One and One-Half Cheers for a Basic-Income Guarantee

We Could Do Worse, and Already Have

MICHAEL MUNGER

P.J. O'Rourke is a humorist, but he makes an interesting claim, a brief but compelling knockdown argument, for a basic-income guarantee (BIG):

> The elites who denounce poverty despise the poor. Their every high-minded, right-thinking "poverty program" proves this detestation—from the bulldozing of vibrant tenement communities to the drug law policing policies that send poor kids to prison and rich kids to rehab to the humiliation of food stamps and free school lunches to the loathsome inner-city public schools where those free lunches are slopped onto cafeteria trays.
>
> The federal government has some 50 different "poverty programs." Nearly half a trillion dollars is spent on them each year. That's about $11,000 per man, woman, and child under the poverty line, enough to lift each and every one of them out of poverty. (U.S. Department of Health

Michael Munger, director of the Philosophy, Politics, and Economics Program and professor in the Departments of Political Science and Economics at Duke University, is co-editor of *The Independent Review.*

The Independent Review, v. 19, n. 4, Spring 2015, ISSN 1086–1653, Copyright © 2015, pp. 503–513.

> and Human Services 2011 poverty guideline for a family of three: $18,530.) We call them "poverty programs" for a reason. If ordinary people with down-to-earth common sense were spending that half trillion, we'd call them "modest prosperity programs." (2012)

There are two parts to the argument, each important. First, our society is already spending enough money to *solve* the problem of poverty and make all the poor "moderately prosperous," even accepting a standard of "poverty" that would be upper middle class in most of the world. Second, separate from the issue of wasting the cash, some "antipoverty" programs are aggressive, life-arranging, paternalistic, Big Brotheresque, police-state efforts at control rather than aid.

All too often the "other side"—my side—loses this debate because we say that doing *nothing* is better than having a welfare state. Then we get told we must hate the poor. The irony is exquisite, as O'Rourke points out: the folks who advocate for programs to aid the poor because they want to *do something* are the ones who *say* they care about the poor, but their programs actually *hurt* the poor. Reminds me of the old country song, "Let's do something, baby, even if it's wrong."

It's fine to argue, on the merits, that doing nothing is better than the programs we have established. But developed nations around the world have chosen to provide a "social safety net" to the least well off. This is a *political* decision, with all the difficulties that the term *political* suggests for explanation and analysis. My approach in this paper starts from the old "Chicago school" premise: accept as *given* that the United States has already decided to create a social safety net, so the economic analyst's role is simply to make recommendations about how to accomplish that goal with the largest benefits and the fewest distortions.

As the title of this essay suggests, I have concluded that a BIG satisfies those criteria. The delivery of benefits is maximal, and the distortions caused by the program are minimal. My BIG program proposal is an exchange:

(a) The state and federal governments will scrap a long list of existing programs (purportedly) designed to equalize income or to provide a safety net for the least well off. One of these scrapped programs would be the minimum wage, which would no longer be necessary.

(b) In exchange and in a once-and-for-all replacement, a comprehensive BIG would be implemented as a single cash-payment replacement.

There are two obvious objections that I do not address in the body of the paper, so I consider them first. One is *feasibility:* "That could never actually happen." The second is *liberty:* "Choice? You think we want to give people choices? They can't *handle* choices!"

Feasibility: The BIG proposal can't be blamed just because it wouldn't be implemented. I recognize that it will be difficult to give up the whole dog's breakfast of different programs that elites and political officials now use to claim credit and buy votes. My argument is a claim about efficient and freedom-enhancing policy; political feasibility is a consideration that rests on whether people can be persuaded. It may be true that a BIG would be placed on top of the pile of existing transfers rather than replace them, but then that's not the proposal I am considering here. Making the argument that politicians won't implement the proposal is the sort of thing you might hear in high school debate class: you can't win on the merits, so you change the question.

Liberty: The objection that people can't be trusted to make their own choices is simply inconsistent with democracy. It may be true that if we give people choices, some will make bad ones. But increasing poor people's capacity will mean that they have choices to make, and some of them—perhaps many—will recognize that for the first time they are being entrusted with responsibility.

It's an old problem: Should we give poor people an in-kind transfer (say, food) or an amount of money equal to the *cost* of that transfer? Given the fungibility of money and with subjective autonomy granted to citizens, the recipients of the cash have to be at least as well off as the recipients of the food because the first group can buy the food if that is what is best for them. But they can also buy *something else* if that is what is better *for them*. It may not be objectively better, and the life arrangers who want to impose their own values on the poor will squeal at this grant of dignity and autonomy to people they scorn. It is much more expensive to try to force people to buy what we want them to want than to let them make their own choices. Not surprisingly, food stamps and other in-kind vouchers are then often sold on the black market at a substantial discount, reducing the benefit actually received.

James Buchanan objects to the whole objectivist approach: "There are obviously many reasons why the [individual] may not evaluate alternative [payments] in the same way that the applied welfare economist evaluates them" (1979, 54). Richard Wagner argues in the same vein: "[It is a] curious piece of vocabulary that affixes the designation 'individualistic' to an analytic construction in which people are manipulated as objects at the disposal of some type of despot, who is presumed to be benevolent by virtue of being named 'Social Welfare Function'" (1985, 386). Transferring money gives people what they want, rather than what the Social Welfare Function "wants" them to want.

Overview

Two substantive objections are commonly made against a BIG or a negative income tax: too expensive and ineffective. The first objection is a factual claim; the second is a comparison of the goals of such a program to what it actually delivers. These objections are important, and answering those objections will take up the bulk of the remainder of this essay.

The paper has four parts. First, I present background and definitions. Second, I address the claim that a BIG is too expensive, arguing that in fact a BIG would be considerably cheaper than our current array of subsidies, transfers, in-kind payments, and set-asides. Third, I work out an example that shows that a BIG program might be implemented without the astronomical (net) spending increases critics often allege. Finally, I take a step back and ask what the goals of a system of "social insurance" should be and present briefly an argument for why minarchist libertarians should embrace a BIG as the best feasible alternative.

Background and Definitions

- A basic-income guarantee (BIG) program is a negative head tax, a lump-sum payment simply for being alive. There is no means test or work requirement. This means that it has all the "good" properties—in terms of efficiency and absence of distortion—of any head tax.[1]
- A negative income tax (NIT) program is one means of implementing a BIG. I generally use the two terms interchangeably because I am proposing to pick a NIT to implement a BIG. The infrastructure, in the form of the U.S. Treasury Department and its tax-collection agency, the Internal Revenue Service, is already set up to perform these functions, so little new bureaucracy or rule making would be required.

The advantage of having a negative lump-sum tax, or (in Thomas Paine's words) "ground rent" payment, is that it is not contingent on work or failure to work or on income level. This advantage has long been recognized in positive tax schemes, and it is equally true for negative tax schemes (but see Schoenblum 1995 for a general counterargument). This summary seems apt: "The most efficient tax system possible is one that few low-income people would want. That superefficient tax is a head tax, by which all individuals are taxed the same amount, regardless of income or any other individual characteristics. A head tax would not reduce the incentive to work, save, or invest. The problem with such a tax, however, is that it would take the same amount from a high-income person as from a low-income person. It could even take the entire income of low-income people" (Minarik n.d.). Even if one credits these objections to a positive tax, the drawbacks become benefits to a NIT or a BIG. All the advantages—efficiency in the sense of minimizing distortion—carry through, but the bug becomes a positive feature: a *payment* of a few thousand dollars will have very little effect on a wealthy person, but the same-size payment to a very poor person might substantially improve his or her welfare. Of course, the result might

1. Lump-sum or "head" taxes are the least distortive of all taxes precisely because their amount is fixed and does not change in response economic station or work effort. See, for a review, Graaf 1987, 251–52.

be a reduction in his or her incentive to work through the income effect, but there is no distortion in prices.

Again, as a reminder to the reader, I am not taking up the question of whether such payments should be made at all because that's settled. I am taking the choice of making "welfare" payments as having been settled—in the affirmative—and am considering means of accomplishing that goal that are efficient and consistent with liberty. With the basic approach established and some historical background described, I turn now to the problem of efficiency.

Cost Savings and Efficiency

As O'Rourke has pointed out, there *can't* be any poor people in the United States. His proof is that if we take the total amount spent on poverty programs and divide it by the number of people in poverty, the income per capita is above the poverty line. QED. But the money is not reaching the poor.

And the numbers back him up. Michael Tanner sums up the problem this way: "[T]his year the federal government will spend more than $668 billion on at least 126 different programs to fight poverty. And that does not even begin to count welfare spending by state and local governments, which adds $284 billion to that figure. In total, the United States spends nearly $1 trillion every year to fight poverty. That amounts to $20,610 for every poor person in America, or $61,830 per poor family of three" (2012). If a family of three were actually receiving the money, that $61,000 would put it well above *average* income. What gives?

Well, we do. Taxpayers. Poor people aren't receiving the money, but we are definitely spending it. The money gets diverted into administration, being spent on in-kind rather than direct assistance and used to fund very expensive meetings where very smart people sit and worry about what to do about poverty.

To be fair, Tanner's estimate of "poverty" programs includes a substantial component that are health-care subsidies, with the largest being Medicaid ($228 billion per year). Adjusting his figures to remove the health-care portion reduces total expenditures to about $700 billion per year, which for a population of 50 million "poor" Americans gives a figure of about $14,000 per person in spending. For a family of three, this would be $42,000 per year—again, above the official poverty line of about $20,000 (U.S. Department of Health and Human Services 2014) but less than the average family income.

In other ways, Tanner's figure is a substantial underestimate because he is focusing on transfers. But there are other programs whose costs are hard to estimate that are also designed to help the poor. Two important examples are minimum-wage laws and mass-transit systems. Measuring the effects of minimum-wage laws is difficult, but there is no question that the combination of a relatively high minimum wage and unemployment compensation that is explicitly contingent, dollar for dollar, on the recipient remaining unemployed acts as a devastating one–two punch on the young people growing up in urban poor families. The effect is far less significant for white or middle-class young people, according to the U.S. Bureau of Labor Statistics (2014). In July 2014, the overall youth unemployment rate was 14.3 percent (though the participation rate is only 58 percent, so there are many young people who are not even looking for work and are thus not considered "unemployed"). For black males, however, the unemployment rate is more than 25 percent, meaning that there is no job to be had for fully one-quarter of those young black men actively looking for work. Getting rid of the minimum wage would open up more jobs to those who want them, and getting rid of the "work penalty" in welfare programs would encourage more people to go out looking in the first place.

The proposal for a BIG, in short, would not include programs for health care because that is actually insurance and a separate problem. But the BIG would replace all programs that transfer money to, subsidize, or regulate prices charged to the poor. I am using O'Rourke's logic, if not his numbers: convert all those programs to their cash cost, give the poor the cash, and declare victory in the war on poverty. And then because there is enough left over to declare a dividend, remit the rest to taxpayers.

An Example

Of course, it may not be easy to envision exactly how all this might work. The key for a successful BIG is, after all, a universal "ground rent," a payment just for being alive. This is the essential feature of a "head tax": everyone who has a head has to pay. For a BIG, everyone who is a citizen would *receive* the payment, regardless of their income, because a BIG is a negative head tax.

There are two caveats. First, illegal residents would not receive a BIG. Otherwise, the incentive for illegal immigration by the very poor would be overwhelming. Second, anyone convicted of a crime would forfeit his or her BIG for the time he or she is in jail. Otherwise, all citizens of all ages would receive a BIG.

To see how this might work, consider a five-person society with widely different incomes. Assume that at the outset the (moderately progressive) tax system works as follows:

- First $16,000 exempt
- Income $16,001 to $100,000 taxed at 20 percent rate
- Income greater than $100,000 taxed at 30 percent rate
- Anyone with income less than $16,000 receives welfare payments to raise him or her to $16,000, the individual "poverty line"

Then the pattern of incomes might be like those for the five hypothetical people in table 1. In this system, the five citizens have varying levels of income. The welfare

Table 1
Work and Welfare

	Gross Income	Taxes	Transfers	BIG	Net Income
Person 1	$500,000	$136,800	$0	$0	$363,200
Person 2	$200,000	$46,800	$0	$0	$153,200
Person 3	$100,000	$16,800	$0	$0	$83,200
Person 4	$10,000	$0	$6,000	$0	$16,000
Person 5	$0	$0	$16,000	$0	$16,000
		Tax Revenue: $200,400	Total: $22,000	$0	
Net Government Revenue: $178,400					

system (there is no BIG) pays up to $16,000, with a dollar-for-dollar compensation for wages or salary earned. Since Persons 1, 2, and 3 make more than $16,000, they receive no welfare payments. Person 2 works and earns $10,000 and so receives $6,000 in welfare payments. Person 5 does not work at all and receives $16,000 in welfare payments. Net government revenue, after paying for welfare payments, is $178,400 to be used for providing national defense and other public goods.

Of course, Person 4 starts wondering whether it is worth it to work because he will earn exactly the same $16,000 if he quits his job. He doesn't wonder long; he quits. And the government ponies up the difference, as in table 2.

This means that government revenues collected for the provision of public goods have now shrunk to $168,400, and the size of private output is also reduced by $10,000. This loss in revenue and productivity lead this little country to consider replacing its current welfare system with a BIG. The broad outline of what it comes up with is shown in table 3.

Of course, the huge extra expense of providing every citizen with $16,000 of tax-free income swamps the budget and requires some changes to the tax code. The little country's government decides to try to make the change approximately revenue

Table 2
Person 4 Gives In to Incentives, Stops Working

	Gross Income	Taxes	Transfers	BIG	Net Income
Person 1	$500,000	$136,800	$0	$0	$363,200
Person 2	$200,000	$46,800	$0	$0	$153,200
Person 3	$100,000	$16,800	$0	$0	$83,200
Person 4	$0	$0	$16,000	$0	$16,000
Person 5	$0	$0	$16,000	$0	$16,000
		Tax Revenue: $200,400	Total: $32,000	$0	
Net Government Revenue: $168,400					

Table 3
BIG, Step 1—Retain $16,000 Exemption, Same Tax Rates

	Gross Income	Taxes	Transfers	BIG	Net Income
Person 1	$500,000	$141,600	$0	$16,000	$374,400
Person 2	$200,000	$51,600	$0	$16,000	$164,400
Person 3	$100,000	$21,600	$0	$16,000	$94,400
Person 4	$0	$0	$0	$16,000	$16,000
Person 5	$0	$0	$0	$16,000	$16,000
		Tax Revenue: $214,800	Total: $0	Total: $80,000	
Net Government Revenue: $134,800					

neutral, still collecting about as much tax revenue for provision of public goods as before. Here is what it comes up with.

- No exemption; first-dollar taxation at 20 percent rate
- Income greater than $100,000 taxed at 32 percent rate
- Universal $16,000 BIG, paid out as a NIT

Of course, the fact that there is a 20 percent tax on the first dollar of income means that the BIG is actually only $12,800 rather than $16,000. But the citizens agree that it is useful for everyone to have a sense of contributing and "skin in the game." It is absurd to try to run a national fiscal system where at least 40 percent or more of the citizens pay no federal income taxes. People voting on spending pay no part of the cost of that spending. It would be "representation without taxation," reversing the old Revolutionary War complaint. The advantage of my alternative is that everyone all the way down would have some "skin in the game."

The resulting new system would look like what is shown in table 4. One thing to notice is that Person 4 goes back to work. Because there is no penalty for working, he

Table 4
BIG, Step 2—First Dollar Taxation, Raise Top Rate to 32 Percent

	Gross Income	Taxes	Transfers	BIG	Net Income
Person 1	$500,000	$153,120	$0	$16,000	$362,880
Person 2	$200,000	$57,120	$0	$16,000	$158,880
Person 3	$100,000	$25,120	$0	$16,000	$90,880
Person 4	$10,000	$5,200	$0	$16,000	$20,800
Person 5	$0	$3,200	$0	$16,000	$12,800
		Tax Revenue: $243,760	Total: $0	Total: $80,000	
Net Government Revenue: $163,760					

is now fully able to earn money (and pay taxes) like other citizens without being punished for it. Second, the overall incomes of the three larger income earners is changed a little, but not substantially, compared to the figures shown in table 1. Person 1 makes (slightly) less than before, and Persons 2 and 3 make slightly more, even after taxes. Finally, total revenue for public-goods provision, or the tax payment left over after the BIG is paid for, is down about $15,000, or about 8.5 percent, compared to the public-goods provision shown in table 1 and the welfare system. This amount is pretty small, countering the allegations often made by critics that a BIG would be so expensive that it is simply infeasible. That might be true if we were trying to increase incomes for everyone by a net amount of the BIG (in my example, $16,000 or $12,800). But there is no need for that to be true. A BIG is simply a negative head tax or a change of $12,800 (in my example) in the standard deduction on the 1040 Form. It is easy to choose a combination of exemptions and tax rates that would make the *net* effect very close to zero for most people.

My example shows, by design, the BIG in the worst possible light. The first system, the welfare system, operates with perfect efficiency and zero administrative costs. Every dollar taken from taxpayers goes to the poor, all 100 cents of it. But the argument for a BIG rests on the claim that in reality there are huge inefficiencies in the delivery mechanism. I left those inefficiencies out of my example to show that even if you assume there are no efficiency gains of any kind (except that Person 4 goes back to work!), a BIG would have a negligible effect on taxpayers' total incomes and on the net revenue the government uses to pay for public goods that citizens care about.

Larger Goals, Larger Themes

As I have argued elsewhere (Munger 2011), some libertarians are destinationists, and some are directionalists. The *destinationist* judges on whether a proposal fully satisfies two conditions: *(a)* self-ownership, with unrestricted rights to control and alienate both one's own body and the products of one's labor; *(b)* no initiation of force, even if such force would have net social benefits in consequentialist terms.

The *directionalist* approves any move that increases self-ownership and harms no one. This approach is "weak Pareto": any policy that increases the liberty and welfare of one or more individuals while making no one less free or less well off is an improvement on the status quo. The directionalist, if presented with several alternatives, would want to choose the alternative that enhances liberty and welfare the most.

Destinationists identify *ideal policies,* using ideal theory. Directionalist libertarians *identify a path* that leads from the status quo *toward* ideal policies, using pragmatic and consequentialist considerations.

With this background, we can evaluate the argument for a BIG. James Buchanan and Roger Congleton (1998) provide this justification. The (explicitly Kantian) "principle" referred to in the title of their book *Politics by Principle, Not Interest* is the "symmetry principle": anything given to one must be given to all. To be fair, Buchanan and Congleton are developing a clear implication of F. A. Hayek's (1960) "generality principle." Niclas Berggren (1999) provides additional arguments for why imposing the restriction of the generality principle is one means of achieving outcomes that are—though by no means perfect—capable of resolving most conflicts over redistribution.

Interestingly, this argument does not call, at least not primarily, for a reduction in the size of government but rather for a restriction of the government's set of activities or jurisdiction for decision. A nation that implemented the Buchanan and Congleton scheme might, in principle, have a very large government or even a universal basic-income program. The difference is that the choice of welfare policy would be made under the restrictions imposed by the symmetry principle.

Milton Friedman ([1962] 2002) and Charles Murray (2006) have also elaborated the benefits of basic income as a public-choice system. Friedman outlines his "negative income tax" (I'm paraphrasing) this way:

- First, taxpayers could pay less and the poor could receive more for any given amount of money to be transferred. Much of the enormous apparatus of administration could be scrapped.
- Second, calculating the cost of the in-kind benefit and then giving *that benefit* in cash instead may be superior or cannot be worse. The poor person can buy the bundle that would have been provided in kind if in fact that is what she or he most prefers.
- Third, a recipient of aid is more likely to act responsibly and more carefully in allocating the funds among alternative uses. Rather than depending on the state to fulfill *needs,* the recipient of cash payments relies on the state to provide *means,* allowing the recipients to retain the autonomy to choose what needs those means will be used to meet.

Switching from the current system to a basic-income system would save money on the spending side, increase the amount received by recipients, and increase the recipients' liberty and autonomy at the same time. Depending on how the changeover was managed, a move to basic income could be either weakly Pareto superior (most indifferent, some better off) or strongly Pareto superior (everyone better off) *compared to the current regime.*

Of course, the destinationist will find this argument unpersuasive. All imperfect outcomes (i.e., those that differ from what might exist in the destinationist's unconstrained imaginative vision!) are equally unacceptable. And so I expect that my argument will be of little use in converting destinationists to support a BIG. My argument is addressed to directionalists: a BIG implemented through a NIT is far better than our existing system.

We could do worse. And we already have.

References

Berggren, Niclas. 1999. A Preference-Utilitarian Foundation for the Generality Principle. *Constitutional Political Economy* 10, no. 4: 339–53.

Buchanan, James M. 1979. *Cost and Choice: An Inquiry in Economic Theory.* Chicago: University of Chicago Press.

Buchanan, James M., and Roger Congleton. 1998. *Politics by Principle, Not Interest: Towards Nondiscriminatory Democracy.* New York: Cambridge University Press.

Friedman, Milton. [1962] 2002. *Capitalism and Freedom: Fortieth Anniversary Edition.* Chicago: University of Chicago Press.

Graaf, Johannes de Villiers. 1987. Lump Sum Taxes. In *The New Palgrave: A Dictionary of Economics,* 3:251–52. New York: Palgrave-Macmillan.

Hayek, Friedrich A. 1960. *The Constitution of Liberty.* Chicago: University of Chicago Press.

Minarik, Joseph. n.d. Taxation. In *Liberty Fund: The Concise Encyclopedia of Economics.* Available at http://www.econlib.org/library/Enc/Taxation.html.

Munger, Michael. 2011. "Basic Income" Is Not an Obligation, but It Might Be a Legitimate Choice. *Basic Income Studies* 6, no. 2 (December): 1–13.

Murray, Charles. 2006. *In Our Hands: A Plan to Replace the Welfare State.* Washington, D.C.: AEI Press.

O'Rourke, P. J. 2012. They Hate Poor People: The Liberals' Dirty Little Secret. *Weekly Standard,* January 30.

Schoenblum, Jeffrey A. 1995. Tax Fairness or Unfairness? A Consideration of the Philosophical Bases for Unequal Taxation of Individuals. *American Journal of Tax Policy* 12:221–72.

Tanner, Michael. 2012. *The American Welfare State: How We Spend Nearly $1 Trillion a Year Fighting Poverty—and Fail.* Cato Policy Report no. 694. Washington, D.C.: Cato Institute. Available at http://www.cato.org/sites/cato.org/files/pubs/pdf/PA694.pdf.

U.S. Bureau of Labor Statistics. 2014. *Employment and Unemployment among Youth—Summer 2014.* USDL-14-1498. Washington, D.C.: U.S. Department of Labor, August 13. Available at http://www.bls.gov/news.release/youth.nr0.htm.

U.S. Department of Health and Human Services. 2014. *2014 Poverty Guidelines: One Version of the* [*U.S.*] *Federal Poverty Measure.* Washington, D.C.: U.S. Department of Health and Human Services. Available at http://aspe.hhs.gov/poverty/14poverty.cfm.

Wagner, Richard E. 1985. Normative and Positive Foundations of Tax Reform. *Cato Journal* 5 (Fall): 385–99.

Acknowledgments: I am grateful for the useful comments from Jonathan Anomaly, William Keech, and Robert Whaples. Remaining errors are mine alone, however.