September, 2012

The Basic Income Guarantee in the United States: Past Experience, Current Proposals

Karl Widerquist
Allan Sheahen

CHAPTER 1

The United States

The Basic Income Guarantee in the United States: Past Experience, Current Proposals

Karl Widerquist and Allan Sheahen

The United States might not seem like fertile ground for the basic income guarantee. It is after all the place where workfare was born, where "welfare" became a bad word, and where "welfare mothers" became demonized. It might, therefore, be surprising that the world's first basic income, if only a partial one, was introduced in Alaska in 1982 and has been the most popular program in the state ever since, continuing to grow in size and in popularity. It might also be surprising that the United States was the first country to have a mainstream national political movement for the basic income guarantee. In the 1970s, the United States came closer than any other industrialized country has so far to introducing a nationwide basic income guarantee, and various incarnations of the proposal continue to be discussed.

This chapter discusses the history of the basic income guarantee in the United States in the last 50 years. The first part discusses the introduction and the success of Alaska's Permanent Fund Dividend, which has provided a partial BIG for every Alaskan since 1982. Part Two discusses the guaranteed income movement of the 1960s and 70s, when the idea suddenly became part of mainstream politics in Washington. We consider the rise and fall of Negative Income Tax legislation in Congress and the Negative Income Tax experiments. Several successful offshoots of the movement that continue to this day. Part Three focuses on the recent movement for the basic income guarantee. Although the basic income guarantee is farther from the political mainstream now than it was in the 1970s, many current proposals, and some recent legislation, move in that direction. This part of the paper discusses several of those proposals, focusing largely on the Standard Tax Credit, which was introduced as a bill in Congress in 2006. The original proposal for the standard tax credit is included and we discuss its background, reception, and prospects.

In our terminology the basic income guarantee (BIG) is a generic term for any unconditional, government-insured guarantee that all citizens will have an income. A full BIG income must be large enough to meet an individual's basic needs without a work requirement. A nonzero income less than that level is a "partial" BIG. The two main versions of BIG are basic income (BI) and the negative income tax (NIT). BI provides a small income to *all* people whether they have other income or not. The NIT provides that income only to those who lack sufficient other income. Both versions are structured so that a person who makes more money privately is financially better off than someone who makes less. Reading about BIG can be confusing because these terms are used in different ways by different people, and people use many different terms to mean the same thing. The basic idea of any of these policies is to make sure everyone has a little cash without being saddled with conditions or supervision. Any policy that achieves part of that goal moves in the direction of BIG.

1. Alaska's Permanent Fund Dividend

The world's first BI (if a partial and variable one) was introduced in Alaska in 1982 under the name of the Permanent Fund Dividend (PFD). Today Alaskan politicians call it the "third rail of Alaskan politics," by which they mean that it is so popular any politician who touches it dies. In a 1999 referendum, 84% of Alaskan voters rejected a proposal to redirect some of the funds that support the PFD to the state government budget. How does a program so controversial in theory become so popular in practice?

To answer that question, we'll explain how the PFD works and how it came about.[1] Alaska receives a great deal of revenue from the state's oil reserves. The state government has no income or sales tax; oil revenue accounts for 85% of the state budget each year. Each year, a portion of the state's oil revenue is deposited into a sovereign wealth fund called the Alaska Permanent Fund (APF). The principal of the APF is invested in a diversified portfolio of assets, such as stocks, bonds, and real estate. Each year a portion of the returns to that fund are distributed to Alaskans in the form of the PFD.

The size of the PFD is based on the average returns to the APF over a five-year period. Therefore, although the PFD varies much less than the market does year-to-year, it still varies substantially. The most recent dividend (distributed in October of 2010) was $1,281, or $6,405 for a family of five. The PFD reached its highest point in 2008, when it was calculated at $2,069. That year the state government was running a substantial budget surplus and the legislature voted to supplement the PFD with an extra $1200 from general revenue, making the total dividend $3,269 per person or $16,345 for a family of five. The lowest dividend in recent years was $846 in 2005. The lowest dividend since its inception was $331 in 1984. Most often, dividends have tended to fluctuate between $1000 and $1500.[2]

A dividend of this size is far too small to meet a person's basic needs. Thus, the PFD is only a partial BI. The variability of the dividend also makes it difficult for people to count on it to meet a given portion of their basic needs, and Alaskans tend to think of it more as a bonus. Yet, it makes an enormous difference to people in need. Imagine a single mother with four children living in a native village in Alaska. A check for more than $5,000, or in one year more than $16,000, has to be a great help in feeding, clothing, and housing her children and in getting them educated and prepared for life

---

[1] For a more detailed discussion of the program, see Widerquist and Howard (forthcoming and A and forthcoming B), from which much of discussion is drawn.

[2] Alaska Permanent Fund Corporation (2010).

as adults. Housing delinquencies (the failure to pay rent or mortgage) in Alaska fall significantly during the time the PFD is distributed. The PFD is one of the reasons why Alaska has one of the lowest poverty rates in the United States, why it is the most (economically) equal state, and why it is the only state in which equality has been rising for the last 20 years. (Widerquist and Howard, Forthcoming)

The PFD is a BI in the sense that it guarantees that everyone unconditionally receives some basic amount of income each year without a means test or work requirement. Any U.S. citizen who meets the residency requirement and applies for the PFD gets it, whether or not they work, whether or not they are married or single, young or old, rich or poor. No one can tell Alaskans that they must do such-and-such to get the money, and no one can tell them what they must do with the money once they get it. That is the essence of BIG.

The events leading up to the creation of the PFD began with statehood in 1959. The state constitution, which went into effect that year, effectively declared that the resources of the state belonged to the Alaskan people. In 1967, oil was discovered on state-owned land on Alaska's North Slope. In 1974, newly elected Governor Jay Hammond proposed dedicating half of all oil revenues to a fund, which would be used to distribute dividends to Alaskans.

By 1976, Hammond and the legislature agreed to put a smaller, streamlined constitutional amendment before the voters creating the APF. Instead of dedicating half of *all oil revenue* to the fund, the amendment dedicated only 25 percent of *oil royalties*. Because royalties amount to less than half of the state's oil revenue, constitutionally mandated deposits into the APF have amounted to only about 11.2 percent of the state's oil revenue. Over the years the state legislature has made additional deposits into the APF, bringing total contributions up to about 18.2 percent of the state's oil revenue. The amendment prohibited the state from spending down the principal of the APF, but it said nothing about what the state could do with the returns.(Hammond, 1994). That debate began later.

Initially, dividends were not a very popular idea of how to spend the APF's returns, but they were popular with the right person. Governor Jay Hammond, who appears to have been influenced by the guaranteed income movement that had been going on that the federal level a few years earlier (see Part Two of this chapter below), made dividends the object of his second term. He pushed for it; he made the compromises necessary to get it through the legislature; and in 1982, the state distributed the first PFDs. The APF is simply a pool of money. It was created by constitutional amendment in 1974. The PFD is the yearly dividend. It was created by a simple vote of the state legislature. The APF finances the PFD, but the two are separate programs created at different times by different kinds of legislation.

The Alaskan public had not been closely engaged in the legislative debate over the creation of the PFD. But as soon as they started receiving dividends they became engaged. Within a few years legislators began to think of the PFD as politically inviolable. The APF and PFD are now hugely popular in Alaska and many regional and national governments around the world are considering similar models. The governments of Iraq and Mongolia have seriously discussed the idea. The government of Iran, with little direct mention of Alaska as a model, has recently started giving out an oil-financed BI.

There are many lessons in the Alaska experience for BIG supporters to draw on. One important thing to recognize is that universal programs, especially resource dividends, are popular and they work. Alaskans believe that the PFD is a rightful expression of their joint ownership of the commons. The PFD is seldom promoted as an anti-poverty or pro-equality program. Most people think of it as a way to ensure that every Alaskan benefits from the state's oil revenues. It just happens to be very good for the poor, and it is not under constant attack like so many federal anti-poverty programs in the United States. (Widerquist and Howard, Forthcoming)

Many people are probably under the misconception that the PFD is something only an oil-rich region like Alaska can do, when in fact Alaska isn't terribly rich (ranking tenth among U.S. states), and it supports the dividend almost entirely by taxes on one resource. Oil taxes in Alaska are low by international standards and only a small portion of those taxes support the APF and PFD. (Widerquist and Howard, Forthcoming)

Alaska does not have a resource dividend because it is resource-rich; it has it because Alaskans took advantage of the opportunity at the right time. Opportunities like it are not unusual. All over the world, every day, common resources are being privatized, each one represents an opportunity. Currently the U.S. government is considering capping carbon emissions. One proposal is to give away the right to pollute to corporations that have polluted in the past. Another proposal is to auction off the right to pollute and redistribute the proceeds of the auction in an Alaska-style dividend. These and many similar circumstances are opportunities to build on Alaska's experience.

2. The Guaranteed Income Movement of the 1960s and 1970s

The Alaska Dividend was in a small way an offshoot of the Guaranteed Income movement of the 1960s and 70s. It was a brief but substantial movement that did not produce a nationwide BIG but that did produce successful byproducts. Under the names of Guaranteed Income and the NIT, BIG seemed to appear out of nowhere and burst onto the mainstream policy agenda in the mid-1960s. The idea had been discussed in academic circles as far back as the 1940s. However, suddenly academics, policymakers, and welfare activists all seemed to be converging on the same idea, namely that a positive reform of the social welfare system should involve replacing many of the different polices designed to target specific groups with one simplified, comprehensive policy to ensure that everyone had a little money—i.e. BIG.

At the time, President Lyndon Johnson had declared a War on Poverty. The reforms of the Roosevelt administration had made great progress in reducing poverty, but they were far from eliminating it. In 1960, 39 million people (more than 20 percent of the U.S. population) still lived below the poverty level.[3] People were looking for ideas.

Market oriented economists such as Milton Friedman and F. A. Hayek endorsed the NIT

---

[3] U.S. Census Bureau (1961).

approach. Friedman wrote, "We should replace the ragbag of specific welfare programs with a single comprehensive program of income supplements in cash – a negative income tax. It would provide an assured minimum to all persons in need, regardless of the reasons for their need." (Friedman, 1962)

Progressive economists, such as John Kenneth Galbraith, James Tobin, and Herbert Simon endorsed versions of the guaranteed income. Sociologist, Erich Fromm; economist, Robert Theobald; and theologian, Philip Wogaman all wrote books supporting it.[4] Martin Luther King, Jr., endorsed the idea, writing:

> *"I am now convinced that the simplest solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income. A host of psychological changes inevitably will result from widespread economic security. The dignity of the individual will flourish when the decisions concerning his life are in his own hands, when he has the assurance that his income is stable and certain, and when he knows that he has the means to seek self-improvement." Martin Luther King, 1967*

In 1969, a Presidential Commission unanimously recommended that the United States should adopt a guaranteed income for every needy America, with no work requirements. The National Council of Churches, by a vote of 107-1, also agreed. So did the Kerner Commission, the California Democratic Council, the Republican Ripon Society, and the 1972 Democratic Party platform. (Sheahen, 1983, p. 13)

Johnson did not embrace the BIG model. Most of the policies that came out of his administration were expanded through enhanced versions of traditional, welfare state models including conditional programs targeted at specific groups. The partial success of these programs was readily apparent. By 1969, government benefits increased, and the number of people living in poverty in America dropped to 25 million (about 12.5% of the U.S. population).[5] In 1969, the guaranteed income received perhaps the most surprising endorsement of all – from President Richard M. Nixon.

---

4 Fromm (1955); Theobald (1965); Wogaman (1968).

5 U.S. Census Bureau (1970).

3. From the Family Assistance Plan to Temporary Assistance for Needy Families

In 1969, Nixon proposed his Family Assistance Plan (FAP), calling it, "the most significant piece of social legislation in our nation's history."(Moynihan, 1973) It was structured like an NIT, but it was watered-down with eligibility limits and work requirements in hopes of increasing its political appeal. For a family of four, with no outside income, the basic federal payment would have been $1600 a year. States could add to that amount. A worker could keep the first $60 a month of outside earnings with no reduction in his benefits. Beyond that, his benefits would be reduced by fifty cents for each dollar earned.

Under the proposal, anyone who accepted benefits was required to accept work or training, provided suitable jobs were available either locally or at some distance if transportation was provided. The only exceptions would be those unable to work and mothers of preschool children. The program, like the guaranteed income movement generally, found adherents on both left and right, but it also found opposition from both left and right. Southern and conservative Senators generally opposed the bill because they felt the minimum ($133 a month for a family of four) was too high. They also opposed the principle of a guaranteed income. "Cost is not the problem," Senator Russell Long (a Democrat from Louisiana) said, "The objection is paying people not to work."

Some liberal Senators opposed FAP because they felt it was inadequate and repressive. They called it "Guaranteed Annual Poverty." The National Association of Social Workers and the National Welfare Rights Organization were also opposed to the plan. They felt the benefit level was inadequate and the work requirements oppressive. FAP passed the House of Representatives on April 15, 1970. On November 20, 1970, after many amendments, FAP was defeated in the Senate Finance Committee.

FAP proved to be the high-water mark of the guaranteed income movement in the United States. In 1972, FAP was modified and again debated in Congress. It again easily passed the House of Representatives. It was defeated by only 10 votes in the Senate.

A few years later, President Jimmy Carter proposed a *Program for Better Jobs and Income.*

The plan would have abolished several conditional welfare programs, and replaced them with a single, nationally standardized cash payment – about $3800 a year for a family of four – for those qualifying. Although the program retained some of the elements of an NIT, its more restrictive qualifications made it less of an income guarantee. Liberals generally felt the benefits were inadequate. Conservatives were horrified at the $20 billion in extra costs. The plan died without being debated by either House of Congress. In 1979, a scaled-down welfare reform plan, which gave no pretense of being a guaranteed income, passed the House of Representatives but died without coming to a vote in the Senate. (the previous paragraphs draw on Sheahan, 1983)

By the early 80s, the mood in Washington had changed. Politicians turned to scaling back the welfare system rather than improving and expanding it. Substantial reform along the BIG model has not been discussed at the federal level since. Homeless people reappeared in large numbers on U.S. streets for the first time since the Depression, and soup kitchens sprang up. This trend culminated in the 1996 welfare reform bill, which replaced the 60-year-old federal program called Aid to Families with Dependent Children (AFDC) with a new program called Temporary Assistance to Needy Families (TANF). Instead of moving toward the BIG model, TANF moved away from it. It added work conditions to a program that had already been conditional on parenthood. It removed what had been a permanent guarantee of assistance for qualifying families, and replaced it with a limited time of eligibility for any recipient.

TANF reduced welfare rolls, but it did not reduce poverty. It dumped many recipients into poverty-wage jobs. Indeed, government figures show that 39.8 million Americans still lived below the poverty level in 2008. The poverty rate was 13.2 percent. It has been in the range of 10 to 15 percent for most of the last 40 years.[6] The social problems that brought BIG under consideration in 1969 persist today.

---

6 U.S. Census Bureau (2009).

4. Offshoots of the Guaranteed Income Movement

Although the guaranteed income movement fell short of establishing a national BIG in the 1970s, the movement did produce several tangible results. In 1974, Congress passed Supplemental Security Income (SSI) – essentially an NIT for people over 65. Food Stamps were gradually created and expanded beginning in 1964, and they became a fully national program in 1974. (Sheahan, 1983) Food Stamps are coupons issued by the government that can be used only to purchase food. They deviate from the BIG model because of the restriction to food, but they remain the only form of assistance universally guaranteed by the federal government. A person only needs to demonstrate that they are poor to be eligible for Food Stamps.

In 1976, Congress passed the Earned Income Tax Credit (EITC), which gives money in the form of a "refundable tax credit" to low-income workers. The EITC is not a BIG because one has to earn income privately to receive it. Nevertheless, it is a negative tax in the sense that government pays low-income workers instead of asking them to pay into the government. The design and adoption of the EITC grew directly out of the Congressional discussions of FAP and NIT.

5. The Negative Income Tax Experiments

One of the most significant outcomes of the guaranteed income movement of the 1960s and 70s was the federal government's decision to conduct four experiments to see how the idea would work in practice. Known collectively as the NIT experiments, they were the first large-scale social science experiments ever conducted, and they have been a model for social science research ever since.[7]

The researchers who conducted the experiments were aware that unconditional income support would cause people to work less than they otherwise would, so they needed to uncover precisely how much less these people would work. They needed to discover if it would decline so much that the program would become unaffordable or unsustainable. They also needed to discover what the effects

---

[7] Sheahen (1983); Widerquist (2005); Levine et al (2005).

would be on the overall well-being of recipient individuals.

The experiments randomly assigned participants into a "treatment group" and a "control" group, just as medical researchers do when testing new drugs. Members of the treatment group were made eligible for an NIT (of varying sizes). Members of the control group continued under the existing welfare rules of their state, although they were provided with some small compensation for regularly answering the questions of researchers. Then the researchers compared the behavior of the two groups. The following two tables summarize the experiments and some of their findings for work effort effects.

Table A - The United States Negative Income Tax Experiments

Name	**Location(s)**	**Data collection**	**Sample size: Initial (final)**	**Sample Characteristics**
The New Jersey Graduated Work Incentive Experiment (NJ)	New Jersey & Pennsylvania	1968-1972	1,216 (983)	Black, white, and Latino, 2-parent families in urban areas with a male head aged 18-58 and income below 150% of the poverty line.
The Rural Income-Maintenance Experiment (RIME)	Iowa & North Carolina	1970-1972	809 (729)	Both 2-parent families and female-headed households in rural areas with income below 150% of poverty line.

The Seattle/Denver Income-Maintenance Experiments (SIME/DIME)	Seattle & Denver	1970-1976, (some to 1980)	4,800	Black, white, and Latino families with at least one dependant and incomes below $11,00 for single parents, $13,000 for two parent families.
The Gary, Indiana Experiment (Gary)	Gary, Indiana	1971-1974	1,799 (967)	Black households, primarily female-headed, head 18-58, income below 240% of poverty line.

(Widerquist, 2005, p. 53)

Table B: Summary of findings of the for experiments on the "work reduction effect," the time spent working of the treatment group relative to controls

Study	Data Source	Work reduction relative to controls in hours per year and percent (%)		
		Husbands	Wives	Single females with children
Robins	All four U.S. experiments	-89 -5%	-117 -21.1%	-123 -13.2%
Keeley*	All four U.S. experiments	-7.9%	-	-
Burtless**	All four U.S. experiments	-119 -7%	-93 -17%	-79 -7%
Robins and West	Seattle / Denver Income Maintenance Experiment	-128.9 -7%	-165.9 -25%	-147.1 -15%
Robins and West	Seattle / Denver Income Maintenance Experiment	-9%	-20%	-25%
Cain et al	New Jersey Graduated Work Incentive Experiment	-	-50 -20%	-

Watts et al	New Jersey Graduated Work Incentive Experiment	-1.4% to -6.6%	-	-
Ashenfelter	Rural Income Maintenance Experiment	-8%	-27%	-
Moffitt	Gary Income Maintenance Experiment	-3% to -6%	0%	-26% to -30%

(Widerquist, 2005, p. 62)

The negative signs indicate that the change in work effort is a reduction

* Simple average of the four experiments.

**** Weighted average of the four experiments.**

The researchers found these results extremely encouraging. The work effort effects were small. The time spent working by males receiving the NIT was only 5 to 7.9% less than that of the control group on average in the four experiments together. Women with children had a larger effect, in the range of 7 to 21.1%. However, it cannot always be a bad thing for a parent to choose to spend less time working and more time taking care of their children. Furthermore, because wives worked less than husbands did to begin with, their work effort reduction constituted a smaller overall portion of the total work effort for the family.

One researcher remarked, “In no case is there evidence of a massive withdrawal from the labor force." (Robins, 1985) In the case of husbands, the reduced work effort effect of the treatment group was explained mostly by their taking more time to look for their next jobs if they became unemployed. In the case of women with children, it was further explained by their working fewer hours each week. None of the researchers found evidence of people who simply stopped working or stopped looking for work so that they could live off the NIT. (Levine et al, 2005)

Despite the positive results, their publication was a public relations disaster, especially when major results came out in 1977 during the debate of Carter’s Program for Better Jobs and Income. Editorials and speeches at the time indicated that the authors believed than *any* size of work effort reduction effect was too much. Many misinterpreted a 5 percent work effort reduction effect to mean that 5 percent of the population would stop working when; in fact, it meant only that people living near the poverty line would spend on average 5 percent fewer hours per week working, and that none of the work effort reduction was explained by people who simply stopped working. Some incredulous commentators even asked why the government would run an experiment to find out whether people would work less if they were paid not to work, seemingly unaware that the question was not whether but now much. (Widerquist, 2005) At least one former champion of the idea, Senator Daniel Moynihan, lost enthusiasm for the idea when the results came in. (Sheahan, 1983)

One of many causes of misunderstanding was the use of the terms, such as "work-effort reduction" effect for the relative difference in the number of hours worked by control and treatment groups. This term seems to imply that if we introduce such a policy people will work less than they do now, but the results were *relative* to what the control group was doing at the time, not to what subjects were doing before and after. Many other factors affected how much people changed their work hours, and whether or not a person was in the treatment group was not the most important factor. Researchers found that the most important factor determining how much subjects worked was the macroeconomic health of the economy. (Widerquist, 2005) That is, if good jobs are available, people took them. Therefore, if we can keep the economy going and ensure that good jobs are available, the introduction of an NIT need not correspond with an overall decrease in work effort.

Furthermore, the experiments were unable to test whether any reduction in work effort would cause a wage response among employers. Economic theory predicts that if the supply of laborers declines, employers respond by increasing wages, which would in turn lead to a smaller overall drop in work effort and a further decline in poverty—especially among the working poor. The public debate over the results included no discussion of the positive effects of work effort reduction.

The public debate also largely ignored many positive non-labor market results revealed by the experiments. Researchers on the Rural and Gary experiments collected data on school attendance and performance—two variables that are notoriously difficult to improve by direct intervention—and found significantly positive effects. Home ownership increased. Measures of various categories of nutritional adequacy improved, and the Gary experiment found evidence that the most at-risk groups experienced a decline in the rate of low birth weight babies. Low birth weight is associated with very serious ill health at the time and important health deficits later on in life. Programs that try to reduce the incidence of low birth weight have been largely ineffective, but the experiments showed that it could be addressed simply by reducing poverty. (Levine et al, 2005) Although the NIT experiments had a negative effect on public perception of BIG, their results when looked at closely, provide strong reason to believe the policy is beneficial and affordable.

6. The Standard Tax Credit Proposal and the Current Discussion of the Basic Income Guarantee in the United States

Discussion of BIG did not go away when it dropped off the Washington agenda in the 1980s. The academic discussion of BIG worldwide has been on the rise since 1986 when the Basic Income European Network, which later expanded to become the Basic Income Earth Network, was founded. Although the academic discussion of BIG in the 1950s, 60s, and 70s was dominated by economists, since the 1980s the academic discussion has been dominated by philosophers and political scientists, although social scientists of all fields, as well as public policy experts have been involved. Activists in many countries have also continued to be interested in the idea. Many articles and several books are published each year exploring all aspects of BIG.

Discussion of BIG in the United States has risen steadily since the U.S. Basic Income Guarantee (USBIG) Network held its first conference in 2002. The authors of this chapter, were both involved in the creation of USBIG. The USBIG Network is dedicated to increasing the discussion and scientific exploration of the BIG initiative.[8] The earlier movement was on the mainstream political agenda seemingly from the beginning, and although BIG had been promoted by many welfare activists, it took on a top-down character as Congress implemented experiments and nearly introduced

[8] U.S. Basic Income Guarantee Network (2010).

the policy before it had become widely discussed among the public. The current movement is clearly made up of academics and activists who are aware that it is a long road to get the idea back onto the mainstream political agenda in the United States.

Although discussion of a full BIG continues, the proposals that have actually received attention at the federal level have usually been incremental initiatives that take small steps in the direction of BIG. One attempt that has seen some success is the Child Tax Credit, officially called the "Additional Child Tax Credit" (ACTC). Since 1998, the ACTC has made a portion of the Child Tax Credit refundable. Like the EITC, the ACTC allows people whose income is so low that they pay little or no federal income taxes to receive part of their tax credit in cash. The amount started at $400 per child in 1998 and it has since risen to $1000. (Maag and Carasso, 2010) This policy follows the BIG model in the sense that it gets cash into the hands of the caregivers of all children unconditionally. Activists are currently pressing to increase the size of the refundable credit and to expand it to cover more people.[9]

Two related proposals with BIG-like components that have received high-level political support in Washington are the Tax-and-Dividend and Cap-and-Dividend approaches to global warming. The differences between the two proposals are not important for the discussion here. Both of them would tax polluters responsible for the emission of greenhouse gases, and redistribute the revenue raised as a dividend for all citizens—thus creating a very small BIG. The justification for the BIG in such cases is quite obvious and appealing. Greater-than-average polluters will be net-losers from the policy as their punishment. Less-than-average polluters will be net-gainers from the policy as their reward. (Widerquist, 2010) A rival proposal, Cap-and-Trade, which does not include a dividend, is also under discussion in Washington, but there is a strong possibility that the federal government or one of the states will introduce one of the strategies including a dividend.

One proposal from the right incorporates a very small BIG. The so-called "fair tax" movement

9 Caregiver Credit Campaign (2010)

wants to replace the income tax and all other federal taxes with a national sales tax. Part of the revenue from the tax would be redistributed in the form of a very small dividend designed to ensure that no person living in poverty is a net-taxpayer.[10] Thus if the tax rate is 25%, the dividend would amount to a BI of one-fourth of the poverty level. This move would be highly regressive because the more money one has the smaller portion of it one spends. The wealthiest people would pay far less taxes under this kind of a system than they do now, and low-wage workers would pay considerably more, and in most cases receive less in refundable credits and other benefits. The promoters of this policy do not stress the dividend as BI or as a welfare policy. However, to someone who is familiar with the NIT proposal, its influence (especially from the versions by Friedman and Hayek) on this movement is clear. One proposal that grew directly out of the USBIG Network's activities made it as far as a bill in Congress. The rest of this chapter discusses that proposal.

7. The Background of the Standard Tax Credit Proposal

At the first USBIG Conference in New York City in 2002, Stanley Aronowitz told the Conference audience that USBIG needed a BIG bill in the U.S. Congress. The purpose of the bill would be to act as a vehicle to use as a rallying point to generate support for the idea of a BIG. Not all groups with legislative agendas use bills in this way, but having a piece of legislation can be helpful.

Allan Sheahen, with help from Steve Shafarman, took on the job of looking for someone in Congress to introduce such a bill. In June 2004, Congressman Bob Filner (a Democrat from California) agreed and asked the USBIG Committee to find someone to draft a proposal for the bill. Sheahen and Karl Widerquist (the authors of this article) volunteered to write the proposal.

We would have preferred a bill for a full BIG large enough to eliminate poverty. However, in keeping with the times, Filner asked for something smaller and incremental. We decided to work with the idea of refundable tax credits, which in the form of the EITC and the ACTC have proved successful ways of moving the U.S. in the BIG direction. We came up with the idea of transforming

10 Americans For Fair Taxation (2010).

the standard tax deduction (which everyone who files the 1040EZ form on their federal taxes receives) into a refundable tax credit, establishing a very small but universal BIG in the United States, and significantly increasing the relief directed to the poorest Americans. The income tax system is needlessly complex with too many different deductions. It is possible to streamline tax brackets and get rid of different deductions, making most people better off. However, people with low wages could easily end up paying more taxes if streamlining tax brackets means raising the tax rates on lower incomes. People with low incomes have a very high tax burden but most of it is in sales and payroll taxes rather than income taxes. Therefore, they have very little to gain from tax simplification unless tax simplification expands refundable tax credits.

The following section reproduces most of that proposal. The proposal was written in 2005 and uses 2005 tax figures.

8. The Proposal

For 20 years, refundable tax credits (such as the Earned Income Tax Credit and the refundable Child Tax Credit[11]) have proven to be simple, effective ways to help the poor. The success these policies have had in helping the poor without extending bureaucracy has made them extremely popular with Congress and American taxpayers. The logical next step is to *transform the standard deduction and personal exemptions into a refundable **standard tax credit*** (STC) of $2,000 for each adult and $1000 for each child. The STC will provide all the poor with a small but badly needed tax credit, and give a tax cut to virtually everyone who chooses not to itemize their deductions.

The plan is simple. It removes the line for the standard deduction (and personal exemptions) from the federal income tax forms 1040, 1040A, and 1040EZ, and replaces it with a line for the standard tax credit at the bottom of the form. All tax rates remain the same. The STC does not remove the line for itemized deductions from the 1040 form, and people who itemize deductions will

[11] Officially called the Additional Child Tax Credit.

be allowed to take a $3050 deduction to replace each of their $3050 individual exemptions. Therefore, those who choose to itemize deductions will be mostly unaffected by this proposal. The only change is that anyone who chooses not to itemize deductions receives the STC instead of the standard deduction.

The proposal amounts to a small change in the formula for calculating taxes. The current formula begins by subtracting the standard deduction and exemptions from "adjusted gross income" (AGI) to determine "taxable income," which is counted as zero if AGI is smaller than the deductions and exemptions. The next step is to multiply the taxable income by the tax rate to determine the level of tax.

Under this new proposal, the formula begins by multiplying adjusted gross income by the tax rate to determine "gross tax." It then subtracts the standard tax credit to determine the "net tax" or "net refund." The following shows the change in the tax formula:

The current system:

Adjusted Gross Income

\- <u>Deduction and exemptions</u>

= Taxable income

x Tax rate

= Tax

The change:

Adjusted Gross Income

- Deduction and exemptions---(out)-->|

= Taxable income |

x Tax rate |

= "Gross" tax |

- STC<-----------------------(in)----|

= "Net" tax or refund

The new system:

Adjusted Gross Income = taxable income

x Tax rate

= "Gross" tax

- STC

= "Net" tax or refund

The current standard deduction is $4,750 for a single person and $9,500 for a married couple. The personal exemption is $3,050 for each additional member of the family including adults and children. Suppose we wanted to create a standard tax credit that was exactly the same size as the current standard deductions and exemptions, we must decide how large that STC would have to be. Because deduction and exemptions are subtracted *before* income is multiplied by the tax rate and a tax credit is subtracted *after* income is multiplied by the tax rate, to equate in actual effects a tax credit has to differ from a deduction by the tax rate.

If the tax rate is 10 percent, a tax credit has to be one-tenth the size of a deduction to have the same effects on a person's taxes. The current tax rate on the first $7,000 of adjusted gross income is 10 percent. Because the combined Standard deduction for an individual ($4,750) and personal exemptions ($3,050) is $7,800, an STC of $780—and $305 for each dependent child—would be roughly equivalent to the current standard deduction and exemptions for a family with an income of about $7,000.[12]

However, a tax deduction changes the relationship between adjusted gross income and taxable income at all levels of income, while a tax credit does not. Therefore, replacing a deduction with a tax credit will push people at higher levels of income into higher tax brackets. The STC will need to be slightly higher to counter-act the effect of pushing people into higher tax brackets; doing so will also create a tax cut for people with lower incomes. An STC of $2,000 for each adult and $1,000 for each child will create a tax cut for everyone with an income under about $50,000 per year. Because most (85% of) people with incomes greater than $50,000 chose to itemize their deductions, most of them will be unaffected by this proposal.

The following three tables illustrate how the STC affects a single person, a family of four, and a single parent with one child. The levels of income chosen show the breaks between tax brackets, which gradually increase the tax rate on income from 10% on the first $7,000 of income to 35% on income over $311,950 per year. Taxpayers within each bracket will be affected similarly to the taxpayers at the edges of each bracket. The first four rows show the taxes each family pays under the current system. Rows 5 to 7 show how the same family's tax or refund would be calculated under this proposal and row 8 shows the change in taxes for the family, which is a decrease in most cases.[13]

To see how the tables work, look at column C in Table A, a single person with $14,000 of

12 An exactly equivalent STC is more complicated because the U.S. tax system has a complicated set of tax brackets, so that there is not a uniform tax rate on all income.

13 These are explanatory examples only. For the sake of simplicity and clarity, we have purposely omitted the current Earned Income Tax Credits and Child Tax Credits from the 'current system' in Tables B and C.

adjusted gross income (AGI). Under the current system, this person is eligible for a standard deduction ($4,750) with one exemption ($3050), totaling $7,800, leaving her with a taxable income of $6,200 and a total tax bill of $620. Under the new proposal, this person's "gross" tax would be $1,750. However, he or she[14] would also receive the standard tax credit of $2,000, transforming her net tax bill into a refund of $250, and giving her a tax cut of $870, compared to the current system. An additional $870 is very significant to a person who makes $14,000 per year.

Column D in Table B shows the effect of this bill on a family of four with an income of $21,700 per year. This family currently pays no federal income tax. Under this proposal, they would receive an income supplement of $3,445 per year. That is an increase in this family's disposable income of more than 15 percent, and it would make a big difference to their ability to provide for their children's needs.

A look through the tables shows that this proposal will give a substantial tax cut to everyone who is likely to choose the standard deduction. The smaller the taxpayer's income, the larger the tax cut she receives. It can be as much as $6,000 for a family of four with an income near zero. Thus, it gives the most money to those who need it most. However, it helps everyone who receives it, and because it ensures that income rises faster than taxes, it always gives the family incentive to earn more.

---

14 Hereafter, "she" represents "he or she."

Table C: Single person

Column	A	B	C	D	E	F	G
1 AGI	0	7,800	14,000	21,800	28,400	36,200	68,800
Current system							
2 Deduction/exemption	7,800	7,800	7,800	7,800	7,800	7,800	7,800
3 Taxable income	0	0	6,200	14,000	20,600	28,400	61,000
4 Current tax	0	0	620	1,750	2,740	3,911	12,060
Proposed new system							
5 "Gross" tax	0	820	1,750	2,920	3,911	5,860	14,010
6 STC	2,000	2,000	2,000	2,000	2,000	2,000	2,000
7 "Net" Tax / -refund	-2,000	-1,180	-250	920	1,911	3,860	12,010
8 Increase / -decrease	-2,000	-1,180	-870	-830	-829	-51	-50

Table D: Married couple with two dependent children

Column	A	B	C	D	E	F	G
1 AGI	0	7,800	14,000	21,700	35,100	56,800	78,500
Current system							
2 Deduction/exemption	21,700	21,700	21,700	21,700	21,700	21,700	21,700
3 Taxable income	0	0	0	0	13,400	35,100	56,800
4 Current tax	0	0	0	0	1,340	4,565	7,821
Proposed new system							
5 "Gross" tax	0	780	1,400	2,555	4,565	7,821	13,245
6 STC	6,000	6,000	6,000	6,000	6,000	6,000	6,000
7 "Net" Tax / -refund	-6,000	-5,220	-4,600	-3,445	-1435	1,821	7,245
8 Increase / -decrease	-6,000	-5,220	-4,600	-3,445	-2,775	-2,744	-576

Table E: Single parent with one dependent child, "head of household"

Column	A	B	C	D	E	F	G
1 AGI	0	7,800	13,100	26,200	38,050	51,150	98,250
Current system							
2 Deduction/exemption	13,100	13,100	13,100	13,100	13,100	13,100	13,100

3 Taxable income	0	0	0	13,100	24,950	38,050	85,150
4 Current tax	0	0	0	1,465	3,242	5,207	16,982
Proposed new system							
5 "Gross" tax	0	780	1,465	3,430	5,207	8,482	20,257
6 STC	3,000	3,000	3,000	3,000	3,000	3,000	3,000
7 "Net" Tax / -refund	-3,000	-2,220	-1,535	430	2,207	5,482	17,257
8 Increase / -decrease	-3,000	-2,220	-1,535	-1,035	-1,035	275	275

9. Why We Need the STC

Transforming the standard deduction into a refundable tax credit will not eliminate poverty. However, it would be an enormous benefit to the poor who were completely overlooked by the tax cuts of the first Bush administration. The poor pay sales taxes, property taxes, and many other taxes, but because they do not pay very much in income tax, they have little to gain from tax simplification unless it includes something like the STC. Transforming the standard deduction into a standard tax credit will give a tax cut to everyone who files the standard deduction and has an income under $50,000 per year, and it will give the biggest tax cut to those who need it most.

If the STC proves popular, it can lead to future simplifications of the tax code—that work for low wage Americans—by transforming other deductions, exemptions, and policies into a larger STC. A larger STC can be financed by eliminating itemized deductions and/or simplifying taxes toward a flat rate of 35% (the current highest marginal tax rate). If the STC becomes large enough, welfare programs such as TANF, EITC, Food Stamps, and others can be folded into an even larger STC. Because the beneficiaries of these programs are also the largest beneficiaries of the STC, and because the STC is much simpler than any of these programs, collapsing these programs into an STC can be structured to ensure that these changes benefit the recipients of these programs. Each change toward a larger STC is accompanied by a more simplified tax system, and the STC has the potential to reduce the bureaucracy of both the IRS and the welfare system, while make low-wage American workers better off.

10. Response to the Standard Tax Credit Proposal

Filner had his staff transform this proposal into legal language. On May 2, 2006, Filner formally introduced the Tax Cut for the Rest of Us Act. It was given the number HR 5257. The preamble to the bill read, "To amend the Internal Revenue Code of 1986 to provide a basic income guarantee in the form of a refundable tax credit for taxpayers who do not itemize deductions." The bill was referred to the House Committee on Ways and Means.

Sheahen returned to Capitol Hill several times to promote the bill. Generally, people in Congress over age 50 were familiar with BIG from FAP and other proposals in the 1970s. However, those under age 50 had never heard of the BIG idea, and had to be carefully walked through it. A few pessimistic people said that BIG might have been viable in the 1960s, but not now. HR 5257 found one co-sponsor, Representative Jesse Jackson, Jr. (a Democrat from Illinois).

Filner wanted to reintroduce the bill in the following Congress in January 2007, but a new snag arose. The Democrats, who now controlled Congress, had passed "PAYGO," meaning any new bill must be "revenue-neutral." So Filner's aide had to send the proposal to the Joint Tax Committee to "score" (determine the cost). The JTC never "scored" the proposal, and the bill has not yet been reintroduced.

11. Conclusion

The issue of poverty remains unpopular in the United States. It is not just BIG that lacks political discussion on Capitol Hill; no major reform proposal aimed at increasing aid to the poor has been seriously discussed since the defeat of President Carter's Program for Better Jobs and Income. The poverty rate has fluctuated between 10 and 15 percent for the last 40 years. Politicians seem to find that an acceptable level. There is currently little ambition to say that in a country as wealthy as ours a poverty rate of no more than 0 to 3 percent is acceptable. Nevertheless, political moods change, sometimes quickly and surprisingly.

Given the current political situation nationally, BIG supporters have concentrated on making sure they have a well-thought out proposal. They are poised to push for reforms that move in the direction of BIG, which ought to increase its viability. The STC is a proposal to move further in that direction. Proposals such as Tax-and-Dividend would create a small BIG, almost as a side effect of another problem. Alaska's Permanent Fund Dividend stands as an example of the BIG model can help the poor and be almost universally popular at the same time. Programs and proposals like these lay the groundwork potentially for something much larger in the future..