Economic and Policy Impact Statement:
Approaches and Strategies for Providing a Minimum Income in the District of Columbia

Executive Summary

This Economic and Policy Impact Statement examines approaches and strategies for providing a locally-funded guaranteed minimum income or universal basic income for residents of the District of Columbia (the "District"). A guaranteed basic income would not allow a resident's income to fall below a certain threshold, whereas a universal basic income would provide a cash payment to every resident regardless of their wages or assets. This study does not analyze a specific piece of legislation; rather, it offers a framework for Councilmembers who are developing a minimum income or guaranteed basic income program. The study also forecasts the impact of a hypothetical program on the jurisdiction's economy and labor force.

The study begins in **Section 1** by estimating the cost of living in the District and testing the strength of the public social safety net. This analysis is told through the story of three fictional households facing the real struggle of making ends meet. These invented accounts are intended to highlight some of the obstacles that people living in poverty in the District face, but this report is by no means a sociological study or an attempt to capture the full range of obstacles that families face or their experiences. The three households selected have structures that are most representative of low-income families in the District: 1) single adults without children, 2) single adults with one child, and 3) single adults with two children. The study discusses several different measures of cost of living and concludes that a single adult living in the District without children would need an hourly wage of approximately $17.78 or an annual income of $36,988 to meet their basic needs and pay their federal and local tax liabilities, absent public social safety net assistance. A single parent with one dependent child would need an income of roughly $66,113 to meet their basic needs, which they could achieve by working full-time, year-round for $31.79 per hour. A single parent with two dependent children would need an income of about $96,885, which would mean an hourly wage of $46.58.

Neither the federal government nor the District government offers residents a minimum income. However, each provides a wide array of social safety net programs, benefits, and tax credits to low and moderate-income households that can prevent them from falling into abject poverty. The existing social safety net is strong enough to allow a single parent living in the District with one or two children to meet their families' needs, if they are able to access all of the public benefit programs to which they are eligible and have earned income below the Federal Poverty Level (FPL). However, if the households cannot secure one of the limited number of housing assistance vouchers available, their financial security would be in jeopardy. A household would also be particularly vulnerable if they cannot get an adequate child care subsidy, no longer meet TANF's eligibility requirement, or they failed to file a tax return and did not collect refundable tax credits. In addition, there are far fewer resources available for non-disabled, working age adults without children. A single adult below age 65 without a disability, who was not chronically homeless, and whose earned income falls below the Federal Poverty Level would not be able to meet all of their basic needs even if they received all the public social safety net supports to which they are eligible.

Section 2 offers three methods for providing a minimum income to residents. Policymakers could choose to boost household income by providing a negative income tax, a guaranteed minimum income, or a universal basic income. However, the District would face significant hurdles in implementing this type of program without the cooperation of the federal government or neighboring jurisdictions. The study found that using locally-raised tax dollars to guarantee a subsistence-level of income for all District households would be prohibitively expensive. Under such a program, the District government and its residents might have to forgo billions of dollars in federal funds that target low-income individuals, households, and communities. These cash transfers might also be subject to federal income taxes. However, the District could use locally-provided refundable tax credits to provide low-income workers with minimum income cash payments that would probably not be subject federal taxation or impact eligibility for needs-tested federal subsidies.

Section 3 estimates the economic consequences of providing a minimum income to District residents using a sophisticated forecasting model calibrated to the local region. This section compares the projected economic conditions under the “baseline” forecast, in which the District continues to have no minimum income program, to the projected conditions under the “policy” forecast in which the District has implemented a minimum income program. The study simulates the impact of two different mechanisms for providing a minimum income program over a ten-year period: a negative income tax and a guaranteed minimum income. It also tests different assumptions about the size of the benefit, whether the District and its residents would lose eligibility for certain federal funds, and how workers would react to a weakening of the relationship between employment and earnings. **Simulations 1** and **2** both provide a minimum income that is equal to 100% of the Federal Poverty Level, whereas **Simulations 3** and **4** offer a benefit that is worth 450% of this threshold. The model predicts that regardless of the delivery mechanism, all four scenarios would have a negative impact on the growth of the District’s GDP, total employment, and residence-adjusted employment. However, the magnitude of the impact differs between the four simulations. The model predicts that the scale of the impact is smaller in **Simulations 1** and **2** than **Simulations 3** and **4**. While the District’s GDP and the total number of jobs that the economy supports would be able to make some adjustments over time to absorb the shock of such a program, **Simulations 3** and **4** projects a significant and persistent decline in the number of jobs held by District residents.

A minimum income program could provide the District with a new, comprehensive tool to alleviate poverty in the city. Such a program would put the District at the vanguard of social safety net policy innovation. However, it would not be without risks. Minimum income is a relatively untested concept, which also means that the body of literature on their effects is thin. A minimum income program could put much of the District’s needs-tested federal funding in jeopardy if the amount of assistance it provides to low-income residents is so great that it renders households and communities ineligible for means-tested federal supports. Further, to collect enough revenue to support a significant minimum income benefit, the District would likely have to raise its tax rates and in the process become a far more expensive place for wage earners to live than surrounding jurisdictions. A significant increase in taxes in the District could lead many current and perspective residents to settle outside of the city and destabilize the local tax base.

The Budget Office recommends that Council refine its minimum income policy proposal before proceeding further with legislation. Questions that the Council might consider include: Who would receive the minimum income? What is the preferred approach to providing a minimum income? Would the minimum income supplement or supplant existing public social safety net programs?