Skeptical Thoughts on a Taxpayer-Funded Basic Income Guarantee

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In this issue of *The Independent Review*, Matt Zwolinski and Michael Munger have collectively given a basic-income guarantee (BIG) four and a half cheers. I am less cheerful and more skeptical. This skepticism begins with David Henderson's (2015) point that the BIGs they propose are extraordinarily expensive and might undermine the already frail fiscal health of the U.S. government, which is currently staggering down the road toward default (Henderson and Hummel 2014). But I am also skeptical about the intellectual underpinning of the BIGs they have laid out in this symposium.

Zwolinski makes an original, thought-provoking argument that because private property itself is coercive—after all, it arises when individuals metaphorically fence off unowned land and threaten trespassers with bodily harm—owners of this land (and their heirs) owe everyone else a payment for the common property they have seized. This argument has considerable merit, and Zwolinski's defense of it is both serious and adroit. However, it doesn't fit well enough with the facts of our modern economy. The U.S. Federal Reserve estimates that in 2013 the households and nonprofit organizations in the United States owned assets worth $92.7 trillion, of which $22.3 trillion was real estate (Board of Governors 2014, 117). Karl Case estimates that in recent decades structures have made up about 70 to 80 percent of the value of real estate (2007, 128). Thus, the land itself is worth about $5.6 trillion, or roughly

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6 percent of the value of all assets. If 6 percent of the value of goods and services annually produced in the country were meted out in the form of a BIG, this would amount to $1.04 trillion, which is only $3,300 per person (or $4,300 per adult) per year. This amount is well less than the amount favored by Zwolinski (about $10,000) and is far less than the $16,000 or $12,800 BIG level envisioned by Munger—and is not likely to lift many out of poverty. Land simply constitutes too small a proportion of wealth in our economy. It should also be noted that landowners already pay everyone else for their seizure of this asset in the form of property taxes. State and local property taxes in 2013 equaled $488 billion (U.S. Census Bureau 2014). If about 75 percent of this amount is a tax on improvements and the rest is on the underlying land, about $122 billion should be subtracted from any debt owed to everyone else.

In a modern economy in which human capital plays such a vital role, it might make much more sense to provide the safety net as a basic *educational* guarantee rather than a basic-income guarantee. And in a sense, this is exactly what we do. The National Center for Educational Statistics (2014) reports that expenditures per public-school student in the United States averaged $12,608 per student in 2010–11, which adds up to an astounding $163,800 over the thirteen years from kindergarten to twelfth grade. Granted that not everyone accesses this grant (e.g., homeschoolers and privately educated students, dropouts, and those immigrating later in life), and granted that this money is spent very inefficiently, so that it would probably make much more sense to provide parents with educational vouchers rather than to produce education through government-run monopoly schools, under the Lockean logic of a payment to all in compensation for past land seizures, it cannot be ignored that educational expenditures already fill this role to a fair degree.

Although the Lockean logic of payments for land seizures may (or may not) make sense when applied to the Old World, it is also not clear that it would readily apply to the United States. Individual landowners in the United States didn't simply seize commonly owned land and force interlopers to stay out. During the colonial era, the English monarch granted American land to politically connected individuals and groups. This transfer of wealth generally went to wealthy aristocrats in Britain—not to Americans. The actual settlers of the land were usually required to pay for it or were given the land because they would later pay fees for owning it or both. Colonists found land that was often virtually unoccupied (largely because Old World germs had inadvertently wiped out much of the New World population), and their sense of justice was that this unused land could rightly be occupied and improved without needing to compensate anyone. Whether you agree with their logic or not, Zwolinski's BIG isn't targeted at Native Americans and others who were denied access when land was appropriated. After the colonial period, owners of newly seized land obtained it mainly by purchase (or for services rendered, such as military enlistment), this time from the U.S. government. Once again, they didn't simply seize it (although some squatters did).

Munger, in contrast, recognizes the political reality of transfers to those with lower incomes and is interested mainly in the most effective means of such a transfer, favoring a BIG because giving benefits in cash instead of in our current mishmash of in-kind programs (citing Friedman) "may be superior [to] or *cannot be worse*" than the current system (2015, 512, emphasis added). This conclusion assumes far too much. Cash transfers *can* be worse.

How does someone become poor in a land of opportunity? (Probably not by being Peter the Propertyless Proletarian because there are, in fact, many, many employers willing to bid for any individual's labor.) One route to poverty is incompetent or neglectful parents, who don't nurture their children's moral, intellectual, and physical development. One of the in-kind transfers that P. J. O'Rourke derides in the opening quote in Munger's essay is taxpayer-provided school lunches. Munger would rather the money go directly to parents, without acknowledging the fact that they might spend it directly on themselves, leaving their children hungry and malnourished. Are poor kids likely to be as well fed if their parents get cash rather than free meals for their kids at school? That's an *empirical* question, which cannot be assumed away. Another route to poverty is the bad luck of genetic and health-related problems. Americans are especially open to transfers in such cases, sensing that these handicaps merit more than a BIG. Perhaps the most common route to poverty is repeated, short-sighted, ill-considered choices—such as dropping out of school, consuming alcohol and drugs in excess, developing bad work and health habits, breaking the law, wasting resources on unneeded items while neglecting basic needs, and getting into unstable and abusive personal relationships. If making many mistakes is a significant cause of poverty, is it not likely that mistakes will be made with a cash BIG more so than with in-kind transfers, such as school lunches? The assertion that "the recipients of the cash *have* to be at least as well off as the recipients of the food" (Munger 2015, 505, emphasis added) simply assumes the problem away.

Munger and Zwolinski seem especially suspicious of all the strings attached to traditional welfare programs, in particular rules that were in place before the launch of Great Society programs. Traditional welfare programs may be "demoralizing," but consider the old-fashioned assertion that if there's a man in the house, he (rather than taxpayers) should be the means of support. Does this requirement actually demoralize? Does it corrupt *morals*? It was only after such concerns were pushed aside that an explosion of out-of-wedlock births and fathers shirking their parental duties occurred.

Munger argues that there are "two substantive objections . . . commonly made against a BIG . . . [that it's] too expensive and ineffective" (2015, 505). This argument omits another common objection—lack of merit. The classical liberal view generally argues that adults are not only capable of taking care of themselves (and those they bring into the world) but also morally responsible for pulling their own weight when they can. In this case, it is the duty of a free and independent adult to contribute to the collective enterprise—for example, by paying taxes to support defense and other public goods. If so, almost everyone should pay some taxes. As

Munger notes, it would be "absurd to try to run a national fiscal system where at least 40 percent or more of the citizens pay no federal income taxes" (2015, 510). Yet this is the system that we already have—43 percent of American households paid no federal income taxes in 2013 (National Tax Center 2013). (This fraction peaked at 50 percent in 2009 and is expected to decline to less than 40 percent in 2016 if temporary provisions are not renewed.) A BIG seems to be taking us in the wrong direction under this traditional logic of classical liberalism.

These figures are a symptom of the fact that the United States already has a substantial welfare state, which Zwolinski, Munger, and many readers of this journal rightly see as dysfunctional. Zwolinski suggests that "despite massive expenditures by the welfare state," we have lost the war on poverty because "the problem of poverty in America remains a serious one" (2015, 516). Proponents of this view often point to the official U.S. poverty rate, which equaled 14.5 percent in 2013 (U.S. Census Bureau n.d.).

This official statistic is not, however, an adequate benchmark of poverty. In fact, it (purposely?) leaves out all transfers in calculating the poverty rate, a detail that most commentators blithely ignore. If the same procedure were applied to a BIG, it wouldn't reduce the official poverty rate either. More importantly, this assertion has things backward. It would be more accurate to argue that despite the massive expenditures by the welfare state, we have *won* the war on poverty—a battle that we were steadily winning before "war" was officially declared in the 1960s.

As Bruce Meyer and James Sullivan document, although the official poverty rate rose from 1980 until 2010, a better measure of poverty that includes the impact of taxes, transfers, and well-known biases in the Consumer Price Index shows that the poverty rate continued to fall (2013, 57, table 1). Consumption-based poverty measures fell even more, reaching 3.6 percent in 2010. Likewise, the American Housing Survey and the Consumer Expenditure Survey of the U.S. Census show in recent decades that those people in the bottom 20 percent of the income distribution made major strides in material well-being, including a rise from 41 to 83 percent of those living in a household with air conditioning from 1981 to 2009, respectively; large increases in the percentage of those with dishwashers, clothes washers, and clothes dryers; strong increases in the square footage of housing per person; and a substantial rise in automobile ownership (Meyer and Sullivan 2011, 44). The primary driver of these gains has most likely been the ongoing growth in the U.S. economy, which has lifted real wages and made food, manufactured goods, and most services more and more affordable, even though the expanding welfare state has weakened incentives to work due to high implicit tax rates for those receiving government benefits (Mulligan 2012). To its credit, a BIG would not act like a glue trap, keeping the unsuspecting mouse who wanders into it from ever escaping, but the contention that there are high levels of absolute poverty in the United States is hard to sustain.

Zwolinski's argument that everyone deserves a substantial BIG because it rights ancient wrongs ultimately stands on boggy ground. I believe that the truly poor do deserve assistance, but for a different reason—simply because they are human beings. As Robert and Elizabeth Bernard Higgs graciously put it in their essay in this issue, "[C]ompassionately given assistance, especially when given with kindness in caring, one-to-one relationships, holds the potential to bring its beneficiaries to an understanding of themselves as better people than they might have imagined themselves to be—sufficiently better that they become willing to set their feet on a truly promising path toward self-respect, self-responsibility, and self-support if their capacities permit" (2015, 629).

We live in a world where the rich have much more than they need—too much in many cases. The same is true, however, for the vast middle class as well as for many who are considered poor in official statistics. Note that currently nearly two-thirds of households below the official poverty threshold have cable or satellite TV (Rector and Sheffield 2014). The average poor American has more living space than the average individual living in Sweden, France, Germany, or the United Kingdom (Rector and Sheffield 2014). In fact, Branko Milanovic calculates that the incomes of the poorest 5 percent of Americans situate them at the sixty-eighth percentile of the world income distribution (2010, 117). Who would not be better for voluntarily giving compassionate assistance to fellow humans in need? We should strive to outdo ourselves in such generosity.

Because the truly poor deserve assistance, the question turns to whom to help, what types of help to give, and how much to give. The point that simple cash transfers often work better than in-kind transfers is a powerful prediction of many economic models, but questions of how to help deserve much deeper consideration. Any big policy change, such as a big BIG, deserves *cautious* consideration (see Rescher 2015) because there are so many unknown contingencies and interconnections and especially because such changes are so often irreversible.

I will close here by echoing Henderson's point that many practical time-tested ideas that are less drastic than adopting a BIG can be implemented to reduce injustice in the United States. Many of them might be (and are being) adopted as public policies—for example, increased competition in education, especially via educational vouchers; an end to corporate welfare; an end of most occupational licenses and monopolies; and an end to policies that pad the costs of health care and health insurance. But these changes will probably have minor impacts in comparison with deeper cultural reforms—especially those that will renew traditional advocacy for the ideal that men must support and nurture their families.

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