This universal basic income boosts incentives too

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Globalization and technological advances have lowered inflation and interest rates and raised productivity. The U.S. experienced its longest period of economic growth. Given also quantitative easing, stock and bond prices surged. Yet income and wealth disparity have increased. Lower-income Americans gained little. President Trump was elected. Tensions between the U.S. and China mounted.

Neither globalization nor automation is abating: Chinese factories are still bent on increasing productivity, and self-driving trucks may become common on U.S. highways. Stimulated economic growth does not necessarily reduce relative poverty, while education and training produce results slowly. Across-the-board 'run it hot' monetary and fiscal measures to hike employment and wages stoke concerns about demand-supply imbalance causing higher inflation and interest rates.

As for the existing welfare programs, they mainly target the poorest, and suffer from defects such as: costly administration; programs not integrated, making navigation difficult and benefits uneven; dubious incentives for employment; and being often choice-limiting and stigmatizing. Nor do they provide an adequate safety net during severe economic downturns.

Consider replacing those programs with a single direct payment. Few economists would dispute Vilfredo Pareto's conclusion that, if society wished to maximize wellbeing, it should let market forces govern production and exchange and then correct the result with a second distribution by direct transfer payments[1].

Secondly, like the earned income tax credit, such payment should be by way of what has been characterized as negative income tax[2]. The payment would supplement the recipient's income from his own, i.e. non-government sources, while being reduced by no more than a fraction of that income, thus preserving incentives for employment as well as savings and investment.

Thirdly, to eliminate relative poverty, set target income levels as percentages of the median

[1] See the first paragraph under the heading *Theoretical development* in https://en.wikipedia.org/wiki/Negative_income_tax#cite_note-2.

[2] For a currently proposed application of negative income tax, the concept of which was famously expounded by Milton Friedman, see Robert Pfeiffer's *federsafetynet.com.*

income of the region where the recipient household lives[3].

Specifically, where a household has zero own-source income, the government pays it an income supplement equal to, say, one-third of the region's median household income. That would be the maximum amount of income supplement that a household could receive, while being also its minimum or baseline "supplemented income".

From that amount, let income supplement drop by, say, 40% of own-source income, so that, correspondingly, supplemented income increases by 60% of own-source income[4]. At that rate, income supplement would be reduced to zero when own-source income reaches 83% of the region's median. Thus supplemented incomes range from 33% to 83% of median income.

Setting (a) households' baseline supplemented income at 33.3% of median household income, and (b) for every $1 rise in own-source income, a 40¢ cut in income supplement:				
if own-source income is:		income supplement would be:		supplemented income would be:
(in per cent of median household income)				
0	+	**33**	=	**33**
20	+	25	=	45
40	+	17	=	57
60	+	9	=	69
80	+	1	=	81
83	+	0	=	83

Income supplements would also vary with the number, age and sex of household members,

[3] The region might be either the metropolitan region, or the non-metropolitan part of the state, as the case may be, where the household resides. (For its purposes, the Department of Housing and Urban Development (HUD) uses the term *area median income* and designates the geographical confines of the areas concerned.)

[4] Expressed as identities, supplemented income equals baseline supplemented income plus 60% of own-source income, while income supplement equals baseline supplemented income less 40% of own-source income – tillreduced to zero.

in the same ways as current welfare benefits do. Disabilities and other special needs would be met by separate government programs.

By this author's reckoning, US poverty guideline and minimum wage in 2019 were about 22% and 27% respectively of U.S. median income[5]. Supplemented incomes, given their range of 33-83% of median income, would well exceed the former. and would easily exceed the incomes from doubling the latter to US$15 an hour.

Once augmented by income supplements, market wages near the lower end are likely to fall, but consequently with more jobs for the least skilled, whereas minimum wage could price some of them out of the labor market. Thus, employment, incomes, economic output, and international competitiveness are all enhanced. Globalization's adverse effects would be mitigated.

Pareto's point was that wellbeing is maximized when people can freely choose how to spend. Enabled by income supplements , most households will likely choose to buy rather than rent homes[6], because home ownership provides habitat plus a valuable asset that appreciates in value broadly in keeping with economic growth. Income supplements thus endow wealth on the lower-income members of society, at no extra spending cost to taxpayers.

The government can also provide for a minimum standard of living at, say, 40% of median

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[5] For 2019, the poverty guideline for a single-person household was $12,490 (https://aspe.hhs.gov/2019-poverty-guidelines), and the minimum wage income, $15,080 ($7.25 x 2080 hours). U.S. median household income before transfers and taxes, adjusted to single-person household basis, was about $55,943, derived, upon allowing for increase at the rate of nominal GDP, from $49,200 in 2017 as per the supplemental Excel Table 4 to Congressional Budget Office's October 2020 report *The Distribution of Household Income, 2017* (https://www.cbo.gov/publication/56575#:~:text=In%202017%2C%20average%20household%20income,averages%20were%20%2435%2C900%20and%20%24229%2C700).

[6] Universal home ownership is thereby enabled. All existing public housing units would be sold or rented at market prices or rental rates. Housing units eligible for income supplements must meet certain minimum housing standards. Income supplements would first go toward paying the mortgagee or landlord, as the case may be; the balance goes to the household. For protection against interest rate risk, require mortgage loans to be fixed rate for, say, at least the first 8 years.

income, higher than, at 33%, the baseline supplemented income. How so? Some people may choose not to get jobs that pay a regular wage. Or, severe economic downturns, like those caused by a pandemic, may prolong unemployment. In those cases, the government provides an additional payment equal to the amount by which supplemented income falls short of the guaranteed minimum standard of living. A lien or government equity for that amount is registered on the home owned by the household. Later that can be redeemed when the household's income recovers sufficiently.

The mandatory portion of the 2019 federal budget included close to $800 billion for means-tested, anti-poverty programs[7]. In comparison, the wider but more targeted supplemented income safety net, on the above "33%, 40%, 60%" assumptions, is estimated to cost in the order of US$820 billion in 2019 terms[8]. With much of that being new cash for those most

[7] Source is the CBO: see the second paragraph in https://republicans-budget.house.gov/budget-digest/budget-digest-cbo-report-on-federal-spending-for-anti-poverty-programs/.

[8] Per Table 4 in the CBO data cited in Footnote 5, U.S. median household income before transfers and taxes in 2017 was $83,800. U.S. baseline supplemented income, at 33.3% of that sum and after allowing for increase at the rate of nominal GDP, would be about $31,759 for 2019. Using data in the CBO Tables 1 and 3 and applying the identity that income supplement equals baseline supplemented income – $31,759 – less 40% of own-source income, one can estimate the income supplements payable for each of the lower-income quintiles of US households, after allowing for differences in household composition among the quintiles. The sum for those lower quintiles –roughly 2-1/2 quintiles – who benefit from income supplements is $817 billion.

In the above calculations, two adjustments have been made to take into account, firstly, the higher income supplements payable due to the expected decline in lower-end wages, and, more importantly, the reductions to income supplements payable where households use the supplements to buy, rather than rent, homes. Own-source income, as defined here, includes summarily estimated income from assets, including imputed rental income from the residential home that one owns (this income component is found in various measures of income; see Table 8.1 in https://www.nber.org/system/files/chapters/c12828/c12828.pdf) net of mortgage payment on the home. Thus, whereas in public housing and other forms of rental assistance the opportunity cost of public assistance keeps going up more or less in line with nominal GDP, under an income supplement regime, as imputed rental incomes and people's earnings go up but their mortgage payments stay the same and eventually become zero, the income supplement payout to a home-purchaser household would drop first gradually and later precipitously.

Recipients of income supplement would have to be deprived of the tax concession of mortgage interest deduction, since, in the calculation of income supplements, mortgage ready to spend on consumption and home purchases, the economy would be boosted.

Politically, the supplemented income approach is in keeping with economic principles held dear by both Democrats and Republicans. However, the scheme would make redundant most existing welfare programs and their staff. Hence, its implementation might be by randomly selected batches of beneficiaries over several years.

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payment is already a deduction from rental income. In any case, from the perspective of reducing income inequality, the tax concession of mortgage interest deduction should be eliminated or curtailed, given that the more expensive the home bought, the larger is the government subsidy.