The Journal of Socio-Economics 34 (2005) 49–81

The Journal of Socio-Economics

www.elsevier.com/locate/econbase

A failure to communicate: what (if anything) can we learn from the negative income tax experiments?

Karl Widerquist*

Department of Politics, Lady Margaret Hall, Oxford University, UK

Abstract

The U.S. and Canadian governments conducted five negative income tax experiments between 1968 and 1980. The labor market findings of these experiments were an advance for understanding the effects of a basic income guarantee, but their conclusiveness is often overstated. A review of nonacademic articles on the experiments reveals poor understanding of the results. One often overlooked cause of this misinterpretation was the failure of researchers to make clear that the experiments could not estimate the demand response and therefore could not estimate the market response to the program. Although the evidence does not amount to an overwhelming case either for or against the basic income guarantee, some important conclusions can be drawn, if they are drawn carefully.

JEL classification: I3; J2; J3

Keywords: Basic income; Negative income tax; Experiment; Redistribution

Between 1968 and 1980, the U.S. Government conducted four negative income tax experiments, and the Canadian government conducted one. The results of these experiments are extremely important to growing debate today about the basic income guarantee (BIG). Although the modern basic income guarantee discussion tends to focus on the basic income (BI) variant of the proposal rather than on the negative income tax (NIT) variant tested in the experiments, the two are similar enough that any conclusive findings from the experiments

* Tel.: +44 7747 864 6580.
E-mail address: karl@widerquist.com.

1053-5357/$ – see front matter
doi:10.1016/j.socec.2004.09.050

is of great value for the current discussion.[1] Although the NIT experiments had significant limitations, they yielded results that are extremely important to the current debate and that must be understood properly. This article reviews those results and clears up common misconceptions about them.

More than 200 scholarly articles on these experiments have been published in journals and books (see Bibliography B for an extensive list). Most of these articles were written in the 1970s and 1980s, but a few continue to come out today (O'Connor, 2001; Greenberg et al., 2003; Levine et al., 2004). The debate died down without a clear consensus on what the results of the experiments implied for policy, and the results were widely misinterpreted in the popular media (see Bibliography A for a list of nonacademic articles on the experiments). The experimental results continue to be cited both by supporters and opponents of the redistribution of income as evidence for the workability or the unworkability of a guaranteed income. The experimental results seem to be a political Rorschach test in which an observer's conclusions reveal more about the observer than about the observed.

For example, in 1993, long after the results were in and the initial flurry of articles was over, Hum and Simpson declared in the *Journal of Labor Economics*, "Few adverse effects have been found to date. Those adverse effects found, such as work response, are smaller than would have been expected without experimentation" (Hum and Simpson, 1993a). But in the same issue, Anderson and Block (1993) mused about why so many social scientists continue to support the negative income tax "in the face of an avalanche of negative results" provided by the experiments. The most important reason for this disagreement is that the general result of the experiment was what everyone expected: all else equal, the treatment group worked less than the control group. This agreed; the central question was how much less would the treatment group work? Along with many other statistics, the experiments provided numerical estimates of that answer. The estimates required not only quantitative evaluation of their accuracy, but also qualitative interpretation of their meaning and that inspires widely differing opinions. Perceptions of the experiments in the media and in the political arena have been confused and superficial; neither the results nor the disagreements about how to interpret the results were understood by politicians or the media.

This paper focuses on the labor market findings of the NIT experiments arguing that although the experiments were an advance for social science and for understanding the effects of a basic income guarantee, the conclusiveness of the labor-market results is often overstated. Researchers either presented their research as more conclusive that it was or failed to prevent the lay audience from making that misperception. One often overlooked cause of this misinterpretation was the failure of researchers to make clear that the experiments could not estimate the demand response and therefore could not estimate the market response to an NIT. Although the evidence does not amount to an overwhelming case either for or against the basic income guarantee, some important conclusions can be drawn, if they are drawn carefully.

[1] I use the terms "basic income guarantee" and "guaranteed income" to mean any policy that ensures some minimum level of income for all citizens. "Basic income" ensures a minimum income by paying *everyone* regardless of their private income. The "negative income tax" ensures a minimum income by paying *anyone* whose private income slips below a certain level.