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## Targeting Benefit Levels to Individuals or Families?\*

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**Abstract** – In this article, I take for granted agreement on the merits of an unconditional basic income, and I consider the form its distribution might take. I explore the equity, efficiency, and incentive effects of several basic income models in order to provide a plausible example of what a basic income in the US might look like. I present four basic income models, discuss their advantages and disadvantages, and consider whether any one of these models is conclusively superior to the others in terms of the trade-offs involved. I conclude with a tentative proposal for a level and distribution for introducing an unconditional basic income in the US.

**Keywords** – basic income, family, guaranteed minimum income, household composition, incentives

### 1. Introduction

In this article, I take for granted agreement on the merits of an unconditional basic income, and I consider the form its distribution might take. Should the basic income grant be a uniform amount, paid individually to all citizens regardless of age or family size? Should the grant be scaled depending on

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household size, with a larger amount given to the first household member and smaller amounts given to additional members? Should adults get more than children, or should basic income go only to adults? I explore the equity, efficiency, and incentive effects of four models of basic income, discuss their advantages and disadvantages, and consider whether any one of these models is conclusively superior to the others in their trade-offs. In each case, I assume that the basic income would be financed through taxes on both earned and unearned income (other than the basic income grant), e.g., interest and dividend income on savings and investments, without specifying the tax rate or phase-out schedule. Of course, these details are crucial to determining the feasibility of any basic income model, but here I explore the prior question of what level and distribution of basic income we should attempt to finance.<sup>1</sup> I conclude with a tentative proposal of a level and distribution for introducing unconditional basic income in the US.

Basic income advocates hold a range of opinions on distributing the basic income grant: whether the same or differing amounts should go to children, adults, and seniors. The national and international advocacy and study groups on basic income generally endorse a universal basic income, though they do not explicitly reject possible age requirements: the typical formulation is that it goes to “all” or to “all citizens,” without indicating whether or not “all” means adults only or includes children.

Regarding the grant level, there is little specificity on the actual dollar (or euro) amount of the grant in the basic income literature; basic income advocates use terms like “partial” to refer to basic income levels below a “full” basic income, sometimes referred to as a “substantial” basic income (Parker, 1989), or the “highest sustainable” basic income (Van Parijs, 1995). National and international basic income groups are usually silent about the level of the basic income as well, and about whether or not the level would vary according to age or other criteria. While this vagueness fosters the liveliest debate and garners the most support for basic income in the abstract, it is important to take a more detailed look at the trade-offs between various basic income schemes and the effects that their designs would have on different groups in society.

My premise – which I will not defend here – is that for an income guarantee to be considered a basic income, it must promote and support a defensible and equitable notion of liberty: it must enhance individual autonomy, and it must increase the life choices available to individuals without unduly favoring any

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<sup>1</sup> For examples of financing analyses, see Clark (2003, 2005), and Harvey (2006).

particular group or lifestyle. In practice, this suggests defining basic income as an income guarantee high enough to meet basic subsistence needs in the absence of other resources – including paid employment – since any reasonable notion of autonomy requires that basic subsistence needs be met; I would term a grant level lower than this floor a “partial” basic income; I would term a higher grant level a “high” basic income.<sup>2</sup>

Even without prior agreement on the appropriate level, designing a basic income at any level involves trade-offs in the choice of unit – individual, family, or household – for which a particular income level would be guaranteed. In the US case, targeting the grant level to *individual* poverty thresholds skews the basic income higher, and leads to quite high family basic-income totals, if the grant is universal; targeting it to *family* poverty thresholds skews the basic income level too low to meet the subsistence needs of individuals; targeting the grant level to *individual* poverty thresholds and limiting the grant to adults fails to lift single-parent families above their poverty thresholds. I focus in this article on the US, and the trade-offs and constraints particular to the design of a basic income there, but such trade-offs exist everywhere, though the ethical implications of these trade-offs will vary, as will the relative importance of the incentive effects I discuss below.

## 2. Four Models of Basic Income

Assuming that the poverty threshold is the general target level for the grant, alternative basic-income models can be judged according to the incentives and disincentives they create, including disincentives to engaging in paid employment and to joint householding, and incentives to increasing family size. Consideration of these incentive effects is required for reasons of feasibility and sustainability, rather than moral reasons: basic income should enable individuals to make choices that go against social norms, or even against what are considered society’s interests in, for example, a larger gross national product or a lower birthrate. But when making the case for introducing an unconditional basic income in a society that has never had one, like the US, a basic income model that has significantly higher costs or makes fewer funds available for

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<sup>2</sup> The basic income grant need not be high enough to meet the subsistence needs of *all* members of society, as some – the severely ill or handicapped, for example – may have needs far in excess of the average, but it should meet the basic needs of most members of society, with the understanding that special classes of individuals may require programs other than basic income to meet their needs.

financing will be less attractive, on balance, than models that promote the goals of basic income at less cost.

The incentive and disincentive effects I consider here have particular resonance in the US. Potential work disincentives are important for several reasons: not only do they have the potential to lower the tax revenues necessary to finance the basic income and all other government expenses, work disincentives may constrain individual efforts to escape poverty as well. An analysis of work disincentive effects at various levels of basic income is beyond the scope of this article; here, I assume only that a higher grant level is more likely to decrease the labor supply of basic income recipients than would a lower grant level.

Incentives toward joint householding are also important, especially for low-income families, because of the benefits of economies of scale and the significantly reduced incidence of poverty in families with both parents present: the 2004 poverty rate was 7% for married-couple families, but 32% for single-parent families (US Census Bureau, a). Finally, the basic income should not be structured in a way that creates incentives to increase average family size. Increased family size is not a uniformly negative outcome in all cases, but is perhaps not a desirable public policy in a world of over 6 billion people. In addition, a basic income scheme that includes financial incentives to add children to the family will be more expensive than one that does not.

I now consider several basic-income models, with varying coverage and levels, and I examine how well each meets the criteria I have identified:

#### *Universal and Uniform Basic Income Targeted to Individuals*

The first model is a universal and uniform basic-income grant distributed equally to all citizens regardless of age. In 2004, the US poverty threshold for an adult under age 65 was \$9,827 per year (US Census Bureau, b); rounding up just a bit, this suggests an annual basic income of \$10,000. But a uniform and universal basic income set at \$10,000 a year brings the income of a family of four to *twice* the poverty threshold of \$19,157 and nearly up to median household income, which in 2004 was \$44,684 in the US (US Census Bureau, c). This level of basic income could be problematic in terms of financing, if the untaxed basic income grant displaces too much of earned income (and taxes on earned income) to be sustainable. Furthermore, a guaranteed \$10,000 a year for each additional child is large enough that it might create incentives to increase family size. A basic income grant this high, while it would unquestionably enhance individual autonomy by virtually eliminating official poverty in the US, might be too costly

and too risky in terms of work and family-size incentives for the initial introduction of a basic income. Other, less generous, models of basic income are worth considering to see whether these goals could be achieved at less projected cost.

#### *Universal but Variable Basic Income*

If bringing an individual or family up to the poverty threshold seems to meet the criterion of promoting a defensible and equitable notion of liberty, then there are three versions of *variable* basic-income models to consider, to determine whether they do any better on the incentives than a universal and uniform \$10,000 basic income.

Two versions of variable models tailor benefits to household size. In the first of these versions, single-person households would receive the \$10,000 basic income grant, which would bring an individual up to the poverty threshold, and larger households would receive additional basic income grants of \$3,000 annually for each additional household member. The additional \$3,000 grant roughly corresponds to the increase in the poverty thresholds for each additional household member: \$12,649 for two adults; \$13,020 for one adult and one child; \$15,219 for one adult and two children; and \$19,233 for one adult and three children (US Census Bureau, b).

One immediately obvious problem is that, unlike the uniform and universal model, this model creates a disincentive for adults who might otherwise be inclined to live together to do so, since individually two adults would be entitled to a total of \$20,000, but together to a total of only \$13,000; even with the economies of scale involved in running one household instead of two, the loss of \$7,000 might discourage joint householding or might encourage deceptive profiteering – with couples who do live together setting up sham second addresses to receive higher individual benefits.

One way to decrease the joint householding disincentive would be to structure variable benefits around a measure of average household size. In 2004, average household size for all income levels was 2.6 (US Census Bureau, d), and about 2.4 for households with income below the poverty threshold.<sup>3</sup> Thus, if we take average household size to be two people, targeting the basic income level to 50% of the poverty threshold for a household of two suggests a basic income of approximately \$6,400 for each of the first two household members, with additional basic income grants of \$3,000 for each additional household member.

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<sup>3</sup> Author's calculation of average household size for households with income under the poverty threshold, based on census data (US Census Bureau, e.)

This second form of variable basic income reduces, but does not eliminate, the disincentive to joint householding: larger families might still, from a purely income-maximizing perspective, have an incentive to set up two separate households to receive, for example, a total basic income of \$25,600 versus \$18,800 for a family of four in a single household.

One way around the problem of disincentives toward joint householding is to have variable basic income levels for adults and children, using the \$6,400 level for adult benefits and \$3,000 for children's benefits. This third version of a variable benefits model preserves the incentive toward joint householding, and achieves the goal of raising two-parent families above the poverty threshold, but it does not do so for individuals nor, more importantly, does it do so for single-parent families: an individual would still be \$3,427 below the poverty threshold; a single parent and child would be \$3,620 below the poverty threshold; and a single parent with two children would be \$2,819 below the poverty threshold. This is clearly problematic, since single-parent families are among the least able to significantly supplement the basic income grant with earned income. If not supplemented by special benefits for children who remain in poverty despite receiving basic income, this model would not guarantee subsistence-level income for many members of society.<sup>4</sup>

#### *Uniform but not Universal Basic Income*

The third basic-income model provides uniform *but not universal* benefits by giving basic income to adults only and by setting benefits at the poverty threshold for individuals: \$10,000 annually for every adult. This model has the advantages of eliminating poverty for individuals and most two-parent families; preserving incentives for joint householding without creating incentives to increase family size; and supporting a defensible and equitable notion of liberty *for basic income recipients*. It would also cap family benefits at just under 50% of median household income, which many argue is a more appropriate poverty threshold than the one used by the US government, and it would not circumscribe the tax base as severely as a uniform and universal basic income of \$10,000 a year would.

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<sup>4</sup> I do not consider a potential fourth variable basic-income model that would provide a higher grant for children and a smaller grant for adults. In this approach, adults would receive the \$3,000 grant and children the \$6,400 grant, but a basic income model that would not lift even a couple above the poverty level until they added a child, or that provides a single person a greater financial incentive to have a child than to add another adult to the family does too poor a job of alleviating poverty while raising considerable incentive problems to warrant further consideration.

But this model, like the third form of variable basic income, which provides higher benefits to adults than to children, does not eliminate poverty for single-parent families. Like that model, it would have to be supplemented by special benefits for children in poverty – an unfortunate outcome given the poverty-trap and work-disincentive effects of traditional US child-welfare programs, the lack of support among taxpayers for these programs, and the higher administrative costs associated with means-tested benefits.

#### *Universal and Uniform Basic Income Targeted to Families*

The model that best meets the ethical and practical criteria I set at the beginning of this article is a variant of the universal- and uniform-benefits model I discussed at the outset: a universal and uniform basic income targeted to the poverty threshold of the most economically vulnerable single-parent families, assuming median family size of between two and three: one adult and one or two children, or a total grant of \$13,020–15,219. Splitting the difference between 50% of \$13,020 and 33% of \$15,219, and rounding up slightly, this comes to \$6,000 annually for everyone, adults and children. While a basic income grant of \$6,000 would not on its own have brought up an individual's income above poverty in 2004, it would just about have done so for the most vulnerable families: single-parent families with more than one child, although the single-parent one-child family would still have been \$1,020 below the poverty line.<sup>5</sup> The total basic-income grant for a family of four would have been \$24,000, just \$1,659 above 50% of median household income for a family of four in 2004.

A uniform and universal basic-income grant of \$6,000 creates no disincentives to joint householding, and the modest level of the grant maintains work incentives despite its universality. One could argue that setting the level of the basic income grant below the individual poverty threshold fails to promote a defensible and *equitable* notion of liberty, because it would require individuals living alone to supplement their income with paid employment to reach the poverty threshold, while those who choose to live in larger households could reach the poverty threshold without paid employment, thus violating the goal of remaining neutral among lifestyle choices. Targeting a uniform and universal basic income to the poverty threshold of a family, rather than of an individual, does prioritize the elimination of poverty among children above the elimination

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<sup>5</sup> One could argue for a slightly higher grant – \$6,500 per person – in order to bring the single parent with one child above the poverty line, but since this analysis is necessarily rudimentary without any discussion of tax rates and phase outs, not to mention discussion of which other income support programs or tax benefits would be altered or eliminated, I will not try to fine-tune the proposal to that extent.

of poverty among adults. But this is a defensible choice, because children are unable to engage in paid employment until they are almost adults, and poor single parents with children face significant childcare barriers to paid employment, while most adults without children in their households are able to supplement their basic income with earnings from employment, even if it is not their preference. While the guarantee of a basic income, when needed, benefits all citizens, particular attention should be paid, in its design, to increasing the autonomy and life choices of those who have the fewest, and to preserving their incentives to improve their economic well-being further through work and joint householding.

Severely ill or disabled adults may not be able to supplement their basic incomes with earnings, but they are better treated as a special class requiring special benefits, as under the US Social Security Disability program, to avoid skewing the level of the basic income grant with their exceptionally high needs. One could argue that the basic income grant should be high enough to cover the basic needs of seniors without other savings or income, since being a senior who is less able to work is no longer a “special case,” and since many seniors now live alone. Or one could argue that their needs should be met through something like the US Supplemental Security Income program (which tops up the income of those who do not qualify for adequate Social Security benefits), again to avoid skewing the level of the basic income grant with exceptional needs. The danger of the latter approach – targeted benefits for poor seniors – is that, as with income transfer programs targeted to poor families with children, public support may diminish if it can be argued that their poverty results from bad decision-making or planning on the part of the poor themselves. The benefit of a universal program like Social Security is that it enjoys widespread support (Goodin and LeGrand 1987; Skocpol 1995), as President George W. Bush found in the widespread opposition to his plans to privatize US Social Security. Despite being a rather blunt instrument that provides benefits to affluent retirees as well as the poor, Social Security has reduced the poverty rate of adults 65 and older from 35% in 1960 to 10% in 1995, from more than twice the rate of poverty for nonseniors to below the rate for nonseniors (Engelhardt and Gruber, 2006). The best option for protecting seniors might be the combination of a uniform and universal basic-income grant at the \$6,000 level with a compulsory and universal retirement-insurance program like Social Security (on a smaller scale) that would bridge the gap between basic income and an acceptable income level for nonworking seniors without other income or assets.

A basic income at a modest but uniform level, with the exceptional needs of the severely ill or disabled covered by special benefits, and the additional needs of indigent seniors covered by retirement insurance, may be the best compromise between the goals of basic income and the practical constraints on its first implementation, when fears about its sustainability may be highest. Its modest level encourages but does not mandate the economies of scale achieved in larger households, but neither does it create significant incentives to add to the household members of particular groups – children or seniors – in order to maximize the size of the household's grant. It preserves work incentives to increase household income above the grant, but provides at least subsistence level support for single parents with children.

### **3. Conclusion**

The proposal of a uniform and universal basic-income grant of \$6,000 is meant to be a starting point for discussion and financial analysis. It may strike some advocates of basic income as too low, but its implementation in the US would represent a policy innovation and advance in economic security on the order of the New Deal and Great Society programs of the last century. The defense of an unconditional basic income at a lower level presents no philosophical objections to a higher basic income at, say, the \$10,000 level. The reasons to err on the side of a smaller grant at its introduction are practical: to minimize the negative effects on the work incentives and tax revenue necessary to finance it, and to not provide significant incentives for increased family size, in order to keep the costs as low as possible while still meeting the essential goals of a basic income. After a basic income has been in place, incentive and disincentive effects may turn out to be stronger or weaker than anticipated, and the basic income grant level could be adjusted accordingly.

I have not addressed here the many important questions about financing, phaseouts, or tax rates on earned and unearned income that must be addressed before an implementation scheme could be fully evaluated. My goal has been to evaluate the trade-offs between universality and selectivity, and uniformity and variability, and to propose a basic-income level and distributional format that represents an acceptable compromise between generosity and feasibility: an amount high enough to make a difference in the life choices and prospects of those who currently have the fewest, but not so high as to eliminate the work incentives required to finance it.

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