

What's the B.I.G. idea?

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Over fifty years ago, President Lyndon Johnson declared war on poverty and established our modern welfare programs. Since 1965 we have spent over \$19 trillion fighting poverty. Our modest progress has been enormously costly.

The problems of our welfare programs have led some libertarians to embrace a seemingly big government alternative: having the government give every American a fixed amount of money every year. The idea has been labeled a Basic Income Guarantee (BIG). Despite some attractive features, I think a BIG would ultimately do more harm than good.

I will not dwell on differences among recent BIG proposals. Most propose replacing our existing anti-poverty programs with one cash transfer. Sociologist Charles Murray, perhaps the most thoughtful critic of American welfare, proposed a \$10,000 annual payment to each citizen. Some proposals call for transfers only to adults, but I think that children would also need the transfer to raise families above the poverty level.

The duplication and administrative cost of Federal anti-poverty programs constitutes a major attraction of a BIG. The Cato Institute's Michael Tanner has identified over 120 means-tested assistance programs, for everything from housing to school lunches, on which our Federal and state governments spend \$1 trillion a year, or \$20,000 for every man, woman, and child in poverty. Much of this money never gets to poor Americans because these programs require an enormous bureaucracy; by contrast, a BIG could be administered by the IRS.

A BIG would also reduce our current system's significant penalties for working. Marginal tax rates, meaning the additional tax you pay if you earn say an extra \$1,000, affect peoples' decisions to work more or less. High marginal tax rates definitely reduce work incentives.

Assistance recipients typically do not pay income taxes, and so do not technically face high marginal tax rates. But people do lose eligibility for assistance as their income rises. Losing \$1,000 in benefits when one earns an extra \$1,000 in income is effectively a 100 percent marginal tax rate. Careful studies identify multiple welfare cliffs, or income levels where poor Americans face marginal tax rates of 100 percent or more.

A BIG might appear impossibly expensive. At \$10,000 for every citizen including children, the annual cost would be around \$3 trillion. Total Federal spending is currently just under \$4 trillion a year. A BIG though would replace \$1 trillion in current welfare spending. And because all Americans would start with \$10,000, the first dollars earned through work would no longer need to be exempted from the income tax. For high income Americans, the \$10,000 received from Uncle Sam would basically be taxed back. Nonetheless, I think that two factors would make the BIG quite harmful, especially over time. First, although low income, working Americans should work more hours because of elimination of welfare cliffs, a guaranteed income will likely make more Americans choose not to work at all. People could spend all of their time skiing, playing video games, or watching You Tube videos and still have \$10,000. Many Americans might never establish a career and instead just work occasionally for extra cash.

Second, and perhaps more significantly, a guaranteed income is at odds with Americans' incredible generosity. We provide assistance through charities and government primarily to individuals who face misfortune due to circumstances beyond their control. Americans will assist the disabled, the elderly, disaster victims, and others, but we have little tolerance for able-bodied adults not working.

This attitude is wise because the goods and services we consume must be produced by someone's work effort. Most Americans accept that they must work for a living, and consequently insist that others work if at all possible. Although because of our prosperity we can afford to have some people not work, a BIG might encourage too many to try to avoid working.

We spend a trillion dollars a year to fight poverty, far more than enough to lift every American out of poverty. Our system of government assistance certainly needs reform. Despite some definite advantages, I believe that a BIG is more likely to imperil our prosperity than end poverty.

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