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The Bottom Line in a Basic Income Experiment

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COMMENT

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**The Bottom Line in a Basic Income
Experiment**

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A basic income (BI) experiment is worth doing if it focuses on the right question. Some of the problems with the US negative income tax (NIT) experiments of the 1970s stemmed from a focus on the wrong question – focusing on the side effects rather than the effects of the policy in question. A European BI experiment should focus on the question of policy effectiveness.

The question of policy effectiveness should be formulated as follows: *what policy (BI, the current system, or any other alternatives to be tested) produces the greatest increase in welfare for the poor (or the greatest decrease in poverty) per Euro of cost (both in terms of tax cost and efficiency loss)?* Effectiveness is not the only important concern in assessing policy alternatives, but it is a critically important concern that anyone who is interested in the issue should consider. BI supporters argue – from theory – that BI is the most efficient and effective way to improve the welfare of the poor. A BI experiment can shed light on whether that theory is correct, and supporters and opponents alike agree that policy effectiveness is an important factor in determining the relative merits of policy alternatives.

The US experiments tested NIT, which is no longer the focus of the guaranteed income debate. However, BI does not lend itself to easy testing as

NIT does. The reason for this is that some of BI's major effects on recipients (such as its marginal tax rate) are experienced through the tax system, while most of the NIT's effects on recipients are through the variable size of the grant. It is difficult for an experiment to impose a higher income tax rate on participants because some of them might end up being worse off than if they had not chosen to participate. However, for the purposes of experimentation the two kinds of income guarantees are similar, and a future BI experiment might have to test NIT as a more easily testable proxy. Therefore, the results of the NIT experiments are extremely important to the current BI debate.

The NIT experiments primarily examined this question: *what is the difference between the labor supply of people who receive a guaranteed income and those who do not?* At the time the experiments were planned, support for a guaranteed income had been growing and opponents were largely arguing (as some still do) that it would cause people to drop out of the labor market or that labor supply would fall sufficiently to make the program unaffordable. The experiments found no evidence that any recipients would completely withdraw from the labor market and also found relatively small estimates for the labor supply effects. Hours worked by married men in the experimental group ranged from 0.5% to 9.0% less than hours worked by married men in the control group (see Widerquist, 2005, for a summary of results).

Although any negative labor-supply effect increases the cost of the program, the results found would not make it unaffordable, and thus most of the experimenters concluded that they had found a positive result. But opponents (both in politics and in the media) asserted that the existence of *any* negative labor-supply effects was enough to disqualify the policy from consideration. The existence of such an effect should have surprised no one: because the guaranteed income levels tested were more generous than the conditional programs they were tested against, it was virtually a certainty that some negative labor-supply effects would be found, and the experiments could not show what portion of the labor-supply effects were attributable to the guaranteed income and which were attributable to the size of the program tested. Both supporters and opponents could cite the labor-market findings to support their position, but opponents won the media battle (Widerquist, 2005).

It is possible that a BI could cause an *increase* in labor supply relative to many more traditional welfare state programs that contain a "poverty trap." That is, many conditional programs give money to people only if they are not working, and thus put people in a situation in which they are considerably worse off when making a little money privately than when not working at all. If BI is

tested against such policies, it might show an increased labor-supply effect. There were three reasons why the US experiments weren't able to search for such evidence.

First, the guaranteed income in the experiments was more generous (and in most cases far more generous) than the existing policies it was tested against. Any labor-encouraging effects caused by eliminating the poverty trap were outweighed by the labor-discouraging effects of a more generous program. This methodology also made the interpretation of the results more difficult. To a large extent, researchers were unable to separate the effects of the move toward an unconditional income guarantee from the move toward a more generous redistributive scheme of any kind. Researchers chose this methodology because doing otherwise would have been more expensive. Any social science experiment must be voluntary, and therefore it must be – for all the ranges of income tested – at least as generous as the existing system, which could mean that it must be much more generous than the existing system for some ranges of income. To test BI against an equally generous version of the current system would require making extra payments to the control group, which would greatly increase the cost of the experiment. However, doing so in any future experiment is imperative because the goal of the research must be to test the effects of unconditionality separately from the effects of generosity.

Second, the guaranteed income experiments did not include people who were living off public assistance but focused on low-wage workers, and so it did not test any people who were currently experiencing the poverty trap. This method was also chosen as a money saving measure; including people who are currently receiving public assistance in the experimental group would mean including people who are likely to receive the highest net payments for the length of the experiments. In an effort to save money on payments to recipients, the US experiments tested people who were near the breakeven point. This strategy decreased the cost of the experiment but reduced the randomness of the assignment of treatment methods.

Third, American welfare-state policies tend to be less generous than their European counterparts, and although they have a poverty trap, it is likely to trap fewer people.

If a European experiment tests BI against an equally generous conditional program, it might or might not show that BI has positive labor-supply effects. But that is not the most valuable question a BI experiment could ask. An experiment so designed can shed light on the question of whether the

labor-supply effect of a BI is positive or negative and how large the effect is. But I doubt that many people's support or opposition to BI hinges on that question.

If the best antipoverty policy is the one with the smallest negative effect on labor supply, BI might do better than the current system, but we do not need an experiment to say that BI is not the best policy to achieve that goal. Workfare, wage subsidies, or the complete absence of an anti-poverty program will clearly do less to discourage labor supply than BI will. Looking for zero or near-zero labor-supply effects of BI is an impossibly high bar for BI, and it is not what BI is designed to achieve. Nor is it a good idea for BI researchers to endorse the extreme normative position that a greater labor supply is always better than a smaller labor supply.

BI experiments should collect labor market data, but this should not be the main focus of the experiment. Experiments must focus on issues that are of interest to all policy observers regardless of their normative positions, and policy effectiveness is just such an issue.

Testing for policy effectiveness requires testing BI against a similar amount of redistribution in the form of one or several other policy alternatives. Doing so will increase the cost of the experiment, but will also make it of much broader interest to policy makers.

Focusing on policy effectiveness will also require concern with which questions an experiment can and cannot answer. One important question that the experiments cannot answer is the possible wage effects of BI. A random-assignment field experiment can show whether an individual will work less or more if she receives a certain kind of income, but it cannot show how the market will respond if all workers receive such an income. Therefore it cannot show whether BI might enable workers to command higher market wages. Random-assignment field experiments divide subjects into a control group and a treatment group to observe how the treatment (in this case BI) affects the individual recipients. If the treatment is immunization, one can expect a controlled study to give a good idea of the treatment's effectiveness, because all the effects of the treatment happen at the individual level, but the study cannot show effects that occur beyond the individual level.

For example, suppose researchers are interested in testing the effectiveness of strikes in raising wages. They randomly select a treatment group of 1,000 individuals who work for different employers dispersed throughout the region. They will certainly find that none of the strikes are successful, because the effectiveness of a strike depends on how employers react to a large group of workers. The effects of strikes on wages cannot be measured by a random-assignment

experiment because it depends on the reaction of employers and not on individual-worker behavior. The possible effects of BI on wages also depend on the number and market power of wage recipients in the market and cannot be measured by a random-assignment experiment. An experiment cannot test the possibility that any labor-supply disincentive of BI will in turn cause an increase in private-sector wages and a decrease in the tax cost of the program.

These effects can be estimated, however, with a microsimulation combining experimental data with estimates of the elasticity of demand for labor obtained from other sources. Only a few researchers applied this technique to the data from the US experiments, but it is essential to get a full picture of the effectiveness of the policies examined in the experiment on poverty and the well-being of recipients.

Any European BI must compare BI to an equally generous conditional income support system, and it must be careful to communicate the limits of what it can and cannot measure.

References

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