COMPARING RECENT INCOME MAINTENANCE PROPOSALS:

Universal Basic Income, Negative Income Tax, and Child Allowance

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During the 1960s, support for a guaranteed income or a negative income tax was widespread in the US, coming from such disparate sources as Nobel Prize winners in economics Milton Friedman and James Tobin as well as Nobel Peace Prize activist Martin Luther King, Jr. There was also some support for a child allowance. In the 1970's the Congress enacted the Earned Income Tax Credit, which is similar to a negative income tax conditional on work (the Food Stamps Program and Supplemental Security Income for the aged, blind, and disabled were complementary means-tested programs introduced around this time to support low-income families regardless of work).

More recently, the Congress converted the deduction for children in the federal income tax to an expanded tax credit for children akin to a child allowance for families who had taxable income. As we approach the 2020 Presidential election, proposals for guaranteed income, negative income tax and child allowance are once again proliferating. Presidential candidate Andrew Yang has proposed a universal basic income (UBI) called a Freedom Dividend; Representative Rashida Tlaib has proposed a negative income tax (NIT) in her Building Our Opportunities to Survive and Thrive (BOOST) Act; and, Senators Michael Bennet and Sherrod Brown, and Representatives Rosa DeLauro and Suzan DelBene have proposed an unconditional child allowance by making the Child Tax Credit (CTC) fully refundable in the American Family Act (AFA).

Key Findings

- Three recent income guarantee proposals differ in benefit generosity, degree of means testing, categorical eligibility, and financing—leading to disparate effects on poverty and inequality.

- The Freedom Dividend provides the most generous and most universal benefits to adults and has a comparable effect on reducing poverty and inequality as the BOOST Act for the total population, yet less poverty reduction for children.

- BOOST guarantees only one fourth as much to adults as the Freedom Dividend yet does nearly as well in reducing poverty.

- The AFA child allowance, which is nearly universal but targeted at children rather than adults, provides more poverty reduction for children at a small fraction of the cost relative to the Freedom Dividend because the dividend is both limited to adults and financed very regressively.

- BOOST, when financed by the progressive income tax, would reduce child poverty much more than the Freedom Dividend, indicating the importance of how the benefit is financed.

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Estimated Impacts

Using recent data from the Current Population Survey's Annual Social and Economic Supplement, we simulate the poverty-alleviating and inequality-reducing impacts of three forms of guaranteed income policies based on recent proposals: the Freedom Dividend, the BOOST Act, and the American Family Act. (See Appendix for details.) Table 1 provides summaries of each policy proposal's major benefits. While these proposals could be financed in a variety of ways (for example, Yang offers a multifaceted financing plan), we simulate the effects on poverty and inequality based on proportional increases in federal income tax rates for the smaller plans, AFA and BOOST, and we add a carbon tax of $42 per metric ton of greenhouse emissions and a 10-percent value-added tax (VAT) in order to finance the larger Freedom Dividend.
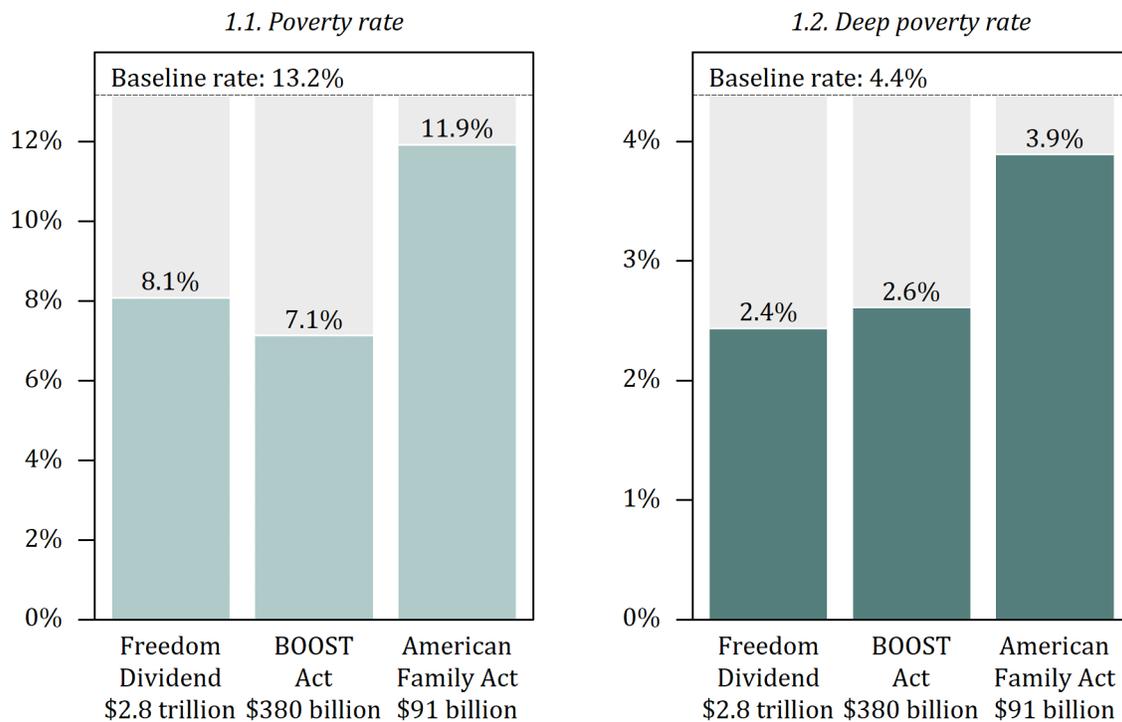
Table 1. Policy Proposal Summaries

Freedom Dividend Cost: $2.8 trillion	Provides $12,000 yearly to U.S. citizens over the age of 18 years old, which individuals opt to receive as a replacement for any means-tested social welfare assistance, or they could keep their current benefits and forego the Freedom Dividend.
Building Our Opportunities to Survive and Thrive (BOOST) Act Cost: $380 billion	Provides up to $3,000 yearly per single filer or $6,000 per joint filer regardless of earnings up to a point where the credit begins to phase out: from $30,000 to $50,000 for single, childless adults; from $60,000 to $80,000 for single parents; and, from $60,000 to $100,000 for married couples.
American Family Act (AFA) Cost: $91 billion	Eliminates the earnings requirement/phase-in for the Child Tax Credit (CTC), and increases the maximum yearly credit from $2,000 to $3,600 per child under age 6, and to $3,000 per child aged 6 to 17. Benefits begin to phase out at $130,000 in adjusted gross income for single filers and $180,000 for joint filers.

These 3 proposals differ substantially in the numbers and types of people who receive benefits as well as the generosity of those benefits. Consequently, the costs of these programs vary dramatically as well. The Freedom Dividend is universal for adults. BOOST targets benefits to lower- and moderate-income adults. Because an NIT limits benefits to lower-income individuals and families, it costs less than a UBI of similar benefit generosity. Note, however, that neither provides benefits to children. In contrast, the AFA is limited to children and, though nearly universal, phases out benefits for children in upper-income families. It also costs less because the majority of children already get the equivalent of a $2000 yearly per child allowance in the form of the $2000 per child tax credit.

The programs also differ substantially in the way they are financed. Andrew Yang has proposed financing the Freedom Dividend in large part through a value-added tax and through the elimination of income benefits for low-income families such as food stamps, cash assistance, and housing subsidies. Neither BOOST nor the AFA describe how the benefits would be financed, so we model the financing through increases in the federal income tax.

The poverty reduction effects of each policy proposal are shown in Figure 1. We show the change in the poverty rate (panel 1.1) as well as in the deep poverty rate (panel 1.2), both for the total U.S. population. The poverty rate measures the proportion of the population with resources below the SPM poverty threshold. The deep poverty rate measures the proportion of families with resources below one half of the SPM poverty threshold.

Figure 1. Reform Effects on Poverty and Deep Poverty

1.1. Poverty rate

Baseline rate: 13.2%

Freedom Dividend $2.8 trillion: 8.1%
BOOST Act $380 billion: 7.1%
American Family Act $91 billion: 11.9%

1.2. Deep poverty rate

Baseline rate: 4.4%

Freedom Dividend $2.8 trillion: 2.4%
BOOST Act $380 billion: 2.6%
American Family Act $91 billion: 3.9%

The reductions in poverty are directly related to fiscal costs and, especially for the Freedom Dividend, how those costs are financed. The Freedom Dividend and BOOST Act have the largest poverty reductions—falling to around 7 to 8 percent of the population in poverty and 2.5 percent in deep poverty. At a total cost of about $2.8 trillion, the Freedom Dividend is much larger overall than BOOST, yet the benefits from the Freedom Dividend would be offset by reductions in means-tested transfers such that the poverty effects are closer to those of BOOST.[1] AFA, which is the least costly and targeted toward children, reduces the poverty rate in the total population to below 12 percent and deep poverty below 4 percent.[2]

The results for child poverty, displayed in Figure 2 are quite different. The Freedom Dividend reduces child poverty the least, and deep child poverty would actually *increase*. This is a surprising finding, which is driven by a combination of limiting benefits to adults and the regressive financing of the

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1 *To simulate the Freedom Dividend benefits, we assume that families accept whichever benefit amount would be larger between the Freedom Dividend and the means-tested benefits they would have to forego in order to receive the Freedom Dividend. We estimate the means-tested benefit amounts using family-level income for cash, food, disability, housing, or energy assistance.*
2 *Note that the poverty reduction estimates shown here for the American Family Act are different from recent estimates because the data come from different years and the data in this brief reflect changes to the poverty rate after adjusting for under-reported transfer income (see Appendix for more detail).*

Freedom Dividend, especially the elimination of safety net program benefits for many.[3] At the same time, the Freedom Dividend is also partially financed by a value-added tax and a carbon tax, which means that low-income families could expect a smaller net benefit while also facing higher costs of these consumption taxes. If BOOST or AFA were to be financed by equally regressive taxes, their poverty reduction effects would also be smaller.

Figure 2. Reform Effects on Under-18 Poverty and Deep Poverty

2.1. Poverty rate

2.2. Deep poverty rate
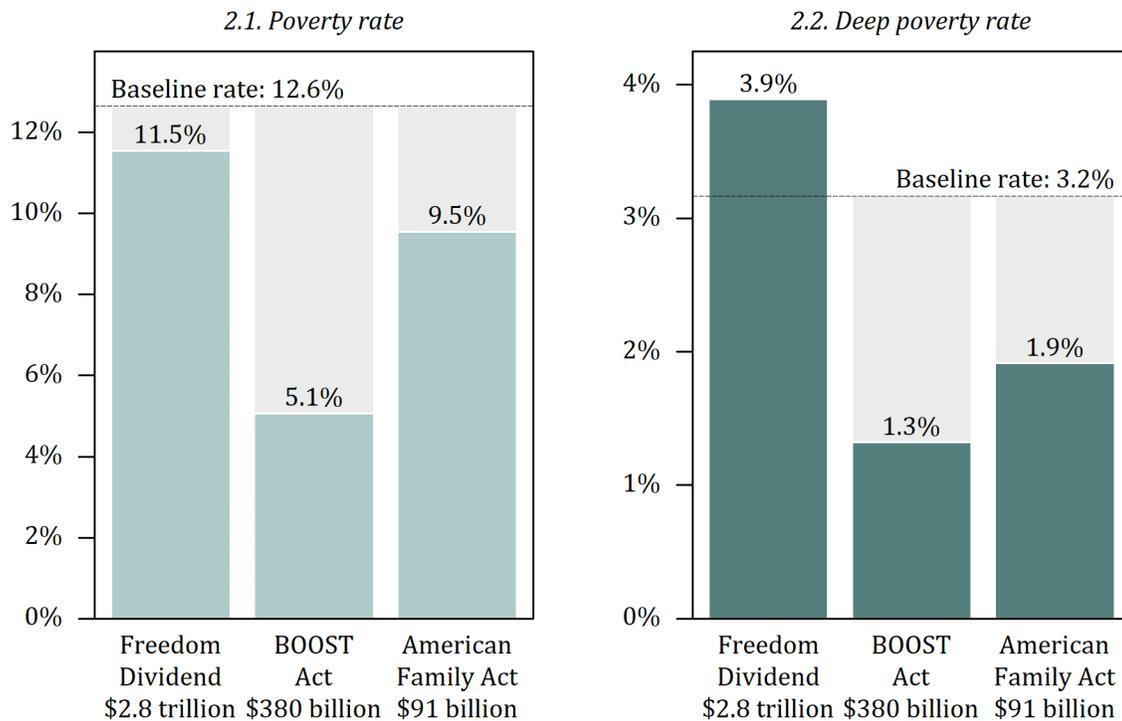
Figure 3 shifts the focus from poverty to inequality by displaying the distribution of net benefits and costs across the income distribution—from the poorest 10th of the population to the richest 10th of the population. The figures display the percentage change in family income for each group, on average. If benefits from the program exceed the taxes required to finance them, the bar is positive. If taxes exceed benefits, the bar is negative. All three proposals lead to relatively large increases in incomes at the bottom of the income distribution and small decreases in income at the top of the income distribution. This is true even for Freedom Dividend. All three proposals also lead to increases in costs for only families in the top 2 or 3 deciles. In other words, costs increase for only the top 10 to 30 percent of the population.

Both the increases in incomes at the bottom and the decreases in incomes at the top of the income distribution depend directly on the total costs of the program. In other words, the more one spends to reduce poverty and inequality, the larger will be the reduction. The contrast between the universal Freedom Dividend and the income-tested BOOST proposal is especially noteworthy. The Freedom Dividend is not only universal but the guarantee is four times as large.

3   *Financing universal benefits by cutting safety net benefits means that the lowest-income families would receive a smaller net benefit (the difference between the addition of the Freedom Dividend and the loss of other transfers), or possibly no benefit (if the Freedom Dividend is smaller than other transfers).*

As a consequence, the Freedom Dividend exhibits larger benefits, even well above median household income, while BOOST's benefits decrease more sharply as incomes increase. However, BOOST offers an advantage to the lowest decile of income relative to the Freedom Dividend, which is likely driven by the design of the Freedom Dividend's financing plan that offsets new benefits by eliminating existing means-tested transfers. Again, part of the differences in the distributional effects of these programs is the sheer size in total expenditures.

Figure 3. Distributional Effects of Reforms after Net Transfers/Taxes
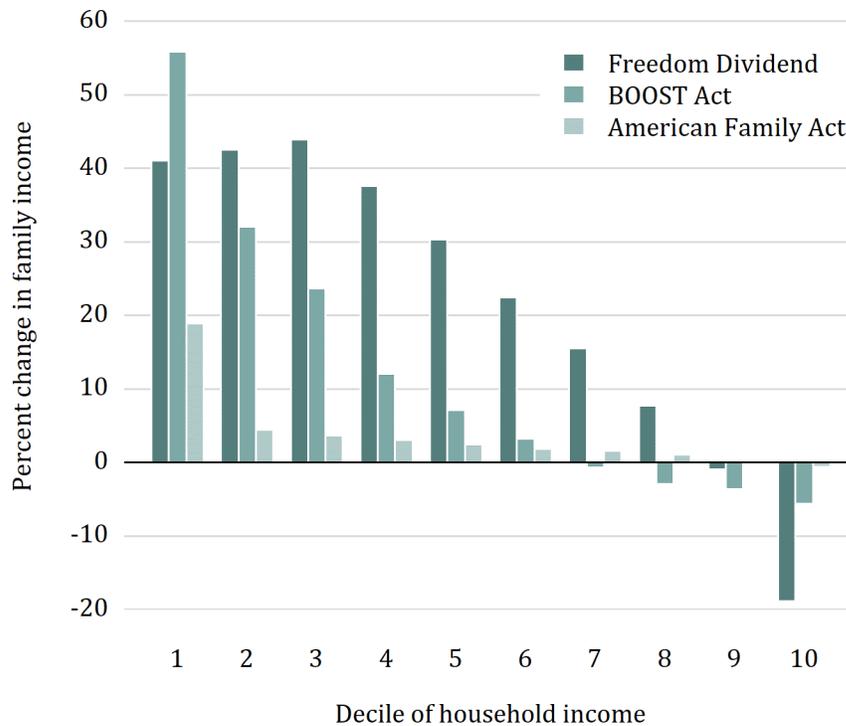
## Comparing Universal Basic Income to a Negative Income Tax

When financing a guaranteed income program with something like a progressive income tax, the net effects can be very similar between a UBI and an NIT depending on how the NIT phases out with household income. The Freedom Dividend and BOOST Act offer interesting contrasts as recent UBI and NIT-like proposals, respectively, though their comparisons are confounded by large differences in benefit generosity and financing mechanisms.

In order to isolate the effects of benefit levels from income testing, Figure 4 compares a universal dividend to income-tested dividends with the same benefit level, which are financed by a proportional increase in federal income taxes. The guarantees are each set at $250 monthly per adult, or $3,000 yearly, and vary only by their phase-out design: a UBI with no phase out and versions of an NIT that phase out as income increases. Specifically, the NIT designs model income phase-out regions similar to those of BOOST ($60-100 thousand), the Earned Income Tax Credit ($19 to $52 thousand), and food stamps/SNAP ($15 to $35 thousand).

For example, consider the lowest decile of household income. The net benefit in the bottom ten percent of families by income is approximately the same for all four designs because their benefits

are not being phased out and at that income range they do not owe taxes to finance the benefits. As household income increases from the second decile to around the middle of the income distribution, families begin seeing benefits phase out and tax liabilities increase. The NIT with a high phase-out threshold is very similar to the UBI except that it has a lower total cost to finance through the progressive tax code. As the phase-out region lowers, the middle of the income distribution either see less net benefit or begin to be phased out completely and become pure taxpayers financing the benefits to lower-income families. In contrast, the more universal programs provide net benefits to most of the population, cost more to the top decile or two and thereby reduce inequality.

Figure 4. Net Distributional Effects of $250 Monthly per Adult Guaranteed Income by Phase-out Design
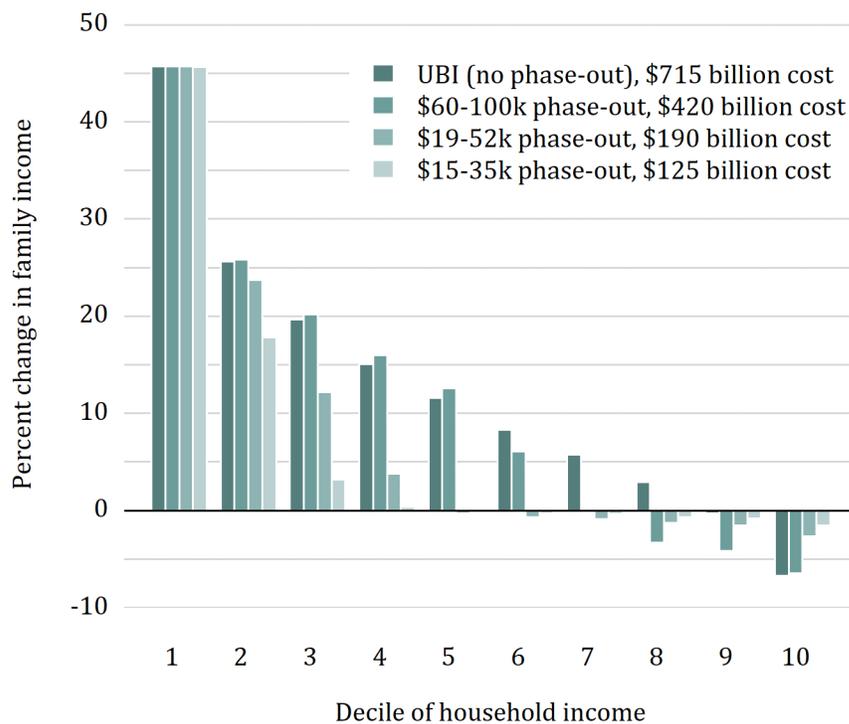
Conclusion

The recent proposals discussed in this brief differ in benefit generosity, degree of means testing (or universality), categorical eligibility, and financing. All contribute to the wide-ranging effects on poverty and inequality. The Freedom Dividend, which would provide the most generous and most universal benefits to adults would have the largest effect on reducing poverty and inequality. BOOST, which is closer to a negative income tax, does nearly as well as the Freedom Dividend in reducing poverty at a quarter of the benefit size, but less well at reducing inequality. Universal programs, of course, cost more than means-tested programs. Higher guarantees also increase costs and reduce inequality, but less so if the program is strictly means-tested. The AFA child allowance, which is nearly universal but targeted at children rather than adults, provides about the same poverty alleviation for children at a small fraction of the cost of the Freedom Dividend. The Freedom Dividend is both limited to adults and financed very regressively, including by eliminating existing means-tested benefits for many families. BOOST, if financed by the progressive income tax, would reduce child poverty much more than the Freedom Dividend, indicating the importance of how a new benefit is financed.

Appendix

In this brief, we simulate the effects of these income guarantee plans using the Current Population Survey's Annual Social and Economic Supplement (ASEC), which provides a nationally representative sample and reliable estimates of income and poverty. For poverty estimates, we use the Supplemental Poverty Measure (SPM), which accounts for net income after taxes, transfers, and certain essential expenses. In order to simulate changes in taxes and transfers, we use the open-source Tax-Calculator (release 2.5.0) module to simulate income taxes to finance new benefits, and we also incorporate adjustments for underreported transfer benefits using the Urban Institute's Transfer Income Model (TRIM). We use a three-year data file corresponding to years 2013-2015, and we adjust for inflation in order to base our estimates on the tax code for 2020.

Acknowledgements

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