
CHAPTER 2

# Universal Basic Income and Its More Testable Sibling, the Negative Income Tax

**Abstract** This chapter defines and explains the workings of Universal Basic Income and its more easily testable cousin, the Negative Income Tax.

**Keywords** Basic income • Universal Basic Income • Unconditional basic income • Negative Income Tax • Basic Income Guarantee • Inequality • Poverty

UBI is commonly defined as a periodic, cash income paid individually to all members of a political community without means test or work requirement.[1] UBI is also commonly understood to be regular, stable in size, and lifelong, although it might be lower for children or higher for people of retirement age. This definition probably reflects the most common usage of the term, but UBI is a contested concept that is used differently in different political contexts and by different people in the same context.

Under this definition, every citizen of a nation (or every legal resident of a region) receives a regular income from the government (or some other authority) regardless of whether they have any other income, wealth, potential for employment, and so on.

[1] The Basic Income Earth Network defined UBI this way at its 2016 meeting in an effort to reflect common usage.



K. Widerquist, *A Critical Analysis of Basic Income Experiments for Researchers, Policymakers, and Citizens*, Exploring the Basic Income Guarantee, https://doi.org/10.1007/978-3-030-03849-6_2

Many of the claimed benefits of UBI depend on it being high enough to live on or even enough to live in dignity and social inclusion. If we want to test those claims, we need to test that level of UBI. Experiments have tended to focus on some conception of "enough," but not always one that all UBI supporters would agree is adequate.

Some people subtract the criteria that UBI is paid individually and without a means test. That is, a grant paid to a household and phased out as income rises. NIT is the more common name for a program that lacks those two criteria but otherwise guarantees a basic level of income. The second characteristic (that it is paid at the household level) follows from the first because most households pool their income and pay taxes as a unit.

Not everyone recognizes the distinction between NIT and UBI. For example, in Canada, the terms "basic income" and NIT are often used equivalently, and the NIT version under the name "basic income" currently dominates the discussion among policymakers, although that terminology is controversial among Canadian supporters.

The NIT is important to any discussion of UBI experiments because—as later chapters show—the differences between NIT and UBI make NIT more easily testable in an experiment.

That's all there is to UBI in the definitional sense, but it has an additional inherent feature necessary for its operation: UBI has to be financed with taxes or it will cause rampant inflation. Conceivably UBI could be financed by some enormous jointly owned asset, but in most political contexts, such an asset could not be created without introducing new taxes, and so this book focuses on the tax-financed model.

Any UBI system is defined by two essential parameters: the "grant" or "guarantee" level, which is simply the size of the UBI, and the "marginal tax rate" or "take-back rate," which is the rate at which taxes gradually become larger than the UBI. Any tax could be used to support UBI. Popular options include income tax, wealth tax, sales tax, and resource tax (i.e. taxes on the rental value of privately owned natural or socially created resources such as land, the broadcast spectrum, and the banking system). Given the need to finance UBI (or face rampant inflation), the actual financial benefit any individual gets from the UBI system is its *net* benefit—the difference between what one receives in UBI and what one pays in taxes.

The income-tax-financed UBI is not necessarily the most popular version of the program, but it simplifies the mathematics and is, therefore, popular with researchers conducting experiments.

NIT is similar enough to an income-tax-financed UBI that the same mathematical formulas can be used to show the net benefit of both. (I'll spare you the math.) The difference is that under UBI, the grant stays the same as taxes increase, while under NIT, taxes remain zero as the grant (i.e. the "negative tax") is gradually reduced to zero—at the breakeven point—and only then are taxes (i.e. "positive taxes") introduced.

For example, for a $12,000 UBI or NIT with a marginal tax rate of 50%, an individual making no private income receives a net income of $12,000. An individual making $12,000 receiving a net income of $18,000, and an individual with a net income at the "break-even point" of $24,000 receives a net income of $24,000. Their UBI is equal to the taxes they pay on their income.

Some people argue that NIT and UBI are effectively the same policy with insignificant administrative differences. But others argue that the differences are important. Some differences are purely administrative: NIT saves the trouble of paying a UBI to net contributors and taking it back from the same people in taxes, but UBI saves the trouble of determining who is eligible at a moment's notice when someone suddenly loses their income. Presumably, people will have to apply for an NIT and prove that their income has gone down before they receive it. This process could be difficult for people in a sudden economic crisis, such as a divorce, the loss of a job, or the failure of a business. No such issue exists with UBI. It would be directly deposited into one's account regardless of whether taxes were also coming out of one's paycheck. As an individual grant UBI might make it harder for one spouse to dominate the family's income.

Terms such as "Basic Income Guarantee" (BIG) and "Guaranteed Income" are sometimes used generically as terms for both UBI and NIT. BIG ensures that everyone has a nonzero income whether or not they have private income. Either form of BIG can be used to maintain the same minimum guarantee level for people who have no other income.

The controversial question among supporters is whether the seemingly small administrative differences between the two policies are significant enough that one model should be preferred over another. This is a question that one would ideally want to address in a test, but later chapters will show, tests usually have to focus on NIT.

Either form of BIG represents a fundamental break with the traditional social welfare strategy. Although welfare systems vary greatly in their level of generosity, virtually all of them require individuals to meet specific conditions to be eligible for the vast majority of their programs. Potential

recipients must prove they are disabled to be eligible for one kind of program, unable to find a job to be eligible for another, injured to receive another, aged to receive another, working to receive another, and so on. Some programs, such as most countries' national health services, are universal and unconditional. BIG applies that unconditionality to large cash benefits.

UBI or NIT could replace a substantial portion of the existing welfare system. Exactly how many and which types of programs UBI could or should replace is a controversial question among supporters. A substantial UBI could most obviously replace income support for people with an ordinary level of need. It could not as easily replace additional income support for people with special greater needs, in-kind support for people who need special services, infrastructure, or public services (such as education and healthcare).

UBI needs to be tested in isolation. If researchers expose test UBI and some other policy (such as a new housing program) on the same people at the same time, their experiment won't reveal whether observed effects are attributable to UBI or to the other policy.