



# JFI Position on Guaranteed Income

Jain Family Institute, New York, NY

# Contents

<b>Introduction</b>	<b>3</b>
<b>What Problems Does Guaranteed Income Solve?</b>	<b>4</b>
Guaranteed Income is preferable when markets work	4
<b>Guaranteed Income is the best income support policy option</b>	<b>5</b>
Cash is superior to in-kind assistance	5
Income support should be unconditional	6
Income Support Should be Universal Not Income Targeted	7
<b>Guaranteed Income Administration</b>	<b>8</b>
Guaranteed Income should be administered through the Social Security Administration or a dedicated benefits administrator	9
Guaranteed Income should be paired with Public Banking	9
<b>Guaranteed Income Size and Frequency</b>	<b>10</b>
Frequency of Payments	10
Payment Size and Net Transfer	11
<b>Complementary policies</b>	<b>12</b>
A cash supplement for the poor	12
Automatic stabilizers	13
<b>A Small but Impactful Guaranteed Income</b>	<b>13</b>
<b>A Larger Guaranteed Income</b>	<b>15</b>
Financing Options	15
Moving Beyond Income Taxes	16
<b>A Better Safety Net</b>	<b>17</b>

# Introduction

In 2017, the Jain Family Institute began its work on guaranteed income motivated by two instincts: our legacy safety net programs were inadequate and inefficient in supporting those they were built to serve, and a system of recurring, guaranteed cash transfers might prove an important tool to ensure they did. The concept of a guaranteed or basic income has a long history: noted as far back as Thomas More’s “Utopia,” it was first advocated seriously in the United States by Martin Luther King, Jr., the National Welfare Rights Organization (NWRO), and others as a tool for economic and racial justice, and occasionally [attempted](#) by local and federal governments in limited fashion. While important research on the subject has been ongoing for decades, the notion of a guaranteed income remained largely outside mainstream policy discourse when our work began. JFI designed its program—a combination pilot design and consultation, formal, mixed-methods research evaluations of such pilots and their effects, and higher-level policy analysis—in an effort to identify what form of cash support might be feasible and to help build the evidence base necessary to command public and policymaker support.

In the intervening years, mainstream consensus has shifted swiftly and considerably. Experiments in Stockton, California ([SEED](#)) and Jackson, Mississippi ([Magnolia Mothers’ Trust](#)) showed remarkable impacts on the lives of recipients and belied many of the longstanding myths about “handouts”; a Democratic presidential candidate ran a credible national campaign centered on a [policy of unconditional cash for all Americans](#); Congress issued an [unprecedented amount of direct stimulus payments](#) to middle and lower-income citizens suffering during under the COVID-19 pandemic; and a [coalition of American mayors](#) began advocating forcefully an income floor for all Americans. Thanks to these efforts, among others, guaranteed income is being piloted in dozens of American cities, advocated for by prominent state and federal governments, and endorsed by a broad coalition of civil society groups. Far from a fringe policy concept, a federal program of recurring cash support may be within reach.

JFI’s position, born of our own work and extensive research by others, is that a universal, unconditional cash assistance program will help combat poverty, improve material well being and, in so doing, help alleviate the profound economic insecurity afflicting communities of color in America. With such a program now in the realm of feasibility, we believe the urgent work ahead is, in short, getting it right. Over the past year, we have released several [papers](#) and [opinion pieces](#) identifying pressing questions around what an optimal guaranteed income might look like and how it might be implemented in a way that bolsters, rather than undermines, the parts of our safety net on which Americans rely. While there is no one “right” answer, there nevertheless exist

clear pitfalls, some technical and less prominently discussed, that risk undermining even the most well-intentioned attempt at a guaranteed income.

This paper synthesizes our recommendations for an effective federal policy for the United States along several dimensions: administration, disbursement size and frequency, financing (including through program termination and consolidation), and targeting. Our research is ongoing and some policy details, like financing, have so far proven more challenging than others. Where the evidence is more uncertain, we point to a range of possibilities rather than a single solution. This is a living document, and will be updated with new findings and perspectives as our work, and that of others, evolves.

## What Problems Does Guaranteed Income Solve?

Guaranteed income policies, as usually conceived, are indefinite rather than temporary and cannot fully replace income from earnings. Rather, they act as a supplement that reduces poverty and material hardship for working and middle class households and smooths consumption as earnings income fluctuates. We [have argued](#) that guaranteed income, therefore, is best conceived of as an income support program like SNAP or EITC. We use this category to distinguish between other components of the safety net including public insurance provision and “pre-distributional” programs that actively intervene in labor markets (e.g. minimum wage, scheduling regulations, sectoral bargaining, training and education, etc.).

### Guaranteed Income is preferable when markets work

As an income support program, guaranteed income is a poor substitute for policies that largely or fully fall into other safety net categories. For example, unemployment insurance provides temporary income replacement and solves a different problem (acute loss of income) than guaranteed income, which cannot replace earnings (except at the bottom of the earnings distribution) and instead provides a continued supplement to workers and non-workers alike. Public insurance provision and pre-distribution are, furthermore, responses to missing markets or market failures. Implicit in any cash policy is the assumption that there is a well-functioning market to produce and distribute goods and

services. Money is the capacity to use those markets to meet one's needs. And indeed when markets are present and working well, guaranteed income is an excellent way to provide individuals and families assistance. But money cannot solve underlying issues with markets, like information asymmetry, externalities, or barriers to entry, that prevent them from efficiently distributing goods and services. When markets do not function properly (e.g. healthcare, education, and housing) guaranteed income may be less effective unless paired with "supply side" measures to correct this. And when markets do not function at all, direct provision along with public insurance policies is preferable.<sup>1</sup>

## Guaranteed Income is the best income support policy option

Identifying guaranteed income as an income support program clarifies the relevant comparison group. A guaranteed income should be seen as a potential substitute for other income support policies only. UBI and a Jobs Guarantee<sup>2</sup> are not direct substitutes, so common debates around the policies makes sense only in terms of prioritization given scarce resources and political capital. It also leads to a secondary question: what features of a guaranteed income make it superior to other income support policies existing or otherwise? We argue, from least to most radical proposition, that cash is preferable to in-kind assistance or quasi-cash (i.e. "vouchers"), that aid should not be conditioned on work or other activities, and that aid should be universal rather than targeted by income, disability status, or household composition.

### Cash is superior to in-kind assistance

Although the shift is not fully embraced by the general public, economists and social scientists have long supported switching quasi-cash and in-kind benefits to cash in order

---

<sup>1</sup> Healthcare and health insurance markets are the classic example of a poorly functioning market that may require direct provision. The failures in these markets have been studied extensively, perhaps most famously by Ken Arrow in "Uncertainty and the Welfare Economics of Medical Care" <https://www.jstor.org/stable/1812044>

<sup>2</sup> See for example:

<https://www.latimes.com/entertainment-arts/books/story/2020-06-24/forget-ubi-says-an-economist-its-time-for-universal-basic-jobs> or <https://tcf.org/content/commentary/universal-basic-income-versus-jobs-guarantee-serves-workers-better/>

to give individuals the flexibility to meet their particular needs.<sup>3</sup> Popular opposition to simply providing cash may be rooted in paternalistic concerns that recipients will not spend rationally or that they will misuse aid to gamble or use drugs and alcohol. In the US context, these concerns cannot be disentangled from a history of systemic racism against people of color, and particularly against African Americans. These concerns have [been repeatedly debunked](#).

## Income support should be unconditional

Many U.S. safety net programs condition continued receipt of benefits on work, training or work-search activities for all or some categories of recipients (this is especially true for so-called, “ABAWDs” [Able-bodied Adults Without Dependents](#)). The [Earned Income Tax Credit](#), which until recently was the largest federal cash assistance program<sup>4</sup>, additionally includes a “phase in” period such that the benefit value increases with earnings before plateauing at its maximum. Safety net programs sometimes condition on recipient efforts, promoting the idea that recipients owe society a reciprocal act in exchange for the benefit.<sup>5</sup> In the case of the EITC, the conditionality built into the policy through its “phase in” period explicitly serves to encourage work as a means of boosting overall household income.

We strongly believe that guaranteed income should be unconditional. Furthermore, we believe we should strive to remove conditionality from safety net policies. When the government attaches conditions to aid, it must then create an enforcement infrastructure to verify that recipients are eligible or in compliance. Recipients must meet with case managers, fill out forms, and submit documentation. This further burdens individuals who may already be dealing with the stresses of poverty; they may miss deadlines or submit paperwork incorrectly. This results in “churn,” with eligible individuals and households falling off benefits for weeks or months at a time until they can return to compliance. The conditions themselves can range from pointless to cruel. Programs that require work search incentivize recipients to “spam” employers with their resume regardless of fit or feasibility. Programs that require demonstrated employment status or minimum hours punish individuals and their dependents for labor force outcomes that are outside their control (i.e. economic downturns that result in layoffs,

---

<sup>3</sup> See for example, arguments made by Abhijit V. Banerjee and Esther Duflo, in their book [“Poor Economics”](#) or [this](#) op-ed by Christopher Blattman.

<sup>4</sup> The expanded child tax credit, if it were to become permanent, would be larger.

<sup>5</sup> See for example, “Welfare deservingness opinions from heuristic to measurable concept: The CARIN deservingness principles scale”

<https://www.sciencedirect.com/science/article/abs/pii/S0049089X18308937>

systemic discrimination) and thus generally fail to increase labor supply. Congress's decision to make the child tax credit fully refundable implicitly acknowledges the damage work-conditioning has wrought on American families; we hope it is a sign of further steps towards unconditionality. Finally, we note that work-conditioning also damages our economy. A work-conditioned safety net [fails during economic recessions](#), perversely unraveling when needed the most. To the extent that the safety net is supposed to act as an automatic stimulus and a countercyclical measure, a work-conditioned safety net fails to achieve its main purpose.

## Income Support Should be Universal Not Income Targeted

Universal programs are controversial, but they should not be. When discussing a universal cash assistance program like Andrew Yang's Freedom Dividend, one often hears, "Why should Bill Gates get \$1,000 per/month? Give it to the needy!" But this sentiment, commonly expressed, is near-sighted in focusing solely on the benefit and not its financing. A universal program does not imply that the rich or even the middle class receive a net transfer once taxes are taken into consideration (though, as discussed below, we favor programs that extend net transfers well into the middle class). The economist Greg Mankiw has offered an [excellent illustration](#) of this point:

Consider an economy in which average income is \$50,000 but with much income inequality. To provide a social safety net, two possible policies are proposed.

- A. A universal transfer of \$10,000 to every person, financed by a 20-percent flat tax on income.
- B. A means-tested transfer of \$10,000. The full amount goes to someone without any income. The transfer is then phased out: You lose 20 cents of it for every dollar of income you earn. These transfers are financed by a tax of 20 percent on income above \$50,000.

Which do you prefer?

As Mankiw notes, these two programs are distributionally identical in net transfers (should everyone receive the benefit). But the crucial difference is in administration of the program—upfront means-testing places a significant burden on the most vulnerable households. Under program "B" above some of the poorest households (which are

disproportionately African American, Hispanic and Native American) will not receive the benefit because they will not submit the necessary paperwork to receive it, or if they do, they may find their paperwork mishandled or erroneously rejected. They confront many obstacles: lack of correct documentation, especially if they work in the informal sector, complex requirements, and awareness of the program's existence and application process. Like conditionality, means-testing places a significant burden on the vulnerable; the desire to ensure the "wrong" people are not helped means that many of the "right" people will go without aid.

Means-testing causes further problems when benefits are distributed throughout the year in regular payments rather than in annual lump sum (a common feature in guaranteed income proposals). If monthly benefits are means-tested according to previous monthly earnings (e.g. a rolling average) and income is unstable, as it is for many working and middle class households, recipients may find their monthly benefit too low to help in any given month because previous income was "too high"; alternatively they may face unexpected clawbacks at tax time because their benefit was, due to earnings fluctuations, "too high" during part of the year. The United Kingdom's [Universal Credit program](#) should serve as a warning for those who favor [upfront means testing](#) of cash benefits as this program left some people penniless due to the interaction of the means-testing formula with monthly fluctuations in their earnings.

# Guaranteed Income Administration

The overriding goal in designing a guaranteed income policy should be, in keeping with the principles described above, [limiting the burden](#) placed on the public. The reforms to the Child Tax Credit (CTC) under the Biden administration (which they hope to make permanent) substantially improve upon the previous CTC by removing its work-conditioning and increasing its generosity. But the choice to leave the benefit as a tax credit administered by the IRS and to continue the practice of upfront means-testing prevents this reform from being truly great. Individuals will have to apply to the IRS for the benefit through tax filings or through a web portal and submit to income verification. Already the IRS estimates that roughly [8 to 9 percent of eligible families](#) will not receive the benefit; the IRS does not have previous tax filings from them and they may not be aware they must [take action to benefit](#). Administering this program through the IRS raises additional challenges. For one, the IRS does not have extensive experience issuing regular



monthly payments. Further, the complexity of the US tax system has led (though not inevitably) to the creation of for-profit tax filing companies that extract a substantial portion of any refund or credit issued from the numerous working class households that rely on them for help.

It is useful to contrast this with Senator Mitt Romney's alternative [proposal](#) for a child allowance, which does away with the CTC and instead replaces it with a monthly benefit administered by the [Social Security Administration](#), which has a long history of managing monthly payments to tens of millions of households. Though the SSA would also initially require additional data to launch the program, the plan consists of automatic payments with no need to apply annually. Each household would also receive the full benefit monthly with any "means-testing" being done on the back end at tax time.

## Guaranteed Income should be administered through the Social Security Administration or a dedicated benefits administrator

Although we do not endorse every component of the Romney Child Allowance plan, we believe that his policy provides a model for how guaranteed income policies should be administered. An automatic benefit administered through the SSA or a dedicated benefits administrator is the best option for reducing administrative burden.

## Guaranteed Income should be paired with Public Banking

Even the Social Security Administration must deal with the problem of the ["unbanked" or "underbanked."](#) Though most SSA program (OASDI, SSDI, SSI) beneficiaries receive their benefits electronically through monthly direct deposit, a substantial minority instead receive prepaid debit cards through the Federal Direct Express System. This limits the risk that recipients will turn to check cashers or other third parties that might siphon off much of the benefit. But, as with checks, prepaid cards can be stolen and may also be lost in the mail. This can interrupt crucial aid and force recipients to apply for a replacement. Ultimately we need to invest in a [system of seamless digital payments](#) and, in turn, a public banking option so that every individual has an account to receive them. There are [different ways](#) to accomplish this, including Postal Banking, Fed Accounts or hybrid

systems. We do not take a position on which is best but simply note that public banking architecture is crucial to maximize the benefits from a guaranteed income policy.

# Guaranteed Income Size and Frequency

## Frequency of Payments

Implementing a guaranteed income through the Social Security Administration would make regular payments (e.g. monthly or biweekly) feasible but that does not mean this is guaranteed income's ideal form. Though guaranteed income policy is typically presented with small frequent payments in contrast to the annual lump sum payments (at tax time) of the EITC, the choice is not straightforward. As our Director of Research Sidhya Balakrishnan argues in a [piece](#) with economist Jonathan Morduch:

Once you get beyond the basic problem of not having enough money, financial challenges tend to be of two types. The first is how to take a relatively large sum of money and be able to stretch it out so that it lasts—what economists call "consumption smoothing." The second is the reverse: how to take a series of smaller sums, like weekly paychecks, and save parts of each to create bigger amounts that can be used for bigger needs. Instead of smooth, it's about being able to spend in significant spikes.

In response to chronic income insufficiency or [income volatility](#), working class households may do without but may also attempt to smooth consumption using subprime credit products like pawn, car title, or payday loan. An annual lump sum may just be used to pay down that debt with consumption reduced throughout the year by debt service. On the other hand, working class families may not have the ability to borrow from mainstream creditors to finance large purchases; instead, they must save. That requires further budgeting work that some recipients may prefer be done for them through lump sum disbursement.

It is not yet clear whether Guaranteed Income should be disbursed in small, regular payments. Given the harmful effects of income shortfalls and the prevalence of income volatility among working and lower middle class households, one might think small, regular payments are preferable. We believe, however, that evidence on the impact of disbursement frequency could be stronger and that further research on this topic would

be beneficial. In fact, the program design for the [Compton Pledge](#) guaranteed income pilot that JFI assisted on includes an experimental analysis of how differing disbursement frequencies shape consumption, savings, and material well-being.<sup>6</sup> It is reasonable to expect that some recipients would benefit from less frequent lump sum payments and, if so, we should consider the feasibility of offering a choice. We look forward to revisiting this topic when the results become available.

## Payment Size and Net Transfer

Discussion around the size of a guaranteed income benefit usually focuses on the benefit side only. In other words, we discuss the merits of a \$250/month, \$500/month, or \$1000/month benefit without reference to the “payfors.” But as we noted above, one must also consider the net benefit after taxes and phase outs (if any) are applied. A universal program can still, in practice, be narrowly targeted by income.

Advocates for a guaranteed income can agree on its administration as a universal policy without upfront means-testing while disagreeing on its optimal size. There are several factors to consider. The first is material hardship and the extent to which it extends up the income distribution: should “middle class” households receive cash assistance as well? Food stamps, for example, phase out entirely by 130 percent of the federal poverty threshold<sup>7</sup> while the EITC fully phases out at a bit more than 200 percent of the federal poverty line for a single filer with two dependent children.<sup>8</sup> [Income volatility](#) is a related concern, a benefit with an early phase out or one that phase outs quickly can leave households with a difficult tax bill should they earn “too much.”

The second, which flows from the first, is behavioral response. Any transfer will affect labor supply on the margin, guaranteed income included. Research suggests that unconditional cash transfers can [reduce hours worked](#), though far more modestly than many might expect (Indeed when implemented at large scale the effect may be [negated](#) by increased hiring due to transfer-induced increase in consumer demand). The effect would, however, be somewhat greater if the “cost” side of the policy included income taxes and/or phase outs. Phase outs (which reduce the size of the benefit as income increases) act like an implicit tax on earnings and one that can be quite high if the phase out is aggressive. This can cause individuals to “substitute” away from work. Indeed, the

---

<sup>6</sup> The Compton Pledge is being evaluated experimentally through a randomized controlled trial. More details on the study design can be found at the AEA RCT Registry here: <https://www.socialscienceregistry.org/trials/7621>

<sup>7</sup> 130 percent of the FPL was roughly \$28,000 for a family of 3 in 2020

<sup>8</sup> \$47,440 versus 200 percent of the FPL at \$43,440

very [high implicit marginal tax rates](#) associated with US safety net programs are sometimes noted as potentially causing a [“poverty trap.”](#) A guaranteed income that replaces several such programs and employs a gentle phase out (or funds the program without payroll or income taxes) could conceivably reduce net work disincentives.<sup>9</sup>

The third, common to any policy discussion, is opportunity cost. We have argued that guaranteed income is the best way to provide income support but that the safety net also includes other important categories of aid including public insurance provision. After some threshold, resources might be better spent on strengthening those parts of the safety net than on increasing cash transfer amounts. We want to set a benefit level with this in mind. Does doubling a cash transfer also double its impact on material hardship? Where do we begin to see decreasing returns to further increases in benefit size (holding the rest of the safety net constant)? This is an ongoing area of [research](#) and one that JFI is pursuing in its pilot plans.

## Complementary policies

### A cash supplement for the poor

Replacing programs like TANF and SNAP with an unconditional cash assistance program would reduce administrative burden on households and in doing so increase wellbeing. And replacing multiple programs with rapid phase outs with a single program with no phase out would remove high implicit marginal tax rates they currently face. We argued in [“Reweaving the Safety Net,”](#) however, that while our income support programs are not particularly generous, a minority of working class households receiving multiple such benefits (for example, and especially, public housing support through Housing Choice Vouchers) could be made worse off if these programs were removed in favor of single guaranteed income policy. This is because, all else equal, a guaranteed income spreads the same amount of money over a larger group of people than a heavily targeted program, providing broader but shallower aid. A sufficiently large guaranteed income policy would, of course, protect multiple benefit households but greatly increase the cost of the program. It would also raise questions about the negative effects of the taxes necessary to finance it.

---

<sup>9</sup> Replacing other safety net programs would also, obviously, alter the net transfer and would have to be accounted for in setting transfer amounts.

There are good reasons to favor replacing our current range of income support programs with a single, generous guaranteed income. If, however, we are to continue to rely primarily on income taxes to fund social safety net expenditures, we will likely be limited to a “small” guaranteed income (see funding section below). In this case, these state and locally administered programs should instead be consolidated into a single cash benefit program that would serve as a supplement to a base cash assistance program. This supplement could phase out earlier than the base program to control costs but should likely phase out later than the current cash and quasi-cash programs do. In this way, the most vulnerable would continue to receive the deep aid that a small income-tax financed guaranteed income cannot provide but in a manner that reduces the burdens and high marginal tax rates associated with current safety net programs.

## Automatic stabilizers

Unlike work-conditioned programs, unconditional cash can act as countercyclical policy to combat economic recessions. Jain Family Institute Senior Fellow Claudia Sahm has [argued](#) that direct cash to households can be an effective automatic stabilizer for the economy. If we are to build a system capable of disbursing cash electronically to every household, it makes sense to utilize that system during economic downturns (similar to how [Maricá, Brazil](#) used the digital currency infrastructure set up for its partial basic income policy to send out pandemic aid). Thus a guaranteed income policy could include supplementary payments automatically triggered and discontinued by changes in economic conditions, using, for example, the “[Sahm rule](#),” as a guideline.

A federal guaranteed income program should include automatic stabilizers, additional cash payments added to the monthly disbursement during periods of economic downturn. Although we do not yet have a strong opinion on the ideal size of these supplements, we believe the Sahm rule provides a good framework for determining when these payments should be triggered and when they should be tapered.

# A Small but Impactful Guaranteed Income

Robert Hartley and Irv Garfinkel, scholars at Columbia University’s Center on Poverty and Social Policy at Columbia University recently [presented and compared](#) some hypothetical guaranteed income policies to understand the implications of different financing targeting

and benefit size choices. This research offers insight on the potential impact of such policies on poverty and the financing costs.

Hartley and Garfinkel compare three hypothetical policies:

- (A) \$250/month for all individuals 64 and below,
- (B) \$500/month for individuals 19-64, and
- (C) \$500/month for working individuals over 18.<sup>10</sup>

Each has a phase out but one that does not begin until household income reaches \$150,000 (it then phases out at 2 percent per \$1,000 to zero out at \$200,000). The policies presented have a gross cost ranging from 720 billion dollars (A) to 1 trillion dollars (B) but the authors suggest that much of that cost could be absorbed through reform of the tax code including removing reductions and tax credits including the child tax credit and child dependent care tax credit, which could be considered redundant with a guaranteed income policy. This would contribute roughly 600 billion dollars to covering the costs of the policy.

What can a policy of this size accomplish? Hartley and Garfinkel estimate that policy A, when paired with the proposed tax reforms and with remaining costs paid for with a progressive income tax, would reduce the overall poverty rate by 5.9 percentage points (from 13.2 percent to 7.3 percent) and child poverty rate by 8.2 percentage points (from 12.6 percent to 4.4 percent).<sup>11</sup> This analysis relies on earlier data (the federal poverty rate dropped as low as 10.5 percent immediately prior to the pandemic) but overall suggests that even a relatively small guaranteed income of \$3,000 per person per year could make a large difference and that such a policy, despite its high phase out point, could be financed with a relatively modest increase in taxes once reforms and program consolidation are factored in. Of course, simply being above the poverty line does not, as we have noted, mean one does not suffer material hardship.

The analysis suggests that it would be both feasible and impactful to implement a guaranteed income of \$250/month per person under 65, the equivalent of expanding the existing refundable child tax credit to adults. It can be partly paid for through tax code reform such as removing the redundant CTC and dependent care tax credit and the EITC

---

<sup>10</sup> Rep. Rashida Tlaib's [The Building Our Opportunities to Survive and Thrive \(BOOST\) Act](#), which offers \$250/month for singles and \$500/month for families, is an example of a similarly-sized proposal.

<sup>11</sup> Although each policy would reduce poverty overall, policy C reduces it by the least as it is work-conditioned. And though policy B doubles the monthly benefit compared to policy A, the restriction to adults only means the program reduces overall poverty more at the cost of reducing child poverty less.

or through stepped-up IRS enforcement.<sup>12</sup> As we conduct further research, we will revisit this number. The ideal benefit may be considerably larger, including the \$600/month disbursements we are investigating in several of our pilot programs.

## A Larger Guaranteed Income

Although [Andrew Yang's Freedom Dividend](#) is the most famous, there have been other proposals for guaranteed income policies with much larger gross transfers in the last few years. These include:

- The [Wiederspan, Rhodes, and Shaefer](#) proposal for a household-level Negative Income Tax set at the federal poverty level with a 50 percent phaseout rate (and replacing most income support programs)
- "[A Guaranteed Income for the 21st Century](#)," a proposal by Naomi Zewde, Kyle Strickland, Kelly Capatosto, Ari Glogower, Darrick Hamilton and published by the New School Institute on Race and Political Economy, which includes a \$12,500 per person benefit that would effectively eliminate poverty

## Financing Options

Although most of the cost of setting up a small guaranteed income can be covered through program consolidation and elimination, changes to tax credits and exemptions, and better tax enforcement, financing a larger guaranteed income program like one of the above will require substantial tax increases at least in the short run (longer run plans include paying a guaranteed income through dividends from a sovereign wealth fund). There are several possibilities including a Value Added Tax (VAT), payroll and income taxes, a carbon tax, and a wealth tax. Each has several pros and cons.

- Income taxes are already present, and thus easier to tweak. Progressive income taxes can also be used to combat inequality. But income (and payroll) taxes, even if "flat," are among the most distortionary and that can reduce long term economic growth.

---

<sup>12</sup> Some [estimates](#) suggest the federal government loses out on 600 billion dollars in tax revenue each year because it has not funded the IRS adequately to perform its auditing function. There is, in other words, substantial money left on the table that could be used to expand the safety net prior to introducing new or higher taxes.

- VATs are favored by many economists for being easy to collect/hard to dodge and less distortionary than other taxes (they do not disincentivize work or savings). But VATs are regressive before accounting for transfers, since working and middle class households spend a greater proportion of their income on consumption than wealthier households. That is an important consideration as can be seen in the Hartley and Garfinkel analysis, where financing choices have major implications for net poverty reduction of an otherwise identical benefit.<sup>13</sup>
- Carbon tax-funded guaranteed income is often discussed as a “win-win,” because taxing carbon is efficient (it rectifies a major negative externality) and disbursing the proceeds secures political buy-in from consumers who will experience the tax as an increase in consumer prices. The difficulty is in balancing two goals: correcting a negative externality and providing an optimally sized guaranteed income. The optimal price on carbon may not generate a particularly large guaranteed income dividend; the optimal guaranteed income may generate a carbon tax that is too high and thus distortionary.
- Wealth taxes are controversial because policymakers are generally interested in promoting savings and investment and taxing wealth could discourage this. Of course, proponents argue that much of what is classified as wealth is not actually productive investment. Wealth taxes could both combat inequality and raise a great deal of money, but only if logistical and legal challenges in collection can be remedied. Taxing a stock category rather than an income stream may be difficult because wealth can be hidden or reclassified.

## Moving Beyond Income Taxes

A guaranteed income larger than the “small but impactful” policy described above will likely require funding mechanisms instead of or in addition to (progressive) income taxes. As the benefit size increases, to finance the program through income taxes alone, lawmakers would either have to increase the speed of the benefit phase out and/or increase income tax rates significantly. In both cases, (implicit) marginal tax rates on earnings could increase quite dramatically, discouraging work and potentially doing damage to the economy. For example, the [“Guaranteed Income for the 21st Century”](#) proposal pays for its \$12,500/person benefit partly through a rapid phase out beginning at

---

<sup>13</sup> Hartley and Garfinkel compare income taxes to carbon taxes but carbon taxes, however implemented, will without a doubt lead to an increase in consumer goods and are thus similar in impact to a true VAT.



the federal poverty level and ending at household median income. This produces an implicit marginal tax rate for working class and many middle class households [in excess of 81 percent](#) (with some households actually experiencing periods at greater than 100 percent marginal tax rates). Despite this, the program would still require raising at least 800 billion dollars in additional revenue. In other words, while a modest (but still impactful) guaranteed income is quite possible to fund in our existing tax framework without collateral damage, responsibly implementing more ambitious proposals<sup>14</sup> will require that we develop new funding sources—and take on the associated political and implementation challenges of doing so.

At this stage, JFI is not ready to commit to a particular financing option or combination of options for a larger guaranteed income, but we will revisit this discussion as our research on the optimal benefit amount progresses.

## A Better Safety Net

The evidence suggests overwhelmingly that a guaranteed income policy, if well-implemented, can slash poverty and reduce the financial and administrative burdens that prevent working and middle class households from receiving the support they deserve. Moreover, it can help rectify the decades of conditions and restraints that have disproportionately, and often deliberately, left African American and other minority households in unacceptable precarity. This paper represents our best—though by no means final—recommendations as to how the federal government can ensure any such policy realizes these critical goals. We conclude that a “small” yet still impactful guaranteed income is well within reach under our existing tax system, and that a “large” such policy, though feasible, would require substantial changes to our systems of revenue and administration to function as intended.

---

<sup>14</sup> For example, one that consolidates all existing income support programs (SNAP, HCV, etc.) into a single benefit rather than maintaining a separate cash supplement policy for poorer households as described above.