



Sorry CNN and David Wheeler, but a ‘Basic Income’ Wouldn’t End Poverty

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David Wheeler, writing for CNN.com, says that the time has come for America to implement a negative income tax, or a “basic income” as he calls it.

But a negative income tax isn’t nearly as wonderful as it sounds. It doesn’t mean “no income tax;” it means the government will cut a check to each American to guarantee each of them a minimum standard of living. And that money will have to come from somewhere.

Says Wheeler:

The benefits of a basic income on a national scale would be wide-ranging. First, there’s the lift to the overall economy if everyone has money to spend. Next, there are the obvious psychological benefits of knowing you can always afford food and shelter. Then there’s the societal stability factor: If people’s basic economic needs are being met...we don’t have to worry about the potential for civil unrest as a result of mass unemployment.

Like so many non-economists, Wheeler first confuses welfare policy and economic policy. He then falls for the politically attractive, yet economically vacuous claim that if people have more money to spend, the economy will be stimulated, employment will rise, and poverty will fall.

Economists call this fallacy “money illusion,” which is simply conflating dollars with well-being. Well-being is what happens when people have goods and services. Dollars are only useful if those goods and services exist. Simply pushing dollars around the economy does not produce anything. Some people will be better off; but other people will be equally worse off.

In fact, forcibly taking money away from one group of people and handing it to another tends to cause the economy to contract. The people who receive the money will have less incentive to work for obvious reasons. Just as importantly, the people who are taxed to fund this bold, new approach will have less incentive to produce, because they know the government will confiscate more of their profits in the form of taxes.

While Wheeler undoubtedly gets economic policy wrong, his take on welfare policy is arguably better, but only if one agreed that the negative income tax will replace *all social welfare programs*, and that these programs will never be allowed to reappear in any form.

As noted in a recent Cato study, our current welfare system is a hodgepodge of over 126 separate and often overlapping programs that supplement income, subsidize housing, provide food stamps, and grant tax credits. Each of these programs was designed independently of the others to address a particular manifestation of poverty. Together, these programs interact to create a poverty trap that can perpetuate poverty.

Clifford Thies of Shenandoah University looked at the combined effects of all of federal and state tax, credit, and welfare programs that impact a hypothetical family of three living in Virginia. What he found was alarming. Under our current welfare system, a family that earns around \$25,000 is made worse off by earning more money – after accounting for changes in tax and welfare subsidies – unless the family can, in one step, jump from \$25,000 to around \$45,000.

This is because welfare programs are deliberately designed to reduce benefits for the less needy and augment benefits for the more needy. But they are so badly designed that, for many poor people, working harder costs them more in reduced benefits than they earn in increased income. In other words, our current welfare system penalizes poor people for trying to rise out of poverty.

According to a recent Congressional Research Services report, the federal and state governments spend over \$1 trillion on welfare programs annually – *excluding* Social Security and Medicare spending. If replaced by an equivalent negative income tax, every household would receive a check for more than \$6,500 per year.

Importantly, households would continue to receive these checks even if the householders earned more money. This means that people would no longer be penalized for trying to raise themselves out of poverty. On that level, at least, this would be a better welfare policy.

It is not an economic policy in any way. And the best way to mitigate the need for welfare in the first place is through sound economic policy.