



# 12

## Alternatives to Basic Income

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### Introduction

Numerous alternatives to Basic Income have been proposed by both supporters and opponents of Basic Income. The current means-tested and social insurance benefits systems are deeply embedded existing systems which are frequently argued for as viable alternatives to Basic Income. This chapter studies four additional alternatives. Benjamin Leff describes one of the most substantial existing alternatives to Basic Income: the United States' Earned Income Tax Credit (EITC). He argues that the EITC could never be a true substitute for a Basic Income because it is work-tested, but that it could be reformed to achieve some of the benefits of a Basic Income by removing its family-status conditional aspects and making it individual, increasing its regularity of distribution, and removing its means-testing.

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Of the wide variety of currently unimplemented but possible future alternatives to Basic Income, Michael Story discusses Negative Income Tax and finds that it would be difficult to administer; Andrew Percy discusses Universal Basic Services—an expansion of existing public services into additional policy fields—and finds Universal Basic Services to be compatible with Basic Income; and Maciej Szlinder finds a job guarantee to be a generally unsatisfactory alternative.

In the context of this chapter, ‘alternative’ does not necessarily mean that Basic Income and the alternative provision exclude each other as possibilities, and it might mean that Basic Income and the alternative could complement each other. It would be perfectly possible for Basic Income to work well alongside existing means-tested and contribution-based benefits, as in the illustrative Basic Income schemes discussed in Chapter 11. If a Basic Income were to be implemented in the US, then the EITC would be somewhat redundant. Negative Income Tax really is an alternative in the sense that no government would ever implement both of them. Basic Income and Negative Income Tax deliver the same relationship between earned income and net income, so no government that had implemented one of them would then implement the other as well—although if they had implemented a Negative Income Tax and discovered its administrative complexity they might decide to replace it with a Basic Income scheme. A job guarantee and Basic Income could both be implemented at the same time, and similarly additional universal services could complement a Basic Income scheme, particularly if the Basic Income scheme were revenue neutral and did not raise income tax rates by more than one or two percentage points.

## Negative Income Tax<sup>1</sup>

**By Michael Story**

Globalisation has lowered the market value of many workers’ skills to the point that the clearing price for some labour cannot provide a growing proportion of the populations of more developed countries with an income that meets the popular definition of minimum living standards, even though it

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<sup>1</sup>Parts of this section of the chapter have been adapted from Story, M. (2015). *Free market welfare: The case for a Negative Income Tax* (London: Adam Smith Institute). The Adam Smith Institute’s permission to use this material is gratefully acknowledged.

has also contributed to cheaper consumption bundles. Current solutions to this are costly, ineffective, and overly complex, leaving many people stuck in poverty traps and financial insecurity. Means-tested benefits and social insurance systems assume stable employment and stable households, which are less and less the reality; means-tested benefits impose employment disincentives as they are withdrawn as earnings rise; finding employment after a period of unemployment will often leave a household on means-tested benefits; and national minimum wages impose negative employment effects, particularly among the least skilled workers (Neumark and Wascher 2006).

What qualities would a replacement for the existing welfare system need in order to avoid repeating the mistakes of the past? It should

- as far as possible replace costly alternative measures;
- if possible, provide a basic floor standard of living;
- be paid to individuals, not to households or heads of households;
- be as administratively simple and cheap to operate as possible;
- be secure and transparent to maximise the ability of claimants to plan and take risks;
- avoid work disincentives where possible;
- work with the grain of public opinion; and
- maximise personal freedom and choice without creating moral hazards or violating social norms.

The answer might be a Negative Income Tax.

First named the Negative Income Tax (NIT) by Milton Friedman (though similar schemes had been proposed before), the NIT is a tax and welfare scheme which replaces many other benefits. If poverty is a lack of income, then NIT tackles this head-on by providing that income. If a citizen earns nothing, the NIT is their entire income and is paid at the highest rate; as they earn more, the payment is gradually withdrawn until the citizen becomes a net tax contributor. The payment scheme is structured so that the claimant is always better off working more hours or earning more market income, but the withdrawal rate can be set at any level. By having one single payment which is withdrawn at a gradual rate, the incentive structure is transparent and easily understood, moral hazards and perverse incentives are avoided, and other means-testing bureaucracy is limited or non-existent.

Negative Income Tax experiments were carried out in the United States during the 1960s–1970s, conducted by Dick Cheney and Donald Rumsfeld. These are of particular interest as they covered different population groups: urban and rural, single parent and dual parent families,

working poor and welfare recipients. The Canadian ‘Mincome’ experiment of the same era was also a Negative Income Tax experiment, and not, as is often thought, a Basic Income experiment. The evidence from these experiments is remarkably robust, especially for its time, and demonstrated the feasibility of such a scheme. Poverty was reduced, and spending on many social services was reduced (including health and in particular mental health). There was a small reduction in the number of hours worked, mostly among part-time second income parents, but among chief household income earners the only labour market finding was a small increase (a matter of two weeks or so per year) in time spent between jobs. This is hard to interpret across a great distance of time, but it is plausible that more efficient matching of employer to employee would be one effect of such an increase. Certainly there was no evidence of main earners withdrawing from the labour market altogether.

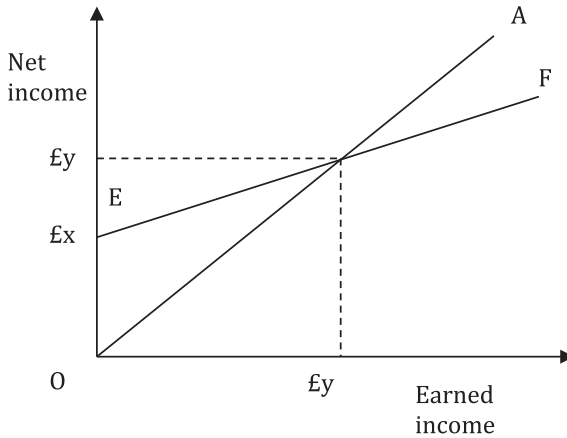
If implemented, a Negative Income Tax would

- be paid to individuals, not households;
- be set at a level which provides a basic floor standard of living;
- be withdrawn at a rate which provides clear work incentives;
- not be work-tested, and so would be experienced as very different from many countries’ current means-tested benefits.

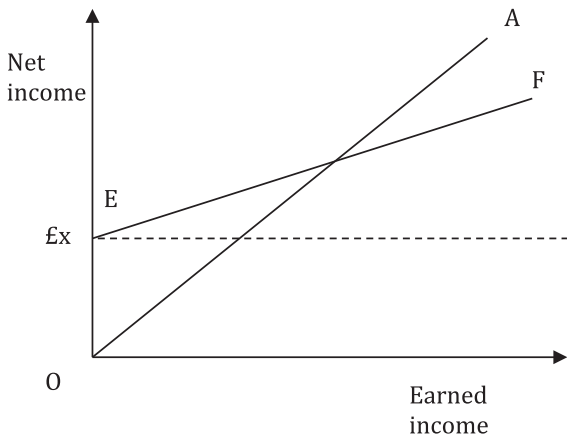
A Negative Income Tax of this nature would be similar to a Basic Income in many respects, and it would offer many of the same advantages, and particularly lower marginal deduction rates and therefore better employment incentives. The difference is that a Basic Income would be paid at the same rate to everyone of the same age, and incomes would then be taxed in order to pay for it, whereas a Negative Income Tax would only be paid to individuals whose earnings fell below an earnings threshold, and would be paid in proportion to the amount that earnings fell below that threshold. Figures 12.1 and 12.2 show both the differences between the payment mechanisms, and the identical relationships between gross and net incomes.

The advantages of the Negative Income Tax approach are that

- it avoids ‘churn’, whereas a Basic Income pays money to everyone and then taxes it back from those with higher incomes;
- it doesn’t pay money to those who don’t need it, so might more easily conform to public opinion than a Basic Income that pays money to everyone; and
- there is some evidence that employment incentives would be higher with a Negative Income Tax than with a Basic Income (Kawagoe 2009);



**Fig. 12.1** The relationship between net and earned incomes when a Negative Income Tax is implemented (Note The line EF shows net income. At the threshold  $£y$ , neither a Negative Income Tax is paid out nor Income Tax collected. As income falls below the threshold, a Negative Income Tax is paid. As income rises above the threshold, Income Tax is collected. [The diagram assumes that a single tax rate is charged on all earnings, and that the rate at which Negative Income Tax is paid equals the rate at which tax is collected.] Source Torry, M. [2018]. Alternatives to Citizen's Basic Income. *Citizen's Income Newsletter*, issue 1 for 2018: 6–7. The Citizen's Basic Income Trust's permission to reproduce the diagram is gratefully acknowledged)



**Fig. 12.2** The relationship between net and earned incomes when a Basic Income is implemented (Note A Citizen's Basic Income of  $£x$  per week is paid to everyone. All earnings are taxed. The line EF shows the net income. [The diagram assumes that a single tax rate is charged on all earnings.] Source Torry, M. [2018]. Alternatives to Citizen's Basic Income. *Citizen's Income Newsletter*, issue 1 for 2018: 6–7. The Citizen's Basic Income Trust's permission to reproduce the diagram is gratefully acknowledged)

The advantages of Basic Income would be that

- administration would be radically simple, and much simpler than for a Negative Income Tax; and
- the mechanism would be more easily understood than for a Negative Income Tax.

It therefore looks as if Negative Income Tax might more easily conform to public opinion, whereas a Basic Income would be easier to administer and therefore to implement. This suggests that we should look in detail at the administrative problems that a Negative Income Tax might encounter.

A Negative Income Tax could be administered by the Government or by someone's employer. If the Government administers the Negative Income Tax, then the employer must provide regular and accurate earnings information to the Government, as with the UK's new Universal Credit. If the employer administers the Negative Income Tax, then if someone moves between employers their Negative Income Tax administration has to be transferred between employers. If they have a period of unemployment, then administration of the Negative Income Tax has to be handed to the Government and then on to the new employer. If someone has two employments, then the employers have to decide which of them will administer the Negative Income Tax. And if someone has occasional other earnings, then their employer needs to be informed so that the Negative Income Tax or tax charged can be calculated accordingly.

If every working age adult receives the same Negative Income Tax then neither their employer nor the Government needs to know any personal details. If it is decided that people in different circumstances (for instance, in different kinds of household) should receive different levels of Negative Income Tax, then their employer and the Government will need to know individuals' circumstances in order to allocate the correct NIT or charge the correct tax.

Our current income tax system is cumulative. An annual amount of income is not taxed. Each week, or each month, the employer has to calculate how much tax to deduct so that, by the end of the year, the correct amount of tax has been deducted. With Negative Income Tax, the tax system would be non-cumulative. Each week, or each month, the correct amount of the Negative Income Tax would need to be paid in addition to earnings, or the correct Negative Income Tax would need to be paid out. A non-cumulative system requires a single tax rate, so anyone paying higher rate tax would need to pay additional Income Tax at the end of the tax year (Torry 2018).

It would therefore appear that the administrative difficulties facing a Negative Income Tax could be severe. However, we might still see a Negative Income Tax implemented rather than a Basic Income. The reason for this, as the UK's roll-out of the new 'Universal Credit' means-tested benefit has shown, is that political considerations can be determinative, and potential administrative difficulties can find themselves discounted in the policy process. Working with the grain of social norms is important for the success of any policy, and because a Negative Income Tax would do that by providing money only to those who need it rather than to everybody, and at the same time would provide clear and consistent incentives towards work and the protection of an income floor while maintaining a very wide freedom of choice, NIT might appear to be a more attractive option than Basic Income, even though the financial effects and employment effects of both of them would be almost or entirely identical, and NIT would present complex administrative challenges at least as difficult to solve as those of Universal Credit.

If a Negative Income Tax were to be implemented, then perhaps its most important benefit, as with a Basic Income, would be its provision of financial security, and of freedom from coercion for claimants. The Canadian Mincome experiment (see Chapter 15 or this volume) provided the unexpected result that hospital admissions, particularly those for mental health crises, fell after the introduction of the income scheme, most probably as a direct result of the stress-reducing effects of some degree of income security.

## Universal Basic Services

By Andrew Percy

Human societies are a complex mix of services, some provided as unpaid mutual support, some as in-kind exchanges, and some as paid transactions. A number of services are commonly accepted as essential to the achievement and maintenance of a basic standard of life: shelter, food, and healthcare. In today's societies, access to additional services are also commonly understood to be necessary to enable individuals to access opportunities and to participate in their society: education, transport, information, and legal services.

Substantial portions of both the philosophical argument for a Basic Income and the practical expectations of a Basic Income implementation are that a Basic Income would enable access to these basic services. The proposal for Universal Basic Services (UBS) (Portes et al. 2017) is that there are substantial portions of these services that are more effectively and

more efficiently provided directly as services to the members of a society, as opposed to giving those individuals the cash to purchase those same services individually. To the extent that Basic Income is conceived of as an adjunct or addition to social public services, such as education and healthcare, then UBS can be seen as an adjunct to a Basic Income rather than strictly an alternative.

Universal Basic Services shares much of the Basic Income agenda, in terms of both objectives and outcomes. Starting from the intention that every citizen of a state or community (here allowing for the inclusion of non-citizen residents) is entitled by right to at least a minimum share in the fruits of the prosperity of the group, and that such rights should allow each citizen the opportunity to pursue their own ambitions, using their own skills to make such contributions as they can and are motivated to provide.

Where UBS diverges from Basic Income is in the mechanism for the delivery of those rights and benefits that are deemed to accrue to every citizen. UBS is a model that sees those rights and benefits delivered as services to the maximum extent reasonably achievable, and it sees a Basic Income or other benefits system as a supplement to those services to cover the most uniquely personal of expenses, or special needs such as disability. And the rationale for promoting services, over cash distribution, is the duty of efficacy that is due to the society as a whole.

The definition of UBS is

The provision of sufficient freely accessible public services, as can be afforded from a reasonable tax on incomes, to enable every citizen's safety, opportunity, and participation.

To some extent every human society already provides some level of public service, and in much of the developed world these services commonly include public education, public healthcare, and public legal services, and public safety services, as well as the infrastructure to provide for their democratic governance. Many states also provide targeted public assistance for shelter, transport, food, and communications, through subsidies, benefits, and conditional entitlements.

The UBS model extends the notion of public services designed to provide a minimum level of function from the existing unconditional areas of healthcare and education to those areas more commonly delivered as conditional benefits.

Advocates of Basic Income sometimes assume and expect that there are certain universal public services that pre-exist and complement the introduction of a Basic Income, such as public education, so the debate about services



and incomes becomes one of degree. To what extent would the emancipation of individuals be best achieved through free access to services or free access to money? What is clear is that neither can be the exclusive solution, so the debate becomes one about the extent of each of them. Whereas the argument for Basic Income revolves substantially around individual choice, the argument for UBS revolves substantially around social commons. With this emphasis we find a significant difference between Basic Income and UBS, where the former emphasises the value of the individual, and the latter emphasises the value of the group. Where UBS accepts the peer validity of the society as an organising agency, Basic Income promotes individuality over society as a superior organising agency. A manifestation of this acceptance of society as an organising agent is that the efficacious delivery of extended public services requires local service design and delivery, necessitating the devolution of budgetary control to effective local government. Therein lies one of the larger practical distinctions between Basic Income and UBS: that UBS must surmount the obstacle of effective local government before it can become a functional reality, whereas Basic Income could be delivered as a national programme without such reform. Indeed, many advocates of Basic Income would say that the dependence of UBS on the quality of local governance is a *prima facie* key advantage of Basic Income over UBS.

The advantages espoused for UBS over BI are:

- efficiency of service over cash by meeting needs as they arise in proportion to their arising, which avoids the expense of funding needs that do not arise, whereas a Basic Income assumes equal distribution to all irrespective of need;
- effectiveness of services in reaching all constituents, especially in the cases of children to whom direct control of cash cannot be given but to whom direct access to services can be enabled;
- the bolstering of social institutional fabric, especially local capacity, by establishing and supporting social infrastructure for the delivery of services;
- incremental implementation by building gradually on existing services and extended them without requiring ‘Big Bang’ changes to the tax and benefit systems; and
- affordability and achievability within the constraints of common overall tax take limits observed across with developed world, where tax takes do not exceed 49% of Gross Domestic Product in even the highest taxing countries.

Where UBS and Basic Income conflict most seriously is competition for priority in funding. While they do effectively compete for the same budget, the

extent to which either can restrain their impact on public expenditure creates more space for the other, so revenue neutral Basic Income schemes and hyper-efficient basic services could offer the best route to a package likely to satisfy the greatest number of needs.

As proposals for a new settlement between citizen and society develop in the coming years, it seems most likely that a combination of service provision and cash distribution will feature in the solutions that emerge. The extent to which services are included, or assumed to exist, will become a defining distinction between proposals.

## The Job Guarantee

By Maciej Szlinder

Job Guarantee (JG) is often presented as a solution to the same problems as Basic Income: insecurity, inequality (Mitchell and Watts 2005: 64), poverty (Tcherneva 2007: 2) and unemployment (Harvey 2013a: 4). The JG programme assumes that the state is obliged to offer a job to ‘anyone ready, willing, and able to work, but who has not found desired private sector employment’ (Tcherneva 2007: 3). In this way the government becomes ‘the employer of last resort’. The best known advocates of JG are the Rutgers University Professor of Law Philip L. Harvey, and scholars such as William Mitchell, Pavlina Tcherneva, and Randall Wray, connected to Modern Monetary Theory (MMT).

Proponents of JG argue that the main cause of income insecurity is persistent unemployment (Watts 2011). According to its advocates, the main advantage of JG over Basic Income is that engagement in paid work has many non-pecuniary benefits, such as sustaining social relationships, providing a sense of being useful for the community, and developing skills. Unemployment does not only result in not having enough money, but it also means ‘exclusion from economic, social and cultural life’ (Watts 2011). Basic Income is accused of being an individualistic policy, and its advocates are accused of ignoring common expectations about employment as a means meeting obligations towards the community.

The main objection of MMT JG proponents against Basic Income is that Basic Income would be inherently inflationary (Tcherneva 2007). Tcherneva assumes Basic Income would make some people resign from the labour market, and employers would have to raise wages to convince them to come back. Those higher wages would increase the prices of goods and services, so

the Basic Income would have to be adjusted to inflation, which would lead to another rise in wages, and the cycle would lead to hyperinflation.

There are two problems with this argument. The first is that people using it assume it to be obvious that a significant decrease in labour supply would be caused by the implementation of Basic Income, which is far from certain. Secondly, they assume that every rise in wages transfers itself directly into a proportional rise in prices. They are therefore assuming that the relationship between wages and profits is stable and constant. This assumption is not only empirically not true—the wage/profit ratio, or the exploitation rate, changes constantly because of direct class struggles and the intervention of the welfare state—but it is also politically risky, as it would mean that any struggle for higher wages would be futile. This argument, presented by supposedly left-wing theoreticians and politicians such as Eduardo Garzón, an economist connected with the Spanish United Left (Garzón 2014), stands in contradiction to their declared support for trade unions and labour organisations.

As well as such objections to Basic Income being unsustainable, the JG programme creates serious ethical and practical problems.

Firstly, it is a paternalistic approach, as it requires a certain amount of labour in exchange for guaranteeing basic life necessities. By demanding labour only from the poor and not from every member of society (in contrast to some variants of socialism), JG is also classist. It appears to be accepted that there are people who do not have to labour due to inherited fortunes or the possibility of living off profits, and that only those who do not have such a lucky situation have to labour to get their necessities of life.

The second problem would be stigmatisation. According to Guy Standing, ‘to take a job that is only a job because the employment office says it is a job is stigmatising. If that goes on your CV it’s a sort of marker, meaning “failure”’ (Standing 2014). Moreover, people who would reject the offered guaranteed job (for example, because of responsibilities to care for dependents) could be stigmatised even more.

Thirdly, JG cannot eliminate poverty. Those who, for whatever reason, would not accept a JG offer, would still have to have their necessities covered by different programmes.

Fourthly, JG creates a problem in relation to dismissal. If it was easy to lose the guaranteed job (for instance, because the worker might reject its onerous demands) then there would not be a job *guarantee*; and if it was difficult to lose the guaranteed job (because the only demands were easy to meet), then it would encourage workers to only pretend to work and to perform poorly. At this point the question arises as to what we really gain by imposing the job pseudo-requirement instead of just giving people

money unconditionally. Poor output in the construction of infrastructure was observed in a direct job creation programme in India called Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) (Davala et al. 2015: 9).

Fifthly, JG is subject to corruption. It can also lead to deskilling of those who could otherwise spend their time looking for a more suitable job or enhancing their qualifications. Moreover, forcing carers to accept a guaranteed job could aggravate the situation of their dependents.

Sixthly, JG is costly. To estimate the cost, it is necessary to count not only the currently unemployed but also other groups that might be interested in the programme, such as those involuntarily employed in precarious conditions, the involuntarily partially employed, and some people currently outside the labour force (for instance, those who stopped looking for a job because they lost hope of finding a decent one). Additionally, the cost of creating a job would be far greater than the wage that the worker would get and would include the cost of materials, organisation, control, oversight, and so on. These costs cannot be compensated fully by selling the goods and services produced, because the goods and services would not compete with those produced by the private sector and the traditional public sector (Kaboub 2013: 62; Mitchell and Watts 2005: 75; Wray 2013: 170, 174). If we allow any sort of competition, and (following all MMT advocates of JG) a fixed, uniform basic wage was paid, set at or close to the statutory minimum wage, then the programme would cause displacement of the better paid jobs by the JG jobs, and an overall decrease in wages would be the result.

Harvey's proposal does not assume uniform, minimum wages. In his version, the 'job guarantee program should offer unemployed workers jobs that are comparable in both pay and responsibility to those occupied by similarly qualified and experienced workers in the regular labor market' (Harvey 2013b: 45). This solution might avoid the problems of the goods and services produced competing with goods produced in the private and public sectors, but it would immediately create hazards. If someone were to be employed with a high salary for a short time, then the state would be guaranteeing to him or her the same position and salary as someone in the private or public sector, which would be morally dubious and costlier.

To sum up: the total cost of JG could be even greater than Basic Income, with worse effects and more negative side effects. JG fetishises paid labour against other socially useful activities. It subordinates guaranteeing income security (and the fulfilment of basic needs) to the acceptance of the offered job, which not only directly contradicts republican freedom, but also means JG can be perceived as an example of a workfare policy.

Nevertheless, some of the aforementioned problems would be softened by combining JG with Basic Income, in the full or limited forms of both (FitzRoy and Jin 2018). With Basic Income, JG could be just a broad programme of public job creation that would not need to solve the problem of poverty and insecurity (which would be solved by Basic Income), and would not be so paternalistic, because the freedom provided by Basic Income would be granted unconditionally. Therefore, JG might be worth considering as part of a progressive social/economic policy agenda if that were to include Basic Income.

## The US Earned-Income Tax Credit

By Benjamin Leff

The Earned-Income Tax Credit (EITC) is the largest cash transfer programme in the United States. It is politically popular because it is relatively inexpensive to administer, has relatively high participation rates, is not perceived to be stigmatising, and is perceived to support working families rather than providing a ‘handout’ (Sternberg Greene 2013: 535). If a Basic Income is ‘a regular cash income, paid to all, on an individual basis, without means test or work requirement’ (Van Parijs and Vanderborght 2017: 1) then the EITC differs from a Basic Income in almost all of its particulars, but an expanded and reformed EITC could meet a number of goals that would be met by a Basic Income. The only truly essential difference between a Basic Income and the EITC is the fact that the EITC is by definition work-conditional. There are political reasons, in the United States especially, why work conditionality is the keystone of any broad-based, politically stable, and popular transfer programme (Alstott 1995: 538), so it is worth exploring the possibility of using the EITC as a (distinctly second best) platform for achieving at least some of the goals of a Basic Income (Brookings/AEI 2015; Gitterman et al. 2007; Hughes 2018; Sperling 2017).

### What Is the EITC and How Does It Differ from a UBI?

The EITC is a federal tax credit that is paid annually in a lump sum to low-income US residents based on how much they earn and whether they are the primary caregiver of children. It is called a ‘tax credit’ because it is integrated into the income tax system and paid after the filing of

a tax return, but the amount paid to the worker in many cases exceeds the amount of tax the worker owes, resulting in a net gain to the recipient. Thus, the EITC is a form of cash transfer from the government to US residents, as is Basic Income. It differs from a Basic Income because it is work-conditional, means-tested, family-based, and makes distributions only once a year.

Firstly, the EITC is *work-conditional*, because the amount one receives is zero for persons who earn nothing in the market economy, and then the payment increases gradually ('phases in') as earnings rise to a threshold. For example, in 2018, an unmarried worker with three children (let's call her Jane) would have received 45 cents of EITC for every dollar she earned up to \$14,320, at which point she would have received the maximum EITC payment of \$6444. So the EITC can provide a substantial wage supplement for Jane, if she is working: but if she is not, she does not receive any EITC, even if she is providing uncompensated familial or social labour, is diligently seeking work, is actively volunteering in the community, or is temporarily or permanently disabled.

Secondly, the EITC is *means-tested*, because the amount received is gradually phased out once one's income exceeds a threshold amount, until the credit is eventually reduced to zero. For example, in 2018, Jane would have gradually lost her EITC benefits once she earned \$18,700 dollars over the course of the year, and if she earned at least \$49,298 then she would have received nothing. Means-tested benefits are often criticised for creating disincentives to work because they penalise a worker for earning income. Because the phase-out of the EITC is relatively gradual (at 21% of additional income in the phase-out range), it would be likely to have only a modest effect on incentives if it operated in isolation. But it does not operate in isolation. Instead, the income that Jane earns in the phase-out range also causes her to owe some taxes, and might cause her to lose government-provided benefits for food, housing, and health insurance. Depending on circumstances, these uncoordinated tax and benefit phase-outs (including the EITC) can produce very high effective marginal tax rates, and can operate as a 'poverty trap' (Shaviro 1999).

Thirdly, the EITC is *not paid individually*, but instead the amount of the credit is dependent on the number of children in someone's care (if any) and on the earnings of a spouse (if any). The amount of EITC increases with each child in one's care up to three, but a worker with no dependent children (let's call him John) barely gets any benefit at all. The amount John would have received in 2018 would never have exceeded \$520, and the rate was set to match the payroll taxes that he owed, so he could never have

received any net benefit from the government. This means that the EITC is a substantial source of governmental assistance to parents caring for children, but it has very little impact on workers with no dependent children living with them, even if they have child-support obligations for children. In addition, because the income of married taxpayers is aggregated for the purposes of calculating the EITC, married couples whose income is in the phase-out range receive less of the credit than they would if their income was counted individually, creating a ‘marriage penalty’.

Finally, the EITC is distinguished from most Basic Income proposals because, rather than being paid *regularly* (periodically throughout the year), the benefit is integrated into the tax system and is distributed once a year, several months after the end of the year for which the recipient qualifies for the payment, after the filing of appropriate income-tax forms.

## Possible Reforms of the EITC

For each of the policy components described above, one could imagine reforming the EITC to make it more ‘Basic Income-like’. Because there appears to be significant political support in the US for expanding and reforming the EITC, such reform could be more politically feasible than a Basic Income proposal.

Obviously, the most glaring difference between a Basic Income and the EITC is work-conditionality. But work-conditionality is the feature of the EITC that commentators most often cite as the reason that it is politically popular in the US. It is supported by a broader political coalition than other transfer programmes simply because its work-conditionality insulates it from some of the negative narratives used to attack other welfare programmes. While work-conditionality is an essential component of the EITC, one could imagine steepening the rate at which the credit phases in, so workers received a higher credit at lower income levels. While this would not benefit workers who have *no* income over the course of the year, it would at least provide more of the benefit to more of the working poor.

The fact that the EITC is so closely tied to family-status, rather than being individual, also distinguishes it from Basic Income. Some commentators have proposed eliminating or reducing the ways in which the EITC is so dependent on having dependent children and marital status (Gitterman et al. 2007). However, just as the work requirement is often cited as the source of political strength for the EITC, government distributions that support poor children are supported by a wider political coalition than



distributions that support adults. Reforming the EITC to de-link family status would make it much easier to administer and claim, but any increase in the amount available to childless adults might face political opposition.

Many scholars have proposed increasing the regularity of EITC benefits (Sternberg Greene 2013). Traditional economic theory, and simple intuition, supports the idea that poor families would be better off receiving a payment more regularly than once a year, and sooner rather than later. A subsequently discontinued programme permitted EITC recipients to receive 'advance' payments from their employer throughout the year. This programme was unpopular because workers risked having their advance payments clawed back at the end of the year, resulting in a painful financial shock for some low-income workers. If the EITC were reformed to permit regular payments throughout the year *without* the risk that such payments might be clawed back by the government at tax filing time, then it would likely be beneficial and popular.

Another possible reform would be to remove the phase-out of the EITC (so that it was no longer means-tested). The phase-out of the EITC is functionally the same as an increased marginal tax rate on income in the phase-out range. This phaseout could be eliminated, with the additional cost of the EITC paid for by an increase in regular income taxes (or by other funding sources). Alternatively, if the un-phased-out EITC were to be found to be an employment disincentive, then the phase-out range could be extended and the rate reduced.

Finally, the EITC in its current form is too low. Under current law, a worker with two or more children who works at a minimum wage job full-time for the whole year would still be below the US official poverty line, even when all of their EITC benefits are taken into account. Obviously, for the EITC to fulfil the promise of a Basic Income to dramatically reduce poverty, it would have to be expanded.

Basic Income is starting to gather supporters in the United States, but it still faces considerable political opposition. There are many ways in which the EITC—which has a broad base of political support—already provides some of the benefits of a Basic Income, and could be reformed to provide even more of them. Because the EITC does not provide any benefit to people who are not earning money through labour in the market economy, it cannot be a substitute for a Basic Income, especially if labour market participation declines dramatically, as some predict that it might. The EITC leaves too many people out. But to the extent in which EITC could serve as a transitional measure, or as a compromise attempt to gain some of the benefits of a Basic Income, it is worth understanding how it already achieves some of



the goals of a Basic Income, and how it could be reformed to achieve them more fully.

## Conclusion

Basic Income, Negative Income Tax, Job Guarantee, Universal Basic Services, and the US Earned Income Tax Credit, reformed as envisaged, all need to be further researched in order to understand their advantages, their disadvantages, and their relationships with each other. Only the expenditure of such research effort will determine the best mixture for both society and the economy.

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