federal departments and one independent agency. There are 8 different health care programs, administered by five separate agencies within the Department of Health and Human Services. Six cabinet departments and five independent agencies oversee 27 cash or general-assistance programs. All together, seven different cabinet agencies and six independent agencies administer at least one anti-poverty program. And those are just the programs specifically aimed at poverty. They don't include more universal social welfare programs or social insurance programs such as unemployment insurance, Medicare, or Social Security. And, while the overhead and administrative costs for most programs are modest, generally under 5 percent, the costs do add up.

A guaranteed national income would consolidate all or most of these programs into a single entity. There is reason to be skeptical of some predictions regarding how much administrative savings would be achieved (many of which are addressed below), but some reduction in bureaucratic overhead would be near certain. One need only look at a program such as Social Security, with simple eligibility standards and a cash payment, to see how low administrative costs could be. In 2013, for example, the Social Security Administration spent just $6.2 billion on administration and overhead, while dispensing roughly $812 billion in benefits.[46] If there is one thing that the federal government does with relative efficiency, it is mailing out checks.

This consolidation would also provide benefits for recipients. The current welfare system can be both demeaning and difficult to navigate for participants. Those applying for benefits must deal with multiple forms, often conflicting eligibility standards, and intrusive program

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administrators. Andrea Louise Campbell, an MIT professor, described the struggles of her disabled sister-in-law in the welfare system in her book *Trapped in America's Safety Net*. The professor notes that she found the welfare maze "incredibly complex and confusing."[47] For more typical applicants with far less education and fewer coping skills, the process must be daunting indeed.

As Annie Lowrey pointed out in the *New York Times*, a guaranteed national income would mean "A single father with two jobs and two children would no longer have to worry about the hassle of visiting a bunch of offices to receive benefits."[48]

In addition, many jurisdictions are now adding semi-punitive measures such as drug-testing requirements. Eleven states have passed legislation authorizing drug testing or screening for welfare applicants and recipients, and more states have proposed legislation now pending.[49] Even measures that are likely to benefit recipients in the long run, like work requirements, add another layer of bureaucratic oversight.

Of course, it should be noted that the further a policy proposal moves away from a pure universal cash grant, the smaller the administrative savings will be. Determining income for, say, a negative income tax would take much more oversight. While a negative income tax could piggyback on the existing tax system, the IRS can hardly be described as simple, transparent, or lacking bureaucracy.

A guaranteed national income scheme would also create fewer openings for special interests to become part of the system. Rent-seeking is an enormous part of the current system, with a host of interest groups including landlords, health care providers, farmers, and so on. For example, food stamps have long been supported by a coalition of urban liberals and farm-state Republicans. There is a reason, after all, why food stamp reauthorization is included in the farm bill. Similarly, hospitals have been one of the largest interest groups pushing for states to expand their Medicaid programs under the Affordable Care Act. Moving to cash would cut such middlemen out of the process, reducing their incentive to lobby for increased funding or special favors.

A universal cash benefit would also meet James Buchanan's criteria for a program that promotes "the general welfare" in that it is "general in application to all citizens."[50] This differs from the current welfare system where the state attempts to pick and choose those who should receive benefits according to vague criteria such as "need" or "social justice." Such criteria are not only "discriminatory" as Buchanan would note, but are subject to manipulation by politically connected individuals and groups.[51] This inherently works against those who are truly disadvantaged and to the benefit of those who are better educated, better organized, and generally wealthier.

By virtue of its simplicity and transparency, a guaranteed national income would offer advantages to both taxpayers and recipients, especially when compared to the current system.

Treating Recipients Like Adults

A guaranteed national income would also be far less intrusive and paternalistic. In many ways, the current welfare system infantilizes the poor. The vast majority of benefits are provided not in cash but rather as "in-kind" benefits. Indeed, direct cash assistance programs, including refundable tax credits, now make up just 24 percent of direct federal assistance.[52] In-kind programs, such as food stamps, housing assistance, and Medicaid provide the poor with assistance, but only for specific purposes. In most cases, the payments are made directly to providers. The person being helped never even sees the money. Poor people are not expected to budget or choose among competing priorities the way people who are not on welfare are expected to.

Virtually all programs go even further in limiting the use of benefits to government-approved purchases. For example, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) can only be used to purchase certain foods determined by government regulation.[53] Even with cash programs like Temporary Assistance for Needy families (TANF), state lawmakers have enacted a host of restrictions around things like the locations where EBT cards may be used to access ATMs.[54]

While it is reasonable for taxpayers, who are ultimately paying for these benefits, to seek accountability for how the funds are used, this paternalism may be both unnecessary and, worse, self-defeating.

There have been virtually no studies of how recipients respond to cash payments in the United States aside from work-incentive effects. However, studies looking at other countries provide substantial evidence that paying recipients in cash and expecting them to manage their own affairs can lead to important behavioral changes. For example, research indicates that these payments can help poor households to diversify livelihoods and improve their long-term income generating potential by funding the costs of job seeking, allowing them to accumulate productive assets and avoid losing them through distress sales or inability to repay emergency loans. Transfers allow households to make small investments and, in some cases, take greater risks for higher returns.[55]

At the same time, recent research has shown that beneficiaries do not mismanage cash aid when it is given to them directly. A recent working paper for the World Bank reviewed 30 studies examining the relationship between cash aid and "temptation goods" such as alcohol and tobacco, with both quantitative data and survey responses.[56] Their comprehensive review found that "almost without exception, studies find either no significant impact or a significant negative impact of transfers on temptation goods."[57]

Indeed, recipients tend to manage their cash well, including saving. A 2010 study by the Inter-American Development Bank found that beneficiaries of the cash transfer program in Ecuador were more likely to have credit with a bank in the past two years (59 percent for beneficiaries vs. 46 percent for non-beneficiaries). More than 80 percent of beneficiaries also expressed the desire to save.[58]

Shifting our welfare system away from the overlapping web of programs providing predominantly in-kind assistance to a simpler guaranteed income that provides cash aid directly to recipients would significantly decrease the level of government involvement in people's lives, while doing more to preserve the dignity and agency of low-income people.

At the same time, a shift from our current welfare system to some form of guaranteed national income could also reduce the level of social exclusion that currently helps trap welfare recipients in a cycle of long-term poverty.

Because only certain providers are both qualified and willing to accept payment through many social welfare programs, the poor are often forced to live in areas where poverty is concentrated. Many of these areas often have more crime, fewer economic opportunities, and a lack of social cohesion. Children are often stuck with failing local schools, which leave them less prepared for the job market and limit their opportunities.

Government housing programs are among the worst offenders in this regard. Due to its very nature, public housing concentrates a large number of people who are in or near poverty in a small geographic area. As poor people move into a neighborhood, higher-income people move out, leading to an increase in economic segregation. Residents of public housing often have limited interactions with anyone who is not in poverty. Making matters worse, businesses soon migrate to areas where consumers have more disposable income, reducing both jobs and services in the affected area. Even if the era of giant public housing projects such as Chicago's notorious Cabrini-Green is over, housing vouchers still tend to create concentrated areas of poverty.

In two books, William Julius Wilson argues that when poverty in a neighborhood becomes more concentrated, the people in that area become isolated from the role models that the middle class offers. The usual societal norms that encourage work and responsibility are absent in these neighborhoods. Wilson believed that "[p]overty concentration effects should

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Table 1
Long-term Effects of Neighborhood Poverty Levels on Future Income

Neighborhood Poverty, percent	5–15	15–30	> 30
Hourly Wages (percent lower)	12	18	
Annual Labor Income (percent lower)	13	18	21
Length of Poverty (percent longer)	16	21	25

Source: Thomas Paul Vartanian, "Adolescent Neighborhood Effects on Labor Market and Economic Outcomes."
Note: Comparison is made to similar children living in low-poverty neighborhoods, defined as those with less than 5 percent of children living in poverty. Vartanian controlled for age, educational attainment, school status, welfare receipt, and job status of the head of household.

result in an exponential increase in . . . forms of social dislocation."[59]

Most available research, while dated, backs up Wilson's contention. A 1999 study by Thomas Paul Vartanian used Panel Study of Income Dynamics data to look at the long-term effects that living in concentrated poverty could have on children's future income and poverty (Table 1). He found that, compared to otherwise similar children, those children growing up in neighborhoods with higher levels of poverty had lower incomes and longer spells of poverty.[60]

Similarly, a 2004 study used the National Longitudinal Survey of Youth to analyze the impact of various neighborhood characteristics on residents' hours of work. The authors found that, controlling for individual characteristics and neighborhood selection effects, there was a growing marginal decline in hours worked associated with increases in neighborhood poverty. They found that social influences were an "important determinan[t] of employment status. An increase of 1 [standard deviation] in the social characteristics of a neighborhood increases annual hours by 6.1 percent."[61]

A study in the journal *Social Forces*, looking at the different mechanisms affecting school performance, found "not only that neighborhood characteristics predict educational outcomes but also that the strength of the predictions often rivals that associated with more commonly cited family- and school-related factors."[62] And a National Bureau of Economic Research paper found that "behaviors of neighborhood peers appear to substantially affect youth behaviors . . . Residence in a neighborhood in which a large proportion of other youths are involved in crime is associated with a substantial increase in an individual's probability of being involved in crime. Significant neighborhood peer effects are also apparent for drug and alcohol use, church attendance, and the propensity of youths to be out of school and out of work."[63]

A few recent studies have raised questions about the size of the segregation effect, however. The "Moving to Opportunity" experiment found that "changing neighborhoods alone may not be sufficient to improve labor market or schooling outcomes for very disadvantaged families."[64] The findings are ambiguous, however. Reasons for the observed ineffectiveness could be that participants had already lived much of their lives in the disadvantaged neighborhoods, and their effects followed them even after they moved, or that many of them moved into lower poverty neighborhoods but stayed in the same schools and social networks, so the difference was not pronounced.

A guaranteed national income would reduce the tendency to segregate the poor geographically, although obviously it would not eliminate it. (For example, the poor would still naturally gravitate to areas with lower rents.) But to the degree that we are better able to integrate the poor into the larger community, we would reinforce behaviors that can help get people out of poverty. Similarly, if the poor are able to purchase goods and services with cash from a broader range of providers, they will be exposed to more opportunities to change their situation.

Finally, we should recognize that cash is simply a more useful mechanism of exchange than in-kind benefits. As one study for the Institute of Development Studies out it:

> The poor utilize a multitude of informal tools to manage their limited and variable income. Many times however, these tools are inefficient and costly. Formal savings corrects for that and allows for poor individuals to effectively smooth consumption regardless of their varied and limited income, as well as across shocks. It allows for a flexible way to accumulate cash that can then be converted into a useful asset, like a vehicle or livestock. Or savings accounts can be utilized to save up large lump sums to then be invested in business and/or home improvements. Assets such as health, education, owning a home or business, or even farm animals are direct and indirect sources of income, which allows for greater consumption levels within the home. Unlike credit, savings allows the beneficiary to have an initial experience with financial institutions that isn't risky, nor costly, and doesn't require you to have a particular project at hand (i.e. asking for a loan to start a business). Lastly, formal financial inclusion has the potential to break the generational cycle of poverty, because it allows for assets to be inherited.[65]

A transition, therefore, from in-kind benefits to cash is likely to both demand more of recipients in terms of personal responsibility and also provide recipients with more opportunities to integrate into mainstream economic life.

Better Incentives

The current welfare system sets up an incentive system that can help trap people in poverty. In particular, many of the programs that arose out of the War on Poverty encourage out-of-wedlock birth, while discouraging work and marriage.

Given the evidence that stable employment is key to escaping poverty, welfare programs should emphasize building skills and helping program recipients find work. Instead, the current welfare system provides such a high level of benefits that it acts as a disincentive for work.

The 2013 Cato Institute study, "The Work versus Welfare Trade-Off," found that a mother with two children participating in seven common welfare programs—Temporary Assistance for Needy Families (TANF), food stamps (SNAP), Medicaid, housing assistance, WIC, energy assistance (LIHEAP), and free commodities—could take home income higher than what she would earn from a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit and Child Tax Credit. In fact, in Hawaii, Massachusetts, Connecticut, New York, New Jersey, Rhode Island, Vermont, and Washington, D.C., welfare pays more than a $20-an-hour job, and in five additional states it yields more than a $15-per-hour job.[66]

As a result, someone who left welfare for work could find themselves worse off financially, especially in the short term. Therefore it frequently becomes a rational choice for individuals to choose welfare over work.

A report by the Congressional Budget Office looking at the example of Pennsylvania found that marginal tax rates after accounting for the loss of benefits could reach extremely high levels, discouraging labor-force entry and work hours. The report found that unemployed single taxpayers with one child would face an effective marginal tax rate of 47 percent for taking a job paying the minimum wage in 2012, and they could face an astonishing marginal tax rate of 95 percent if their earnings disqualify them from Medicaid.[67] Figure 1, taken from this report, illustrates the high barriers to work that some low-income people face.[68]

"Someone who left welfare for work could find themselves worse off financially, especially in the short term."

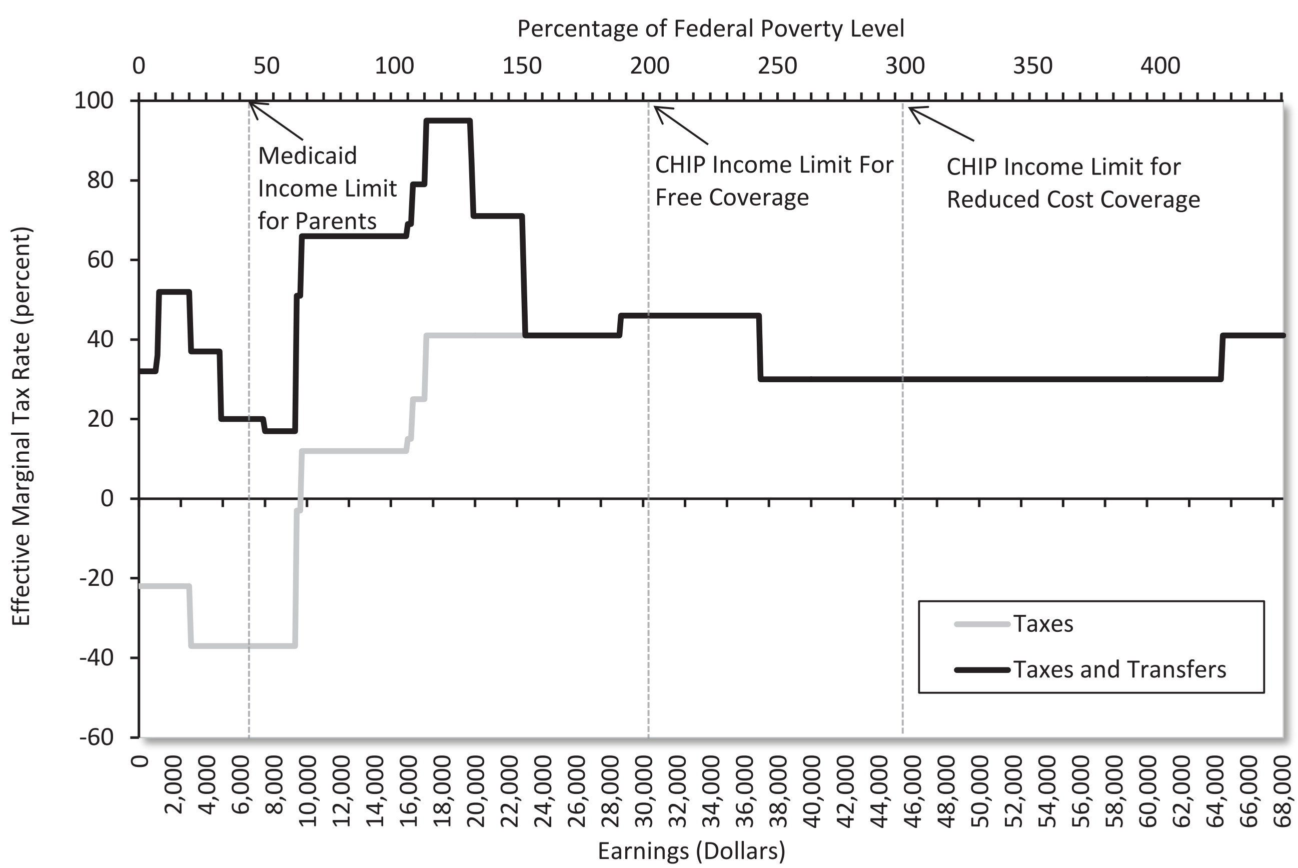
Likewise, a 2012 paper in the *National Tax Journal*, looking at a similar hypothetical family, a single parent with two children, found that in moving from no earnings to poverty-level earnings, this family faced a marginal tax rate that was as high as 25.5 percent in Hawaii.[69] A study by the Illinois Policy Institute found that that a single mother with two children in that state who increased her hourly earnings from the Illinois minimum wage of $8.25 to $12 would increase her net take-home wage by less than $400. Even worse, if she further increased her earnings to $18 an hour, supposedly a gateway to the middle class, her net income would actually *decrease* by more than $24,800 due to benefit reductions and tax increases.[70]

Depending upon the form it takes, a guaranteed national income could reduce or even eliminate this bias against work. For example, a universal basic income, unrelated to other income, would by definition not penalize individuals for earning additional income. While some may choose not to work simply because they will have the guaranteed national income, many others may choose to work, or increase the amount they work, because they no longer will be penalized for doing so.

In the British pilot project, for example, recipients of the cash payment were more likely to look for work and believed that the program offered a "better reward for small amounts of work."[71]

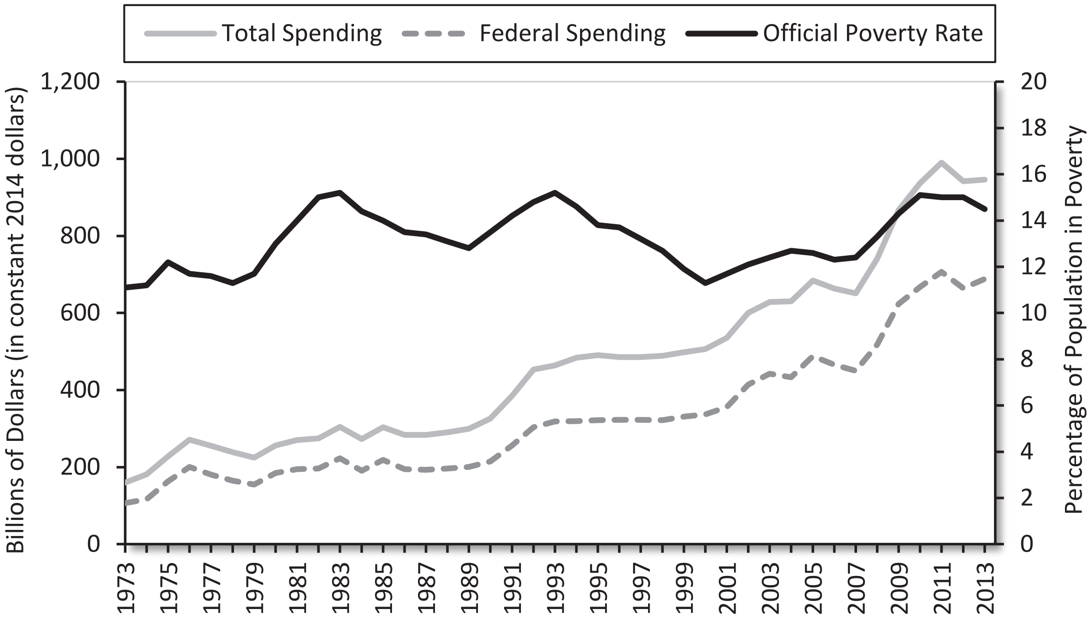
A negative income tax is potentially more problematic (as discussed below), but properly structured it could have a smaller work disincentive than the current system. Work-based income guarantees, such as wage supplements, have been shown to increase work incentives.

Figure 1
Effective Marginal Tax Rate for Low Income Worker in Pennsylvania



Source: Congressional Budget Office, "Illustrative Examples of Effective Marginal Tax Rates Faced by Married and Single Taxpayers," November 2012.

Figure 2
Poverty Rate vs. Welfare Spending, 1973–2013



Sources: Michael Tanner, "The American Welfare State: How We Spend Nearly $1 Trillion a Year Fighting Poverty—and Fail," Cato Institute Policy Analysis no. 694, April 11, 2012; Government Services Administration, *Catalog of Federal Domestic Assistance*, http://www.cfda.gov; Gene Falk, "Low Income Assistance Programs: Trends in Federal Spending," Congressional Research Service, May 7, 2014; Congressional Research Service, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data," Report RL33340; Jeffrey Barnett and Phillip Vidal, "State and Local Government Finances Summary: 2011," United States Census Bureau, July 2013; United States Census Bureau, "Historical Poverty Tables—People," Table 2, Poverty Status of People by Family Relationship, Race, and Hispanic Origin: 1959 to 2012. Note: Series only goes back to 1973, rather than 1965, because of a lack of uniform, consistent data prior to 1973. State data for 2012 and 2013 is extrapolated, as most recent state data is from 2011, Barnett and Vidal (2013). Federal Spending growth rate for 2013 uses the growth rate in Falk (2014) as individual spending amounts for programs for this year are not uniformly available.

"The Work versus Welfare Trade–Off," for instance, showed that the EITC reduced the penalty for work.[72]

Similarly, a guaranteed national income could reduce the bias against marriage inherent in many current welfare programs. Many welfare programs reduce benefits if a single mother gets married, which can work against the formation of stable two-parent households. With traditional welfare, a mother who marries the father of her children may lose a substantial portion of her benefits depending on her new spouse's income. An unmarried parent is better able to meet the income and asset eligibility tests for programs such as TANF and SNAP.

For example, if a single mother with net income of 125 percent of the federal poverty line marries a husband with some income, it could push them over the threshold, and no one in the household would be eligible for SNAP. If they chose instead to cohabitate without marrying, welfare benefits would continue to flow. There is a similar mechanism in the EITC: benefits begin to phase out and are exhausted at lower income levels for married couples.[73]

Poverty reduction

The purpose of an anti-poverty program should be to reduce poverty. Our current welfare system has done a remarkably poor job of this. Federal and state governments have spent more than $20 trillion fighting poverty over the past 50 years. The evidence suggests that we successfully reduced the deprivations of material poverty, especially in the early years.

"The purpose of an anti-poverty program should be to reduce poverty."

> “Increased spending on anti-poverty programs has done little to increase economic mobility.”

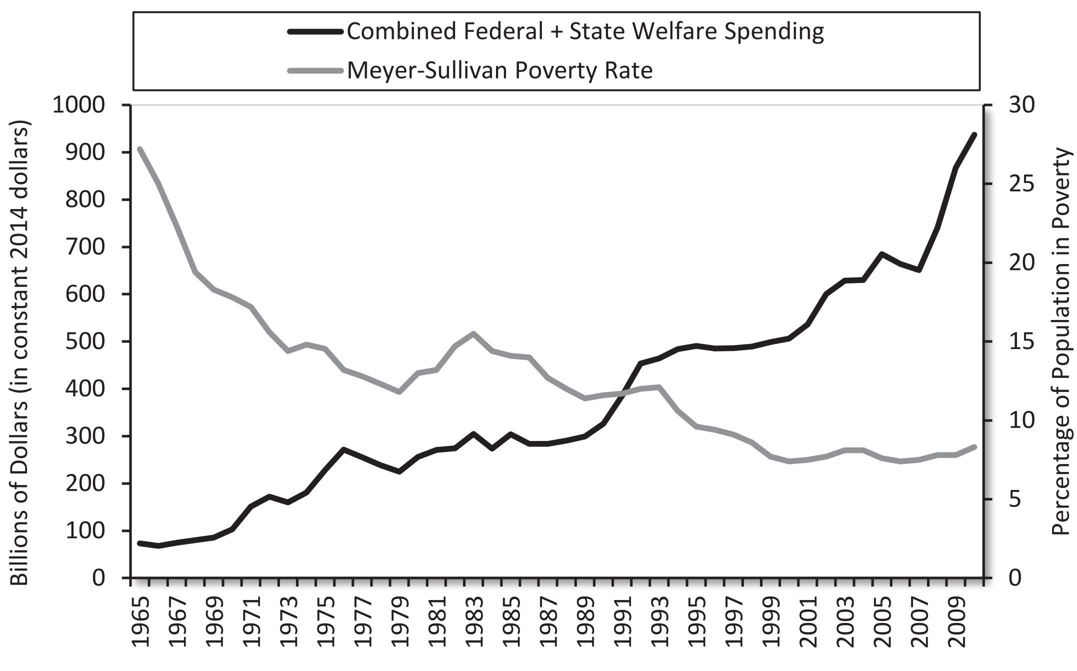
However, in recent years, we have spent more and more money on more and more programs, while realizing few, if any, additional gains. Increased spending on anti-poverty programs has done little to increase economic mobility among the poor. This lack of mobility extends to their children as well, meaning multiple generations are trapped in poverty. We may have reduced the discomfort of poverty, but we have failed to lift people out of it.

As Figure 2 shows, even as spending has increased over the last 50 years, the official poverty measure has remained essentially flat. In fact, the only appreciable decline since the mid-1970s occurred in the 1990s, a time of state experimentation with tightening welfare eligibility, culminating in the passage of national welfare reform (the Personal Responsibility and Work Responsibility Act of 1996).

Even using more recent, and arguably more accurate, supplemental poverty measures, the evidence suggests that while welfare may have helped reduce poverty initially, more recent increases in welfare spending have realized few gains. A study by Bruce Meyer and James Sullivan found that the majority of improvements in the poverty rate occurred prior to 1972. Less than a third of the improvement has taken place in the last four decades, despite massive increases in expenditures during that time (Figure 3).

If a guaranteed national income were set above the poverty level it would, at least in theory, mean that no one would live in poverty. To oversimplify, last year federal welfare spending

Figure 3
Meyer-Sullivan Poverty Rate vs. Combined Welfare Spending



Sources: Bruce Meyer and James Sullivan, “Winning the War: Poverty from the Great Society to the Great Recession,” *Brookings Papers on Economic Activity* (Fall 2012); Michael Tanner, “The American Welfare State: How We Spend Nearly $1 Trillion a Year Fighting Poverty—and Fail,” Cato Institute, Policy Analysis no. 694, April 11, 2012; Government Services Administration, *Catalog of Federal Domestic Assistance*, http://www.cfda.gov; Gene Falk, “Low Income Assistance Programs: Trends in Federal Spending,” Congressional Research Service, May 7, 2014; Congressional Research Service, “Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data,” Report RL33340; Jeffrey Barnett and Phillip Vidal, “State and Local Government Finances Summary: 2011,” United States Census Bureau, July 2013.
Notes: Series only goes back to 1973, rather than 1965, because of a lack of uniform, consistent data prior to 1973. The Meyer-Sullivan poverty rate prior to 1980 is post-tax rate as opposed to post-tax post-transfer rate, since that series only begins in 1980.

alone totaled more than $15,187 for every poor man, woman, and child in this country.[74] For a typical poor family of three, that amounts to more than $45,562. Combined with state and local spending, government spent $20,835 for every poor person in America, and $62,585 per poor family of three. By way of comparison, the poverty line for that family is just $19,055.[75]

Of course no individual is eligible for every program, and many poor people receive nowhere near this amount of benefits. Many anti-poverty programs are poorly targeted with benefits spilling over to people well above the poverty line. In some cases this is a necessary feature in order to avoid the high marginal tax rates discussed above. But that is precisely the point—we are spending more than enough money to fight poverty, but we are not spending it in ways that actually reduce poverty.

For many of the reasons discussed above, a guaranteed national income promises to spend that money more efficiently and effectively than our current welfare system.

UNFORTUNATELY IT'S NOT THAT EASY

Looked at in this way, the case for a guaranteed national income appears strong. It might be weaker if we were starting from square one, but on paper it offers numerous advantages when compared to our current welfare system. However, a more detailed examination raises numerous questions. The further one moves from theory to implementation, the more the theoretical advantages dissipate.

Universal Basic Income

If every American were to receive a flat cash grant that was large enough to enable the poor to support themselves in the absence of other welfare programs, the cost would likely be prohibitive.

The current poverty level for a single nonelderly individual is $12,316.[76] Spread over 296 million U.S. citizens, the cost of such a program would be nearly $4.4 trillion, more than our entire federal budget today, and more than 4 times our current welfare expenditure (including both federal and state welfare spending).[77] Even if the guaranteed national income replaced every existing anti-poverty program, we would still be some $3.4 trillion short.

Of course, some suggest using the basic income to replace middle-class social welfare programs such as Social Security and Medicare, as well as those targeted to the poor. The idea of abolishing Social Security and Medicare is far more problematic, both politically and practically, than using UBI to replace more conventional welfare programs. More important, perhaps, it still wouldn't raise enough money to fund a truly universal basic income.

According to the most recent Congressional Budget Office estimates for the cost of federal programs, eliminating all income transfer programs—the entire edifice of the American welfare state—including Social Security, Medicare, Medicaid, unemployment insurance, and so forth (but excluding tax expenditures), would yield only $2.13 trillion.[78] If we also included so-called tax expenditures such as the mortgage interest deduction and the exclusion of employer contributions, as well as Social Security, and EITC and CTC related tax expenditures, we could add an additional $393 billion for a total of $2.5 trillion.[79] That still wouldn't be enough.

At the same time, providing an equal payment to every citizen would provide an absurdly large windfall for very large families. The incremental cost of children declines as families grow larger. That is why the poverty level for a family of four is $24,008, just 1.5 times larger than that for two individuals without children, rather than twice as large.[80] And the poverty rate for a family of eight is just 2.4 times larger than for a family of two.[81] But if we paid every citizen $12,316 (an amount equal to the poverty level for a single individual), we would end up paying over $49,000 to a family of four (more than double the poverty threshold for this family), and almost $98,500 to a family of eight.

Some supporters of a UBI have suggested solving both of these problems by limiting

> **"The further one moves from theory to implementation, the more the theoretical advantages of a guaranteed national income dissipate."**

> "In short, unless we are prepared to significantly increase taxes, a pure universal basic income is unaffordable."

grants to adults. This would add a small layer of administrative complexity, but would reduce the cost to roughly $2.7 trillion.[82] But, while significantly less than the cost for all citizens, it would still fall short of the savings from eliminating welfare state programs. Therefore it would require a large tax hike to implement.

It would also have the opposite effect of an all-citizen grant, leaving large families with several children well below the poverty level. In addition to questions of adequacy and fairness, this could have a discouraging effect on fertility rates, with attendant consequences for future economic growth. An option halfway between those two poles would provide a benefit to both adults and children but recognize economies of scale within a family by adjusting the size of the grant downward with each subsequent child. But this again would add a significant layer of administrative complexity while also increasing the cost of the program.

Moreover, whatever the initial size of the UBI, there will be enormous political pressure to increase it. A UBI would effectively endorse both a legal and a philosophical concept that every American citizen is entitled to a minimum income—exacted from the taxpayers. Once that "right" is established, the political process will inevitably expand it. Murray, for example, proposes a grant of $10,000. But how long before some politician comes along and says, "No one can live on $10,000. We need to make it $11,000"? Soon another politician, not wanting to be thought less compassionate than the first, will propose $12,000. There would also be pressure to "carve-out" additional payments to certain groups, like families with a person with a disability or some kind of long-term illness, adjusting for age (since the elderly typically have higher health care expenses), and so on.

Alaska's Permanent Fund provides an example. Since the fund, which pays a dividend to all Alaska residents paid primarily out of oil revenues, was established, there been pressure on the state legislature to make additional legislative (general revenue) contributions to the fund, which could lead to increased future dividend payments. At least 10 times the legislature has given in to the pressure and made such payments. In fact, on at least a few occasions those special contributions were larger than the royalty deposits from oil revenue that are supposed to fund the program. For instance, in 1987, there was a special contribution of $1.264 billion, compared to a $171 million contribution from regular royalties.[83]

Another issue that would arise in any national level implementation of a UBI, or any form of guaranteed national income, is how to address the regional variation in the cost of living. The benefit might be more than sufficient in low-cost states such as South Dakota, but it might not be enough in high cost states such as California and New York. For example, a recent study by the Tax Foundation looked at the purchasing power of $100 in each state, with the relative value ranging from $84.60 in Washington, D.C., to $115.74 in Mississippi.[84] The impact of the UBI would vary by location, and low-income people in high-cost areas could be worse off. It is not hard to imagine a scenario where people advocate for some kind of benefit adjustment based on the cost of living in the area. While this could potentially be a better design, it would again add a layer of complexity to what initially seemed like a very simple program. And, since the populations of high-cost states such as New York and California are often larger, any such adjustment could again make the program far more expensive.

In short, unless we are prepared to significantly increase taxes, a pure universal basic income is unaffordable. It would also very likely lead to political pressure for a more complex and still more expensive system, one that looks less and less like a universal basic income.

Negative Income Tax

Given the above, the most commonly suggested way to reduce the cost of a guaranteed national income is to make it less "universal," most likely by providing the full grant only to those with incomes below some predefined level. Such an approach would still provide a universal floor of income below which no American would be allowed to fall, but it would essentially means-test those benefits.

Administratively this is not an easy task. Simply consider the difficulties in determining an individual's income and assets, family size, expenses, exemptions, and so forth. Therefore many advocates of a guaranteed income would establish a negative income tax effectively piggybacking on the existing income tax system.

Of course, the tax system is hardly a model of simplicity. The U.S. tax code currently runs to more than 70,000 pages.[85] Its complexity leads to evasion, fraud, and errors. A report from the Treasury Inspector General found that 17 percent of *amended* tax returns—where efforts had already been made to correct previous mistakes—themselves contained errors.[86]

The closest thing to an NIT that exists today is the Earned Income Tax Credit. The EITC has one of the highest fraud rates among federal programs: the IRS estimates that 22 to 26 percent of EITC payments were issued improperly in Fiscal Year 2013, worth $13.3 billion to $15.6 billion.[87]

Even without deliberate fraud, the complexity of the tax code offers a multitude of opportunities for error. Research by economist Jeffery Liebman suggests that the higher improper payment rate with the EITC is likely a mix of both taxpayer fraud and taxpayer error, and the EITC's complex structure plays a contributing role. Consider that the instruction book for the EITC runs to 37 pages, plus another 17 pages of instructions included in the general tax instructional guide.[88]

The NIT would be every bit as complex, if not more so. If the combined fraud and error rate for the NIT were even half that of the EITC it would amount to more than $132 billion per year.

Moreover, almost 20 million tax units do not currently file tax returns, mostly because their incomes are too low.[89] These are precisely the people who would be expected to receive benefits from an NIT. It will thus be necessary to find these non-filers and convince them to participate. This will include special populations such as the homeless, transients, the mentally ill, and incarcerated people, some of whom may find completion of tax-related paperwork especially burdensome or beyond their capabilities. We should not underestimate the difficulties in such an undertaking. But failure to include these potential recipients would make it impossible for the NIT to completely replace existing welfare programs.

One of the key variables in designing a negative income tax is the "phase-out rate," that is, how much in NIT benefits would be "lost'" with each additional dollar of earned income. Attempts to optimally design an NIT must navigate two competing concerns: setting the rate too high would create prohibitively high marginal tax rates for many recipients, and setting the rate too low would mean that the program's cost will escalate unacceptably, since more benefits will go to those with higher incomes.

To see how this would work, let us examine two theoretical scenarios. In the first, the NIT replaces all current anti-poverty programs at the federal level.[90] On a revenue-neutral basis, that would provide a pool of $553 billion per year that could be used to fund NIT payments.

Using census data on income and household composition, we can estimate the amount of income that could be provided to a family, given various phase-out rates and adjusting for household size.[91] As Table 2 shows, in order to provide a typical poor family of three with a sufficient income to lift them out of poverty, the phase-out rate would have to be as high as 20 percent. That is, for each additional dollar the beneficiary household earns, they would lose 20 cents of the NIT benefit.

Using a lower phase-out rate, on the other hand, means that it would be impossible to provide a sufficient initial benefit to keep the family above the poverty level. This is especially true for single-person households.

For a single person without children, using a phase-out rate of 20 percent only provides enough funding for a benefit equal to 72 percent of the federal poverty level. It would require a much higher phase-out rate, more than

> **"If the combined fraud and error rate for the Negative Income Tax were even half that of the Earned Income Tax Credit it would amount to more than $132 billion per year."**

> "Attempts to reduce the phase-out rate, and therefore to keep marginal tax rates low, will result in more benefits going to higher-income individuals."

Table 2
Negative Income Tax Including Medicaid at Different Phase-out Rates: Initial Benefit Levels and Break-Even Points

Phase-out Rate (percent)	Initial Benefit, Single (percent of poverty threshold)	Break-even Point, Single Person (percent of poverty threshold)	Initial Benefit, Family of Three (percent of poverty threshold)	Breakeven Point, Family of Three (percent of poverty threshold)
35	97	278	142	405
30	90	299	130	434
25	82	326	120	475
20	72	361	105	525

Sources: Author's calculations using U.S. Census Bureau, "2013 Annual Social and Economic Supplement," Current Population Survey; U.S. Census Bureau, "Income and Poverty in the United States: 2013," Table 3.

35 percent, to provide an initial benefit close to the poverty line. But marginal tax rates this high will almost certainly discourage work.

It is also worth noting that the lower the phase-out rate, the further up the income scale benefits extend. Thus, a 20 percent phase out does not provide enough of a benefit to actually lift the truly poor out of poverty, but it does provide some benefits for individuals earning as much as 361 percent of poverty ($44,460 per year).

As noted, the above scenario assumes that the entire $553 billion identified by the Congressional Budget Office currently being spent to fight poverty would be available to fund the NIT. However, there are serious questions about whether Medicaid should be included. Today, the majority of people below the poverty line qualify for Medicaid, and that benefit is not counted in calculating the poverty thresholds and rates. If we included Medicaid as another program to be replaced, but if the exchanges were left intact, low-income people would be worse off. There are also concerns that health care costs would grow at a rate much faster than inflation or economic growth, in which case procuring health insurance would take up an increasing amount of the benefit.

In addition, many experts suggest that programs for the elderly and disabled should not be incorporated into the EITC because these groups present special circumstances, such as a limited ability to work, that makes them different from more traditional poor families. As such, this spending is not included in either the previous scenario or the next.

Removing the Medicaid spending on low-income people and children, in addition to spending on CHIP, leaves a pool of just $443 billion to fund the EITC. This level of funding would require a 25 percent phase-out rate to set the initial benefit above the poverty level for a family of three. Single-person households would remain below the poverty level even at a much higher phase-out rate of 35 percent, although they would be relatively close at almost 90 percent, and generally better off than under the current system (Table 3).

The trade-off, then, is clear. Attempts to reduce the phase-out rate, and therefore to keep marginal tax rates low, will result in more benefits going to higher-income individuals, leaving less for the truly poor. Raising the phase-out rate will focus benefits on those who need it most, allowing for a generous initial level of benefit, but it will create high marginal tax rates that are likely to discourage recipients from working and attempting to earn additional income.

There are several reasons why we should be concerned about the possibility that a nega-

Table 3
Negative Income Tax Excluding Medicaid at Different Phase-out Rates: Initial Benefit Levels and Breakeven Points

Phase-out Rate (percent)	Initial Benefit, Single (percent of poverty threshold)	Breakeven Point, Single (percent of poverty threshold)	Initial Benefit, Family of Three (percent of poverty threshold)	Breakeven Point, Family of Three (percent of poverty threshold)
35	89	254	129	369
30	82	272	119	396
25	73	294	108	431
20	66	330	96	480

Sources: Author's calculations using U.S. Census Bureau, "2013 Annual Social and Economic Supplement," Current Population Survey; U.S. Census Bureau, "Income and Poverty in the United States: 2013," Table 3.

"Any program that provides income without linking it to work will discourage work to some extent."

tive income tax or, to a lesser degree, a universal basic income, could discourage work. First, if we are to accept some level of redistribution, it seems fair to require that those receiving the benefits take steps that would enable them to become self-supporting as soon as possible. This is not merely a question of moral sentiment. In the case of the NIT, to the degree that recipients choose not to work, it could drive up the cost of the program. And while that is not an issue with a universal basic income, recipients who are not working are also not paying taxes and therefore are increasing the burden on others. Moreover, a perception that recipients are content to live off of others, accurate or not, is likely to undermine political support for the program, as it undermines the implied reciprocity of redistribution programs.

Second, if we actually want to help the poor escape poverty, we know that work is one of the keys to achieving that goal. Only 2.7 percent of full-time workers are poor. Even part-time work makes a significant difference. Only 17.5 percent of part-time workers are poor, compared with 32.3 percent of adults who do not work.[92]

And, third, a reduction in labor-force participation lowers GDP growth, making all of us a little bit poorer. While the relationship is uneven, studies show that if productivity remains constant, economic growth is strongly influenced by changes in the size of the labor force.

In the United States, labor force participation is decreasing naturally as the population ages. The increase in the working population that came about as a result of the integration of women and minorities into the labor force has largely played out. So far, this decline has been offset by increases in productivity per worker, but that seems unlikely to increase indefinitely. As a result, future economic growth may be slower than it has been in the past. Any policy that encourages more numbers of otherwise able workers to drop out of the labor force would further slow growth.

Obviously any program that provides income without linking it to work will discourage work to some extent. As Casey Mulligan of the University of Chicago points out, work "requires sacrifices, and people evaluate whether the net income earned is enough to justify the sacrifices."[93] And as the Congressional Research Service has noted, "leisure is believed to be a "normal good." That is, with a rise in income, people will "purchase" more leisure by reducing their work effort. . . . Thus, the increase in [the value of welfare benefits] is expected to cause people to reduce work hours."[94]

As mentioned above, even with the universal basic income, a small group of recipients

> "A Negative Income Tax creates a potentially bigger disincentive problem than a universal basic income."

may decide that the grant provides sufficient income for their needs. They may therefore choose not to work, living off the grant instead, or, if they chose to add earned income to the grant, they may work less than they otherwise would. This disincentive can be minimized by keeping the grant amount low. A poverty-level income, for example, is unlikely to be seen as sufficient by a large number of people.

An NIT, however, creates a potentially bigger disincentive problem. With the UBI, any earned income is simply added on top of the grant. With the NIT, by contrast, an additional dollar of earned income results in the loss of some portion of the grant. Therefore that dollar of earned income is actually worth somewhat less than a dollar. How much less would depend on the phase-out rate discussed above.

To get a better idea of how an NIT might affect work incentives, it is worth examining four major experiments that took place between 1968 and 1980. In each of them, researchers conducted a field trial in which they split participants into two groups: the control group would operate under the welfare system then in place, and the experimental group would get some version of the NIT. Initial benefit level and the phase-out rate were varied, providing a variety of scenarios. Table 4 provides an overview of the four experiments.[95]

As you can see, there was a significant degree of variation among experiments. The initial benefit ranged from 50 percent of the poverty threshold to 135 percent, while the phase-out rate ranged from 30 to 70 percent.

There were also differences in the demographics of the sample population, which could have important ramifications for how applicable the findings would be for a broader, national implementation of an NIT. For example, the New Jersey experiment was comprised entirely of married couples, so it can tell us little if anything about the work effect of the NIT on single-parent families, one of the segments of the population most affected by our welfare system.

These experiments were also limited in duration, and their temporary nature could alter the magnitude of the work effects. If people recognize that the experiment is limited, they may be less likely to leave the workforce altogether but might be more likely to take unpaid leave during the experiment because they know the NIT benefit would replace much of their lost earnings. In the Seattle-Denver experiment, researchers found that the responses to the NIT were significantly higher in the five-year version of the experiment than the three-year, particularly among married households. That there would be a significant difference in work effort when the experiment length extends from three to five years should give us serious pause in trying to extrapolate any of these findings to a large-scale, permanent NIT.

Nor can we infer anything about how an NIT would change work effort for subsequent

Table 4
Characteristics of the Negative Income Tax Experiments

Location	Duration (years)	Range of Benefit (percent relative to poverty level)	Range of Phase-out Rates (percent relative to poverty level)	Range of Breakeven Point
New Jersey	3	50 to 125	30 to 70	100 to 250
Rural	3	50 to 100	30 to 70	100 to 250
Gary, Indiana	3	77 to 101	40 to 60	128 to 253
Seattle-Denver	3	92 to 135	50 to 70	140 to 300

Source: Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence." See note 95.

Table 5
Reduction in Hours Worked and Annual Earnings in Four Negative Income Tax Experiments (percent)

	Husbands		Wives		Single Mothers	
Location	Hours per Year	Annual Earnings	Hours per Year	Annual Earnings	Hours per Year	Annual Earnings
New Jersey	-1	5	-25	-21	N/A	N/A
Rural	-3	-6	-28	-33	N/A	N/A
Gary, Indiana	-7	-5	5	11	-30	-14
Seattle-Denver*	-7	-5	-14	-14	-13	-14
Weighted Average	-7	-4	-17	-16	-17	-15

* Three-year experiment.
Source: Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence." See note 95.

generations. Their response could be larger than the response of workers at introduction. The first generation will have grown up under the previous regime and might be less receptive to change than one that grew up entirely under an NIT system. There might also be positive long-term spillover effects for children who would have otherwise grown up in poverty: these children could be more likely reach a higher level of educational attainment and be less likely to be undernourished, among other things. Any of these differences could impact their long-term earnings potential.

With those caveats in mind, we can still draw some important conclusions. First, in all four experiments, the NIT reduced work effort. The impact was bigger on wives and single mothers, with both groups reducing hours worked by 17 percent across all experiments, while husbands reduced theirs by 7 percent.

It appears that the higher the initial benefit level the greater the decrease in work effort, at least for primary earners. These findings imply that some of the transfer payments of the NIT were simply replacing reduced work effort and earnings, rather than actually raising participants' incomes, a problem that would also likely occur with other forms of a guaranteed national income, such as the UBI.

This initial work disincentive was compounded by the phase-out rate, which ranged from 30 to 70 percent. When this is combined with the effects of payroll and income taxes, the marginal tax rates faced by some of these families were well above 50 percent—and in some instances they approached 100 percent—roughly comparable to the effective marginal tax rates found in some cases in the current welfare system.

Overall, the NIT appears to have resulted in a modest reduction in the number of hours worked, with a greater impact on married women than single mothers. Married men were the least affected (Table 5).

The type of work reduction is almost as important as the level of work reduction. The Seattle and Gary, Indiana, experiments indicated that the reduction was mostly caused by people remaining unemployed for longer periods of time and with some degree of labor-force withdrawal. There was not as great a reduction in the number of hours worked by people who remained employed throughout the experiment.[96]

There is reason to be cautious, however, in interpreting these results. As Gary Burtless of the Brookings Institution, who analyzed all four experiments in depth, warns, "several analysts have found evidence that at least part of the employment and earnings reduction reported in the experiments was spurious. Recipients of negative income tax payments had a clear in-

"In all four Negative Income Tax experiments, the NIT reduced work effort."

> "Studies suggest that the Earned Income Tax Credit has been more successful than other welfare programs in actually reducing poverty."

centive to underreport their employment and earnings, because to do so permitted them to receive a larger payment than the one to which they were legally entitled."[97] So it is possible that actual work effort did not decrease nearly as much as *reported* work effort did.[98]

It is also important to realize that these experiments were conducted more than 30 years ago, and the welfare system has changed in many ways since then. Although these experiments do tell us how the introduction of the NIT affected work effort relative to the welfare system in place *then*, we can not be certain about how it would impact work effort relative to the welfare system *today*, which is what we care about.[99]

Wage Subsidies

Given that both the universal basic income and the negative income tax are likely to discourage work at least to some degree, some would explicitly link any guaranteed national income scheme with work. That is, the government would ensure that everyone who worked would receive a minimum amount of income regardless of the wages that they earned, but such assistance would only be available to those who work at least a certain number of hours.

To some degree, the Earned Income Tax Credit already attempts to do this. In fact, the EITC could be described as an NIT, but only for those with work income. To be eligible, an individual must have earned income, such as wages, tips, or the income from running a business or farm. Other types of income, such as retirement pensions, although usually taxable, do not count.[100]

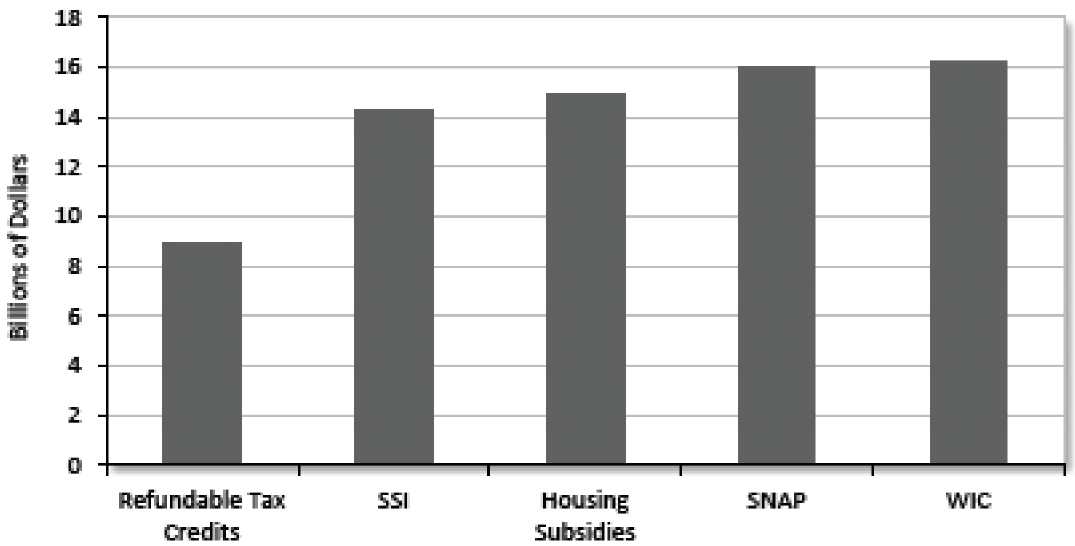
The EITC was initially established in 1975 to offset payroll taxes, reducing the high marginal tax rate for individuals leaving welfare for work.[101] It was expanded significantly by President Reagan and has grown steadily since. Notably, the size of the refundable credit now far exceeds payroll taxes, making the EITC less of a tax refund and more of a wage supplement. In 2013, more than 27 million Americans received the EITC, with an average benefit of $2,400 per recipient.[102]

The evidence suggests that the EITC increases work effort. In particular, single mothers saw significant labor-force gains due to the EITC.[103] There are problems in the phase-out range, but not enough to offset the positive gains at lower wage levels. While theory would indicate that the phase-out range would lower the number of hours worked due to higher effective marginal tax rates, empirical research to date has found little evidence of this effect.[104] The Congressional Budget Office posits that taxpayers may not understand their effective marginal tax rates, and that the way programs like the EITC are administered keeps these rates obscure.[105] This could be part of the explanation for why work hours are not significantly affected by high marginal tax rates like theory would suggest. Moving to an NIT system and replacing the myriad of welfare programs would make the effective marginal tax rate more transparent, so it is conceivable that the reduction in work hours could be somewhat higher in the new system.[106]

Studies also suggest that the EITC has been more successful than other welfare programs in actually reducing poverty. The Center for Budget and Policy Priorities estimates that the EITC lifted approximately 6.5 million people above the poverty level in 2013, while the Census Bureau suggests that the poverty rate would be 2.5 percent higher in the absence of the EITC and other refundable tax credits.[107] In fact, as measured by the additional outlays needed to lift one million people out of poverty (using the supplemental poverty measure), refundable tax credits such as the EITC are clearly more cost-effective than other types of welfare programs (Figure 4).

However, as the EITC has grown, problems with the program have become more apparent. For example, the EITC focuses on families; the benefit level for childless workers is small and phases out quickly. The maximum credit available to a childless worker was only $496 in 2014, and all benefits phase out before earned income hits $14,600 (for comparison's sake the maximum benefit for a single parent with one child is $3,305). Childless workers un-

Figure 4
Spending Needed to Lift One Million People Out of Poverty, 2012



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Note: SSI = Social Security Income; SNAP = Supplemental Nutrition Assistance Program; WIC = Special Supplemental Nutrition Program for Women, Infants, and Children.

> "The Earned Income Tax Credit imposes significant marriage penalties on some families."

der 25 are not allowed to claim the EITC at all. As a result, childless adults accounted for only 3 percent of all EITC funding.[108]

Second, as the Tax Policy Center notes, "the EITC imposes significant marriage penalties on some families. If a single parent receiving the EITC marries, the addition of the spouse's income may reduce or eliminate the credit."[109] For example, if a single mother has eligible earnings of $9,500 and then subsequently marries someone with eligible earnings of $4,150, that entire household would no longer be eligible for the EITC, whereas if the couple had decided to cohabitate and remain unmarried, they could have continued to receive something from the EITC.

Because the credit is mostly determined by the number of children, the maximum credit is the same for a single parent as it is for a married couple with the same number of children. For example, for a married couple with two children, the maximum credit is $5,460, the same as for a single filer with two children.

It is also useful to look at the breakeven points, the earned income level at which EITC benefits are exhausted. For the same two-child household, the breakeven point for a single parent is $43,756, and for married parents it is only a little bit higher at $49,186.[110] In essence, the single parent can continue to receive benefits at higher income levels relative to the poverty level than can married couples, and the credit is more generous since the benefits are being distributed among one less person in the household.

Third, as a refundable tax credit, the EITC is paid annually, in the manner of a tax refund. While such a lump-sum payment can certainly help many low-income families, it still leaves those families relying on low wages throughout much of the year. That is, in its current form the EITC represents an income supplement, but not a wage supplement.

There have recently been several bipartisan suggestions for addressing these problems, many of which would make the EITC more of a pure wage supplement. President Obama has proposed expanding the EITC: he would roughly double the benefit available to childless workers, lower the eligibility age from 25 to 21, and increase the upper age limit from 65 to 67.[111] Rep. Paul Ryan (R-WI) pro-

> **“Expanding the Earned Income Tax Credit would increase total welfare spending absent cuts to other programs.”**

posed a similar measure, with the only difference being the upper age limit would remain the same.[112] Making these low-wage workers eligible for the EITC could incentivize them to increase their earned income and enter the labor force. While expanding the EITC would increase federal outlays by roughly $6 billion a year, it would be possible to offset the cost by shifting spending from less effective anti-poverty programs.[113] Sen. Marco Rubio (R-FL) is developing a plan to “replace the earned income tax credit with a federal wage enhancement for qualifying low-wage jobs.”[114] While he hasn’t yet released comprehensive details, he has said that, like other EITC reforms described, his proposal would “apply the same to singles as it would to married couples and families with children.”[115]

These reforms would certainly improve the EITC, but they would still leave many problems unresolved. Most significantly, because the EITC is work-based it is not universal. That means that those who cannot work or are unable to find a job would receive no benefits from the program. Nearly 16 percent of current TANF recipients, for example, are exempt from work requirements because they are classified as disabled or for other non-specified reasons.[116] On top of this, 14.27 million people under age 65 received either Supplemental Security Income or Social Security Disability Insurance benefits in October 2014, and this group’s capacity for work could be limited or nonexistent. Eligibility requirements for these programs often prohibit recipients from working, even if they would to some extent be able to, creating another poverty trap that makes it harder for them to achieve a level of independence.[117] Since Congress is not going to leave these people without a safety net, we would end up with a second parallel welfare system for the non-working.

Indeed, most proposals to reform the EITC, including those by Obama, Ryan, and Rubio, envision it as a component of the current welfare system rather than as a replacement for it. Recipients would continue to receive traditional welfare benefits in addition to the EITC, the same as they do today. This would likely mean that expanding the EITC would increase total welfare spending absent cuts to other programs—requiring additional taxes.

Of course, an expanded EITC or some other wage supplement could also be designed to render a recipient ineligible for other welfare benefits, but that would make a recipient choose between the two systems. The result would be to reestablish the very work disincentive that the EITC was designed to eliminate.

Finally, it is worth recognizing that an expanded EITC may not attract as much bipartisan support as presumed. A number of liberal activists and organizations have opposed wage supplement proposals as an indirect subsidy to low-wage employers. For instance, Eileen Applebaum, senior economist with the Center on Economic Policy and Research, complains that “The EITC is a tax-payer financed subsidy that enables some employers to pay wages so low that workers are forced into poverty.”[118] University of California economist Jesse Rothstein estimates that on average, an additional dollar increase in the EITC actually raises a low-wage worker’s income by only 73 cents. The difference is captured by employers through lower wages.[119]

Moreover, as noted by Sylvia Allegretto of UC–Berkeley points out, “The supplement to workers’ pay acts as an incentive for more workers to be willing to take low wage jobs.”[120] While some might see this as a positive result, Allegretto and others worry that it will decrease pressure on employers to raise wages, both because workers will be less likely to demand wage increases and because the increase in labor supply would put downward pressure on wages generally.

On the other hand, Andrew Biggs of the American Enterprise Institute points out that it is equally likely that “fast food chains pay the same wages regardless of the government benefits their employees may qualify for . . . given that fast food establishments paid low wages even before government benefits were prevalent.”[121] Or, if employers do capture a portion of government benefits paid to low-wage workers, it provides reason to rethink the entire edifice of the modern welfare state. As Biggs explains, it would imply that "federal transfer programs drive down working-class wages, since the higher benefits rise, the more wages fall. Thus . . . it is federal government policy that lies behind working-class wage stagnation in recent years. . . . Many conservatives might be willing to accept and tout these conclusions, but it is curious to find them emanating from left-leaning groups."[122]

BABY STEPS

If the concerns discussed above make it impractical and perhaps undesirable to adopt a guaranteed national income at this time, there are a number of smaller steps that could be taken to achieve some of the advantages provided by guaranteed national income schemes. In particular, it may be possible to simplify our current welfare system and substitute cash payments for in-kind benefits.

Rep. Paul Ryan has proposed something similar in this country, at least in terms of consolidation. Under Ryan's plan, states would receive a block grant in lieu of funding for 11 current welfare programs (the Supplemental Nutrition Assistance Program (SNAP) or food stamps; Temporary Assistance for Needy Families (TANF); Section 8 Housing Choice Voucher Program (HCV); Section 521 Rural Rental Assistance Payments; Section 8 Project-Based Rental Assistance; Public Housing Capital and Operating Funds; Child Care and Development Fund; the Weatherization Assistance Program; the Low Income Home Energy Assistance Program (LIHEAP); Community Development Block Grant; and the WIA Dislocated Workers program).[123]

Unfortunately, however, Ryan's proposal would send the money to the states rather than to the recipients themselves. As noted, state provision of welfare is better than federal provision, but Ryan also includes a host of strings, severely limiting the ways in which states may use this money. While that may be politically realistic given the resistance to any reform, it therefore represents a federalist version of the current system. Still, it would simplify the current system, and states could theoretically use the money to provide direct payments to individuals.

Senator Marco Rubio (R-FL) proposes going even further, replacing most current federal welfare programs with a state-run "Flex Fund," under which states could provide benefits the way they want.[124] Rubio specifically urges states to replace in-kind programs with cash benefits, although he would leave the final decision up to the states. In fact, Rubio would impose few mandates for how the states should use their money. For example, while Rubio notes the importance of work requirements as a condition for receiving assistance, he would allow states to decide whether or not to impose such restrictions. In theory, states would be free to adopt programs that are very close to the sort of guaranteed-income programs discussed herein. While cost and implementation issues make a full-fledged move in this direction unlikely, we should nonetheless expect far more state experimentation.

Another way that Congress could move toward a cash payment system would be to encourage states to expand existing cash-diversion programs. These are programs, currently in use in 33 states, which provide lump-sum cash payments in lieu of traditional welfare benefits in some cases.[125] These programs are designed to assist families facing an immediate financial crisis or short-term need. The family is given a single cash payment in the hope that if the immediate problem is resolved, there will be no need for going on welfare. Most often there is no restriction on how these lump-sum payments may be used. In practice, they have been used to pay off back debts, as well as for child care, car repairs, medical bills, rent, clothing, and utility bills. They have also been used to help individuals with work-related expenses, such as purchasing tools, uniforms, and business licenses. In exchange for receiving the lump-sum pay-

"Unfortunately, Rep. Paul Ryan's proposal would send money to the states rather than to the recipients themselves."

> “What sounds good in theory tends to break down when one looks at questions of implementation.”

ment, welfare applicants in most states—but not all— give up their eligibility for TANF for a period ranging from a couple of months to as long as year.[126]

Cash diversion programs are not a guaranteed national income, but these programs do share two important characteristics: both are cash payment programs, and there are few restrictions on the use of the money in either, putting the onus on the recipient to behave responsibly with it.

And the evidence suggests that they do. Several studies indicate that for individuals who had not previously been on welfare, diversion programs significantly reduced their likelihood of ending up there.[127] Studies also suggest that diversion participants are subsequently more likely to work than become recipients of traditional welfare.[128] However, the impact was far less pronounced for those who had previously been part of the welfare system.

Obviously these programs are extremely limited, but they do shift welfare toward cash payments and away from in-kind benefits. In doing so, they offer some of the advantages of universal income on a much smaller scale. They make the welfare system somewhat more transparent and treat recipients more like adults. They reduce bureaucracy and create better incentives.

Finally, states might consider applying for waivers allowing them to pursue limited NIT experiments similar to those described earlier in this paper. Such pilot programs would provide important data, which could be used to evaluate whether a larger-scale program might ultimately be practical. As noted above, existing studies of the NIT are quite dated and took place against the backdrop of a very different welfare system.

The recent problems with the Affordable Care Act and Dodd-Frank should have taught us the risks of undertaking massive transformations of government and society with insufficient data. Unintended consequences are almost inevitable. Small-scale experiments would be a much better staring point.

CONCLUSION

For many years the debate over welfare reform in this country has been remarkably unproductive, focusing on spending levels for specific programs, or fine-tuning eligibility standards to include or exclude more people, depending on the political bent of the advocate. Some of these proposals might marginally improve the current system, but they do not fundamentally change it. Nor is there any promise that more people will escape poverty.

And, after spending more than $20 trillion fighting poverty since 1964 with only marginal gains, it is time to acknowledge that our welfare system needs more than cosmetic reform. Each year of fruitless debate only leads to more wasted taxpayer money and—worse—another year of too many people living in poverty. If doing the same old thing with only minor adjustments has brought little improvement, it is worth considering whether there is something to gain from trying a completely different approach.

Conceptually the idea of a guaranteed national income has a great deal to recommend it—especially when compared to our current complex, expensive, and ineffective welfare system. It promises an anti-poverty effort that is simple and transparent, that treats recipients like adults, and that has a better set of incentives when it comes to work, marriage, and savings. In theory, such an income could be set high enough so that no American would live in poverty.

But what sounds good in theory tends to break down when one looks at questions of implementation. There are serious trade-offs among cost, simplicity, and incentive structure. Attempts to solve problems in one area would raise questions in others.

A universal basic income would be simple to implement, but would cost far more than the current welfare system. A negative income tax might be affordable, but would likely be complex, and it would potentially discourage work. A wage supplement like the EITC could encourage work, but it would not be universal, and therefore it could not fully replace the current welfare system.

This does not mean that we should reject the idea in its totality. But it does mean that we should proceed slowly and with caution in evaluating or implementing any such proposal. There are simply too many unanswered questions.

Small steps in the right direction could be undertaken in the short term. For example, the federal government could consolidate its current amalgam of programs, and both federal and state governments could provide more benefits in the form of cash payments rather than in-kind benefits. Doing so would provide some of the benefits ascribed to guaranteed national income proposals, while providing time to consider whether a larger-scale program could be successfully implemented.

Opponents of the welfare state have long criticized its supporters for believing that good intentions justified even failed programs. In considering some form of a universal basic income, we should avoid falling into the same trap.

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