

# **The Basic Income Guarantee and the goals of equality, efficiency, and environmentalism**

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## **1 Introduction**

The most important issue in equality—if not in all economic policy—is the persistence of poverty. This chapter argues that anti-poverty policy needs to move away from the categorical approach toward universalism, specifically in the form of a basic income guarantee. This chapter argues that the basic income guarantee (in any of its various versions: *e.g.*, negative income tax, basic income, or the social dividend) is the most efficient and comprehensive method to attack poverty, and it can be used as part of a strategy for environmental protection.

Section 2 defines poverty and our goal for poverty policy. Section 3 critically examines five theories of the causes of poverty: the physical inability to work, single parenthood, inadequate demand for labour, inadequate human capital, and a poor work ethic. Section 4 assesses the current system of poverty alleviation in the United States and two proposed reforms: publicly guaranteed employment, and the basic income guarantee. Section 5 considers whether the basic income guarantee can be made part of an overall strategy for environmental protection. Section 6 concludes.

## **2 The definition of poverty and the goal of poverty policy**

This paper focuses on an absolute definition of poverty, according to which, ‘the poverty line’ is the amount of income needed for a person or family to purchase their minimum needs for food, shelter, and clothing.<sup>1</sup> A family with less income than the poverty line is considered to be living in poverty. We focus on this because we believe society’s first priority should be to meet everyone’s basic needs before addressing the question of whether there is enough equality in the consumption of luxuries.

The question of where the poverty line ought to be has been extensively debated (Schiller, 1989; Schwarz and Volgy, 1992; and Mishel and Bernstein, 1994), but this is not a debate we intend to join here. For present purposes, we accept the government’s standard of the poverty line. There are good reasons to believe it is inadequate, but arguments that the basic income guarantee is the best policy to reach that line would not differ significantly if the line were drawn higher.

We believe that there is a broad consensus among all but the most radical property rights advocates that the ultimate goal of policy should be to reduce poverty as much as possible and eliminate it if we can. People who argue for less generous redistribution most often couch their arguments in terms of such programmes being counter-productive or ineffective, and the goal of this paper is not to question the sincerity of that argument, but its validity. The wide differences of opinion about poverty policy largely reflect differences about how best to achieve that goal, which in turn depends on people’s beliefs about the causes of poverty.

## **3 Views on the causes of poverty**

There are many differing views on the cause or causes of poverty, including the physical inability to work, inadequate demand for labour, inadequate human capital, lack of work ethic, and single parenthood. There is no clear consensus about the relative importance of each of these possible causes. We discuss each of them and then discuss our own view.

### *3.1 Physical inability to work*

Some people are physically incapable of holding a job and, hence, providing for their own subsistence because of old age or disability. The House Committee on Ways and Means (1992) defines the

disabled as, “those unable to engage in any substantial gainful activity by reason of medically determined physical or mental impairment expected to result in death or that has lasted or can be expected to last for a continuous period of at least 12 months”. Although this is in some ways the most straightforward and widely accepted cause of poverty, there is considerable gray area as to how disabled one must be to be incapable of working (Dolgoff *et al.*, 1993).

### *3.2 Single-parenthood*

One cause of poverty could be that single parents cannot afford the time away from their children to work<sup>2</sup> (Ellwood, 1988). Pearce (1978) found that female-headed families have become a disproportionate share of the impoverished population. Kelso (1994) found that, between 1960 and 1991, the percentage of poor families headed by single women increased from 18.3% to 38.7%. There is disagreement whether this should be viewed as a root cause of poverty or not (Mishel and Bernstein, 1994; Garfinkel and McLanahan, 1986; Mayer, 1997). Some authors (Magnet, 1993; Murray, 1984; Tanner, 1996) argue that welfare causes single parenthood by encouraging women who would not otherwise become single parents to do so. Even if this cause and effect is plausible, we are not sympathetic to the belief that single mothers should be kept in poverty to discourage others from becoming single mothers. According to Kim (1997), while most single-parents with children under age six did not work, 46% of those who did work had incomes below the poverty line, which implies that the reason that so many single-parents do not work is because if they do they may have a high probability of still being in poverty.

### *3.3. Inadequate demand for labour*

According to one view, the demand for labour is presently not high enough to employ, at above poverty wages, all those who are willing and able to supply their labour. Two consequences can follow from this: high unemployment or low wage employment. Keep in mind that, according to this view, low wage employment is caused not by lack of human capital but by inadequate demand. Just as is the case in any other market, when demand is less than supply, there is downward pressure on price, which in this case is the wage (Harvey, 1989; Harrison and Bluestone, 1990; Rose, 1994; Wilson, 1996). Some neo-classical economists reject the idea that unemployment, as usually defined by economists, can exist for very long. According to this view, what appears to be unemployment is really a result of people choosing not to sell

their labour at the going wage, perhaps because they are searching for a better job, making their unemployment 'frictional'. When demand for labour is low, wages simply fall until an equilibrium level is reached at which all workers who are willing to work can find a job. In other words, if more workers want to work than there are jobs, the wage will simply fall until no one wants those jobs anymore (Munday, 1996).

Even if a full-employment equilibrium can be shown to exist there is no reason to believe that the equilibrium wage will be a living wage. There is no economic theory assuring that everyone who wants to work can find a job that pays above poverty wages. It has been pointed out at least as long ago as Smith (1976, originally published 1776), and by many others since, that workers have a disadvantageous position in the labour market because they need a job to survive but the owners of natural resources do not need employees to survive. This could explain the tendency for wages to be low in at least some sectors of the economy. This 'lack of market power' cause of poverty tends to be overlooked, and we caution that any poverty policy should be evaluated by its effect on the market power of labourers. The lack-of-market-power argument can be expressed in an imperfect model of the labour market or using the perfect-competition model. In the latter case the need to work causes a large amount of competition for a limited number of employment opportunities bidding down wages.

### *3.4 Low level of human capital*

Human capital refers to the skills, knowledge, and abilities that make people more productive on the job. If the labour market is competitive, economic theory predicts that the people with more human capital will find more work and better paying jobs. This theory is the basis of one influential view of the cause of poverty: people with poor skills end up either unemployed or employed in low wage jobs (Atkinson, 1983; Becker, 1993; Ehrenberg and Smith, 1994).

### *3.5 Lack of work ethic*

Some people may choose to behave in ways that cause their own poverty. For example, Mead (1986) contends that an insufficient work ethic causes poverty. Able-bodied persons might choose not to work because they would rather stay home, or they may choose not to work hard and find it hard to hold a

job. Individuals who chose not to work are considered 'out of the labour force', because they voluntarily chose not to participate at the going wage.

### *3.6 Our view of the causes of poverty*

We take a largely agnostic approach in this article, considering all of the possible causes mentioned above. Although some of the possible causes of poverty are clearly more important than others, because the problem has many possible causes we would be ill advised to ignore any of them. We believe that the widespread characterisation of the poor as bad people with no work ethic is clearly false, but we would believe it is a mistake to go so far as to assume that no one has an insufficient desire to work or that certain kinds of policies might not discourage that desire.

We believe that a significant problem of formulating effective public policy is caused by the fact that many people on all sides of the political spectrum find it appealing to focus on only one or a few causes. The left tends to focus on unemployment while the right tends to believe that people do not value work enough. What tends to be left out of the discussion is that the extent to which people value work depends upon wages and working conditions. People may not value work, not because they lack the work ethic, not because the alternatives are too appealing, but because the jobs available are not rewarding. Policies designed to foster a work-ethic sufficient to make workers accept a lifetime of working for poverty wages cannot end poverty but they can do much to help people who pay poverty wages.

The causes of poverty are many and complex, but the problem of poverty is simple; people are poor if they do not have enough money to buy the basic necessities of life. Policies should be evaluated on the basis of their effects on the living standards of the working poor, the living standards of those who do not or cannot work and the size of each group. In 2002, there were 7.4 million people who had been in the labour force for at least 27 weeks who were poor. This amounted to 5.3% of the labour force (US Department of Labour/Bureau of Statistics, 2004). The problem we address in the next section is to design a policy that takes all of the causes of poverty into account.

## **4 Social policies to address poverty**

The current social support system in the United States, as in many other industrialized nations, involves a categorical approach to poverty in which different policies are tailored to different causes of

poverty. The overall system is very complex and usually involves a great deal of overhead cost. The U.S. version of the categorical approach heavily involves separating the ‘deserving’ and the ‘undeserving’ poor. We discuss the strategy and two proposals to broaden and simplify anti-poverty policy, guaranteed public employment and the basic income guarantee. We argue the basic income guarantee is the most comprehensive and efficient policy to address poverty.

#### *4.1 Separating the ‘deserving’ and ‘undeserving’ poor*

Many policymakers believe that those who cannot work (either because of disability or unemployment) are the ‘deserving’ poor while those who simply do not work, are the ‘undeserving’ poor (Zastro, 1986). The strategy then becomes to categorise the poor by the cause of their poverty, create a different solution for each deserving category, and encourage the undeserving poor to get a job, and perhaps ensuring that good jobs are available through policies such as the minimum wage, labour market regulation, and promotion of full employment. If it works perfectly, all of those who cannot work will be helped, while all those who can work will have no work disincentives. As we discuss below, this definition leaves out someone who does not work because of unacceptable working conditions.

This strategy offers a complex solution to a complex problem. The United States has an enormous yet incomplete system of overlapping programmes as summarised in Table 1 below.

Table 1:

Category (cause)	Program
Physically unable to work	Social Security, SSI, Medicare, Worker’s Compensation, Medicaid
Single parents	TANF, public housing, Medicaid, Food Stamps
Unemployment	Unemployment Insurance, food stamps, public housing, Medicaid

Low wages	The minimum wage, food stamps, public housing, Medicaid, the earned income tax credit
Inadequate Human capital	Public education, some counseling as a part of TANF and other programs
Lack of work ethic	Employment Counseling, denial of benefits

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Despite the large number of programmes, they are not enough to eliminate poverty or even to bring all workers out of poverty; remember that 5.3% of the labour force in 2002 had incomes below the poverty line (US Department of Labor/Bureau of Statistics, 2004). Each programme has its own eligibility requirements, making it difficult for people in need to know what they might qualify for. Simply having low or no income does not qualify someone for these programmes; thus, many poor people may fail to qualify for any assistance at all.

The categorical approach has been the basis for the U.S. social welfare system since the Great Depression. Although it has had many successes and has helped to reduce poverty, especially among the elderly, we believe it is clear that this approach has proven to be extremely expensive and not completely effective. The rest of this section discusses four reasons why the categorical approach is not efficient or effective: first, the problem with defining ‘deserving’, second, the cost of categorising each person, third, the harsh penalty for the undeserving, fourth, the effect of this position on the market power of workers.

First, how can one accurately define ‘deserving’? Even if we accept the distinction between those that cannot and do not work, how can we agree on who is able to work? Most would agree that a person with a severe developmental disability or someone with a profound case of schizophrenia is unable to work, but it is harder to agree about milder disabilities? A blind psychiatrist can still work but not a blind factory worker. Does being blind make a person deserving? What if the blindness was caused by complications due to diabetes that resulted from eating too many sweets? Once single mothers were considered ‘deserving’ now they are not.

Second, once a definition of need is determined, it is costly to separate people into categories of need. The effort involved in categorisation is expensive and there are significant costs associated with making mistakes. Our social welfare system has numerous overlapping programmes all with the same ultimate goal. Each programme has its own eligibility requirements making it expensive for the government to determine who is qualified for which programme, and it is difficult for needy persons to determine which programmes they may be eligible for. Programmes vary greatly in the portion of total spending taken up by administrative costs, some being surprisingly high. The administrative cost of unemployment insurance is more than 85% of its total budget while the administrative costs of social security is less than 1% of its total budget (House Committee on Ways and Means, 1992).

Third, the cost of making mistakes is just as important. Someone who is actually deserving could be classified as not deserving (a Type 2 error), or someone who is not deserving could be classified as deserving (a Type 1 error). A Type 2 error is someone 'falling through the cracks' such as a homeless person with an undiagnosed mental disorder. Type 1 errors include giving benefits to someone who has a high income, such as sending a social security check to a retired billionaire. Type 1 errors also include giving benefits to someone who has a low income but would otherwise be earning a higher private income, such as a person who waits until unemployment runs out before looking for a job.

Separating the deserving from the undeserving involves a very high penalty for laziness. Even if a person is 'truly undeserving' should they face imminent starvation? This makes the penalty for laziness more severe than the penalty for most crimes except murder. It seems also to retreat from the goal of eliminating poverty. Saving (1997) characterises this as 'tough love' saying that less redistribution will get more of the poor into the labour force, reducing the number of the poor at the cost of increasing the severity of poverty. Even if this were an acceptable trade off, we doubt that it would work once we seriously consider its effects on the labour market.

This brings us to the fourth problem with the categorical strategy. It hurts the market position of all labourers. Requiring everyone to work increases the supply (or reduces the market power) of labour making workers desperate to get a job quickly. We have inadequately attempted to solve these problems by other government actions such as the minimum wage and labour regulations, but none solve the underlying problem that workers are desperate for jobs, but employers are not desperate for workers. The distinction between deserving and undeserving does not allow a person the freedom to refuse a job because the pay is

too low or the working conditions unacceptable. Our effort to impose 'tough love' undermines our belief that people who work hard should be rewarded for it. The definition that those who work are 'deserving', implies that no one who works full time full year should live in poverty, yet many of our workers do – not because they are lazy, but because of their bargaining position.

This problem can lead to a paradox of hard work. The harder workers work, the more labour there is in the market, and the further wages will go down. The current system over-emphasises 'bad values' as the cause of poverty. Workers may have good values but few opportunities, and 'bad values' may be the result, not the cause of poverty. People at the low end of the job market know that the jobs available to them pay very little and offer little hope of advancement. A minimum wage job requires a single parent with two children to work two jobs just to get by; which could take 70 to 80 hours of work a week just to reach the poverty line, and she can't get there unless she has access to a large amount of free childcare. This person would not be able to save money to start his own business and would not have time outside of work to learn skills to improve her situation. It would take years to advance out of this situation. It is not surprising that people faced with these options do not develop a strong work ethic. If we want people to value work, we must make work valuable to them in the short run, not as a distant promise coming after years of poverty wages.

We believe that one should not be called 'undeserving' for choosing not to work if the only jobs open to them would leave their families in poverty. We, therefore, search for a solution that will give workers greater market power. The guaranteed income would increase the market power of workers and so it would help the unemployed and working poor alike.

#### *4.2 Guaranteed public employment*

Because inadequate demand for labour is a significant cause of poverty and unemployment, government provided jobs have been proposed as a solution. A comprehensive version could replace all transfer payments to those able to work (including TANF, unemployment insurance, the minimum wage, food stamps, and public housing) with a government guarantee to hire anyone willing and able to work. This idea is known as the public jobs approach, the guaranteed job, or the government as Employer of Last Resort (ELR). Minsky (1986) proposed a version in 1986; another version, the WPA, was introduced in the USA during the Great Depression.

Several Post Keynesian economists have recently put forward ELR proposals as a systematic method to balance the demand and supply of labour without creating inflationary pressure including *Understanding Modern Money* (Wray, 1998). The comments here are directed at that proposal. An evaluation of ELR as an economic stabilisation tool is beyond the scope of this paper. We will be evaluating it as a tool to reduce poverty. To the extent that ELR can stabilise the economy in ways that other policies do not, those effects could at least partially mitigate the inefficiency effects that we point out below.

There are two important differences between ELR and workfare. First, ELR is comprehensive: the government promises to hire anyone who is willing and able to work at a pre-determined wage. They do not need to demonstrate that they are poor or single parents as workfare requires. Second, ELR pays higher wages. Wray argues that ELR should pay a living wage and include fringe benefits such as healthcare, childcare, and retirement. He uses \$6.25 per hour for illustration and asks the reader to ‘assume’ that that is a living wage while admitting that that assumption is unlikely to be true unless wages are supplemented with other sources of income, possibly including a second job (Wray, 1998, p.125, 150).

Obviously public employment is not aimed at those unable to work; it would have to be combined with programmes for the elderly and disabled as part of a more comprehensive strategy to eliminate poverty. As a poverty policy, it must, therefore, be seen as part of a larger targeted system of benefits, and the associated costs of determining who is eligible for a public job and who is eligible for other kinds of aid count as inefficiencies of a poverty strategy incorporating ELR. It would seem to eliminate the problem of separating the unemployed from the unwilling to work, but it would not do that perfectly. Since the ELR offers a uniform wage, some people might be genuinely unemployed from higher-skilled occupations and unwilling to accept underemployment in ELR jobs.

ELR could help single parents in poverty, but not without serious side effects. The jobs could pay enough to enable workers to obtain private day care, or they could include day care as a fringe benefit, or they could arrange flexible hours and work-sharing arrangements so that groups of workers could take turns caring for each other’s children. All of these create the problem of separating parents from children for a significant amount of time, which might not be the best thing for those families. The alternative would be to classify single parents as those ‘unable to work’. But because single parents and their children make up

the majority of the poor, doing so would mean that a job guarantee could not help most people who live in poverty.

The ELR could eliminate both of the problems (low wages and unemployment) caused by a low demand for labour. It would directly eliminate unemployment, and, if it pays higher than poverty wages, it would nearly eliminate low wages as a source of poverty. An ELR with health benefits, daycare, and a living wage would greatly reduce poverty, but a low-wage would not reduce the number of people living in poverty and would verge on being exploitative.

Although at one point Wray (1998) argues that ELR should pay a living wage, he is not very optimistic that an ELR can or should attempt to increase the going wage in the labour market. He seems to take the going wage in terms of purchasing power in the low-wage sector as something beyond the control of policy. With a very small discussion of how and why the purchasing power of wages is determined or whether it can be influenced by other policies, he states that increasing the ELR wage is equivalent to devaluing the currency and that other wages and prices will adjust upward to reflect devaluation (pp.135–136). That implies that if the going wage in the labour market is a poverty wage, ELR alone is powerless to give low-wage workers a higher standard of living. If ELR jobs at the going wage are poverty-wage jobs, why is it so important to make sure everybody has one rather than making sure that everybody has the power to refuse them? We do not believe that proponents of guaranteed public employment believe that stabilising the price level has the necessary side effect of leaving the working class with no other option but to work for poverty wages, but they need to spell out their strategy not only how to get the poor to work but to ensure that once they do they will no longer be poor. That said, the rest of this section assumes that the ELR system has found a way to pay wages sufficient to bring workers out of poverty.

Proponents of the low level of human capital view might give qualified approval of the public jobs approach if the ELR has the power to set higher wages. That policy could directly eliminate the symptom (low wages), but would less directly address its cause. Public employees might or might not gain valuable work experience and skills necessary for them to increase their earnings if and when they return to the private sector. An extreme proponent of the low human capital view might fear that public jobs would become 'make work', and would not eventually lead to better private sector jobs. However, if such a problem arises, the system could be readjusted to include a job-training programme.

People who think that the poor lack sufficient values might also voice qualified approval of this approach. They would see its major weakness being the difficulty to both guarantee a job and give people an incentive to work hard on that job. Could workers be fired for poor performance? If not, it wouldn't be much of a job. But if so, the job would not be a truly guaranteed job, and what would happen to the people who were fired? If a worker does not perform his job adequately, the problem of separating those who cannot perform due to mental disability from those who simply do not perform resurfaces. An employer of last resort may be reluctant to fire employees, but workers who least value hard work would have incentives to try to work as little as possible. One solution would be to take a judgmental position and treat such workers as 'undeserving', 'bad' people who ought to be poor or homeless. Another solution would be to heavily supervise employees, but this could increase cost, reduce productivity, and develop an antagonism between employees and management. A third solution would be to combine ELR with a smaller, universal system, such as the basic income guarantee, so that people who did not accept the jobs as they are or did not perform well enough to keep them, would not do as well as ELR workers but were not destitute either.

However, like workfare, public employment might socialise the poor into recognising the value of work. It would do this more effectively than workfare if it positively rewarded work with a higher than poverty income. Thus, participants would directly and immediately see a positive reward for their labour.

Our view is that public employment would be a vast improvement over the current state of affairs. Like the guaranteed income it would act as an automatic stabiliser on the economy and would eliminate many of the sources of poverty. However, there are four reasons why public employment is not as appealing as the guaranteed income.

First, it relies on an extreme version of the work ethic similar to workfare. We say this because, like workfare, unless it is accompanied by some universal support system, an ELR would require able-bodied persons to work in return for assistance. We hasten to add, however, that public employment with a living wage would apply the extreme version of the work ethic more fairly than the current system does. This is because it would create a reciprocal moral obligation rather than a one sided moral obligation. It would require people to work for assistance but would assure that the level of assistance was high enough to allow them to escape poverty. Yet, it would put workers in the position in which they have to accept the employer's decision about what is a fair wage. Public employment in the context of a society in which poor

individuals have no access to the means of survival unless they work for people who control property leaves the workers with no options but to accept whatever the employers decide is fair. We would like to hope that the market wage is always fair or that public employers will always decide to pay good wages, but we don't have reason to believe those hopes will always come true. Isn't it rather one-sided to believe that the class of people who control access to jobs and government assistance can judge the poor as 'deserving' or 'undeserving' while the class of people who work are not given the power to judge employers as being 'deserving' of having employees?

Second, a major disadvantage of public employment is that this would be significantly more expensive than the guaranteed income. In addition to the wage costs, and the costs of separating those who can work and those who should be eligible for other programmes, and the administrative costs of those other programmes, the ELR would have enormous overhead costs of its own including supervisors, materials, transportation, and planning. Every town and neighbourhood would have to have facilities and managers available to handle peak levels of demand for ELR jobs during periods of high unemployment. These facilities would sit idle during periods of relatively low unemployment. If the ELR was replaced by a basic income guarantee, all of these costs could be turned into higher payments to the poor or greater government services without putting any additional pressure on prices from the demand side.

Guaranteed public employment also has external costs that, though hard to measure in pecuniary terms, are costs just the same. A public employment induced net increase in the supply of labour would also mean an increase in traffic congestion, crowded subways/buses, and the health effects (stress, respiratory problems associated with breathing in automobile fumes, *etc.*), and increased environmental depletion of any scarce assets used in production. Traffic congestion and some types of work also tend to create noise pollution, which, even if not a threat to health (which it can be—see Godish, 2000), is certainly a cost.

Considering all of these costs a public jobs programme could turn out to cost many times more than its wage cost. Thus, it is likely to be the most expensive of all programmes we discuss in this paper. The guaranteed income, because of its simplicity, would be likely to have low administrative costs comparable to social security as discussed above.

One could counter that the cost of public employment would be compensated for by the fact that participants would be producing goods that would counteract these costs. However, participants would also

be giving up time that they could spend in job training, starting a business, volunteering, getting an education, raising children, or doing whatever it is they find valuable. There is no objective way to judge whether participants would make more valuable use of their time with a guaranteed job or a guaranteed income and thus no a priori way to say that the increased production of the public employment approach would be worth its cost.

Third, both public employment and the guaranteed income would create an effective bed for private sector wages, but the guaranteed income could have a greater effect on private sector wages for a given level of benefits. For instance, to establish \$300 a week as the effective minimum wage, public wages would have to be \$300 to make workers indifferent between private and public sector jobs. However, if people preferred leisure to labour, the guaranteed income could be less than \$300 to make workers indifferent between private sector jobs and living off the guaranteed income.

Fourth, public employment would be a logistical nightmare. Imagine all the resources the government would have to expend deciding what public employees would do and all of the political fights over what district would get which jobs and the output. Unemployment is erratic and, presumably, so would be the number of applicants for public jobs. How would public employment ensure enough work for all applicants, in all locations, at all times without resorting to make work?

#### *4.3 The basic income guarantee*

In this section, we argue that the basic income guarantee is the most efficient and comprehensive poverty policy, because it can eliminate poverty no matter what the cause. There are different versions of the basic income guarantee, including the citizen's income, the basic income, the negative income tax, the social dividend, and others. For our purposes we need not go into detail about the technical differences between them. All of them are essentially income insurance, providing a guarantee that no one's income falls below the poverty line for any reason, but ensuring that the more one works outside the home, the better off one is.

There are two important numbers in a basic income guarantee scheme: The grant level and the marginal tax rate. The grant (or the minimum income or the maximum supplement) is the amount of money received by a person who makes no private income. The marginal tax rate is the rate at which the grant is reduced (in the case of a negative income tax) or private income is taxed (in the case of a basic income) as

private income rises. The basic income guarantee would replace most of the tax and benefit system with a simple equation. After tax income (D) equals private income (Y) times one minus the marginal tax rate (t) plus the grant (G):

$$D = Y(1 - t) + G \quad (1)$$

If the grant is greater than private income times the tax rate, net taxes (T) are negative (the person or family is a net recipient of transfers):

$$T = Yt - G \quad (2)$$

For example (see Table 2), suppose we constructed a system with a \$10,000 grant for a family of three and a 50% marginal tax rate (meaning that for every dollar a family earns they would lose \$0.50 of their supplement or they would pay \$0.50 tax on their private income). A family with no private income would receive the \$10,000 transfer. If that family earned \$5,000 privately, its benefits would be reduced by \$2,500 (50% of \$5,000) amounting to an after tax income of \$12,500 (\$10,000 - \$2,500 + \$5,000 = \$12,500). If this family increased their private earnings to \$10,000, their after tax income would be \$15,000. If this family increased its earnings to \$20,000 (the break-even point), it would receive no net subsidy giving it an after tax income of \$20,000. Notice that this family is always economically better off increasing its private earnings rather than relying solely on the basic income guarantee.

**Table 2: Hypothetical tax and income schedule**

<u>Private Income</u>	<u>Net Tax</u>	<u>After-Tax Income</u>	<u>Average Tax Rate</u>
0	-10,000	10,000	-
5,000	-7,500	12,500	-150%
10,000	-5,000	15,000	-50%
20,000	0	20,000	0
30,000	+5,000	25,000	+17%

50,000	+15,000	35,000	+30%
100,000	+40,000	60,000	+40%

These numbers are purely for illustration. The minimum income level and the marginal tax rate would have to be chosen based on the poverty line and the revenue available. Notice that although the marginal tax rate is fairly high at 50% the average tax rate is much lower for most families. Notice also that although the marginal tax rate is proportional the overall effect of the tax benefit system is quite progressive. The marginal tax rate could be reduced by collecting revenue from property, sales, or wealth taxes while collecting less revenue from the income tax.

Those who believe poverty stems from disability or single parent status might find the basic income guarantee appealing. A basic income guarantee would assure that everyone unable to work, for any reason, would not become impoverished. Retirees could live off of the minimum income, but would be assured that the more private savings they have accumulated, the better off they would be. Some, however, advocate combining the basic income guarantee with a retirement programme or simply giving a higher maximum supplement to retirees. The basic income guarantee would eliminate the possibility of type 2 errors. Someone truly unable to work, but who does not qualify for a particular programme for the disabled under the current system, would be guaranteed assistance under the system we propose.

The guaranteed income would work very well to prevent poverty if inadequate demand for labour is the cause of poverty, whether it causes low wages or high unemployment. The unemployed would be able to live off of the minimum income until they found another job, while low-wage workers would receive a supplement bringing their income above the poverty line, always making them better off than those who are not working.

The guaranteed income would eliminate many of the negative effects of our current policies for inadequate demand for labour. Unlike the possibility with a minimum wage, it would not directly have a negative effect on labour demand. And unlike unemployment insurance, it would not encourage workers to stay on until their benefits run out nor leave them desperate to find any job after their benefits run out. A worker on unemployment has to give up her entire supplement to take a job, and risks not being able to get her benefits back if she has to quit her job. Suppose a recipient received \$200 a week in unemployment insurance. If they were offered a \$250 a week job, they would lose all of their unemployment benefits, and

start paying income taxes leaving them little better off and possibly worse off than staying on unemployment. A person in the same situation with a basic income guarantee could take the job and see their after tax income rise from \$200 to \$325 a week without risking that they won't be able to get their benefits back if they have to quit their job. The basic income guarantee ensures that the more one works the more one makes while ensuring that no one fears complete destitution.

People who believe inadequate human capital causes poverty might voice qualified approval of the basic income guarantee. It does not treat the cause, but it effectively treats the symptom. It does little to directly enhance human capital, simply giving people enough money to meet their subsistence needs. However, they might find something appealing in the approach because it would allow people more time to allocate to attempts to enhance their levels of human capital. If people were assured that their subsistence needs would be met whether they worked or not, they would be in a position to devote more of their time to training and other activities which would increase their levels of human capital. Such a person would have more opportunity to increase her human capital than a minimum wage worker today who would have to work two jobs to keep a family of three above the poverty line leaving little time available for her to increase her skills. Also, the basic income guarantee could be combined with increased job training, placement, and educational funding. This combination would be superior to workfare because it would offer both a long-term and a short-term solution to poverty caused by inadequate human capital.

The strongest opposition to the guaranteed income is likely to come from the perspective that a lack of work ethic causes poverty. Some might make this argument directly, others indirectly. People who directly contend that the lack of a work ethic causes poverty would say that a policy providing enough money for people's basic needs would result in a severe work disincentive. We would not be able to get enough people to work to create the things needed to sustain us as a society. This is an important objection. However, there are three problems with it. First, it relies on a very strong and unrealistic assumption about people's aversion to work. Second, it relies on an extreme and one-sided version of the work ethic. Third, it ignores the incentive effects on businesses. These arguments are supported in the following discussion.

Unlike the present system, the guaranteed income would always provide an incentive for people to work and earn more if they could, because no matter what a person earned they would always be better off earning more. The guaranteed income is a lump sum transfer (the poor receive it as a grant, others receive it as a tax deduction) and so itself causes no inefficiency; inefficiency could only be caused by collecting

taxes to support it. It has a work disincentive only in the sense that one is not completely destitute if one does not work, but it counters that with a significant reward if someone does work. As mentioned above, the incentive to work for a person receiving a guaranteed income removes some work disincentives that many of our current anti-poverty programmes have. TANF, food stamps, unemployment insurance, even public housing are all very difficult to qualify for. However, if something is difficult to obtain, it is risky to give it up. In a guaranteed income system a worker takes no risk when he takes a job. This would greatly reduce the 'cycle of dependency' problem. A supporter of the 'bad values' view of poverty might respond using the extreme version of the work ethic: able-bodied persons are obligated to work for their subsistence. Those who hold this view tend to be ambivalent about or to oppose poverty policies that provide able-bodied poor people with assistance without requiring them to work for it (Mead, 1986).

We are neither ambivalent about nor opposed to such policies. As we have said it is one sided to hold individuals who do not own property to a moral obligation to work without holding society to a reciprocal moral obligation. There are two ways to solve this inconsistency. Either increase the moral obligation of employers (as the minimum wage and public jobs attempt to do) or decrease the moral obligation on the part of workers. We believe the second is more effective because the belief that large numbers of people will not work even if offered a good wage relies on an unrealistic assumption about human behaviour – believing in a world in which *every man does not have his price*. On the whole people will work if given incentive to do so, and people are happier and better workers if they *chose* to work rather than if they are *forced* to work. Remember as cited above, that 5.3% of the labour force in 2002 lived in poverty (US Department of Labour/Bureau of Statistics, 2004). Since some of those who made up this 5.3% were actually working, instead of simply looking for work, this implies that some Americans had such a strong work ethic that they were willing to work even though they had little pecuniary incentive to do so. Even before TANF, when AFDC had no time limits, most recipients were off public assistance in less than three years. The times and places where one does see a 'cycle of dependency' tend to be where there are few opportunities in the private sector (Handler and Hasenfeld, 1997).

Recall that neither Keynesian nor neo-classical theory necessarily imply that the labour market will provide above poverty wages for everyone who wants to work. In the absence of redistribution workers are desperate to work, but employers are not as desperate for workers, causing a tendency for low wages in the least skilled labour markets – which effectively holds them to an obligation to work. Although the basic

income guarantee provides a supplement for non-workers and workers alike, it gives low-wage workers the market power to command higher wages. If, as people so often fear, a large number of low wage workers attempted to quit their jobs to live off of the minimum income, the market would respond with higher wages to coax them back to work. Even if wages did not rise enough that everyone would chose to work, wages would rise enough so that the hard working would be significantly better off than they are under the current system and significantly better off than those who lived off the minimum income.

Many people make the values argument indirectly, saying that because the work ethic is so strong in our society, we should advocate poverty policies that are consistent with it. A guaranteed income is not consistent with the work ethic because it provides people with 'something for nothing'. For this reason, even if a guaranteed income plan were to be enacted, the income guarantee would not be set high enough to meet subsistence needs. Politicians and the public would not be willing to give non-working people a lot of governmental assistance. A poverty policy that involved the government in the creation of public sector jobs would not run into this problem. Poor persons who took these jobs would be working for their subsistence, and politicians and the public would be willing to reward them with higher income than would be the case under a basic income guarantee. The implication is that due to our societal adherence to the work ethic, public assistance beneficiaries would end up better off under a public employment scheme than a guaranteed income plan.

We agree that politicians and the public might be willing to give more money under a public employment approach than under basic income guarantee. This does not necessarily mean, however, that recipients would receive more money or would be better off. As we argued above, the public employment approach is very expensive. Taxpayers must be willing to give not only more, but enough more to cover the added expense of supervisors, materials, and all the other overhead costs of the public employment program. And covering all these costs would still leave the externalities discussed earlier unaccounted for. Public jobs are likely to be so much more expensive and involve so many more costs that do not directly benefit recipients that it is doubtful whether people would be willing to give enough more to make sure that recipients would actually receive more wages than they would under the guaranteed income. Even if they did, they still might not be better off because work is a costly activity to the working individuals themselves. Work often comes with travel costs, childcare costs, and other costs. The money used to purchase these cannot be used

to purchase food, shelter, clothing, and other goods/services. If these things are taken into account, wages would have to be *significantly* higher before we could say that recipients would be better off with a guaranteed job than a basic income guarantee.

## **5 The basic income guarantee and environmental protection**

The basic income guarantee has been endorsed by Green parties around the world, but it is not directly an environmental policy. It can be used as part of an environmental strategy, but presenting it as an environmental panacea is a mischaracterization. It is instead something help reduce the human costs of environmental policies.

Some proponents of the basic income guaranteed promote it as an environmental policy because it can free people from the necessity of engaging in potentially environmentally harmful production to meet their basic needs. This argument is plausible, but one must not forget that the other side of it is also true. The basic income guarantee makes it possible for people to consume products that might be environmentally unfriendly without doing work that could be environmentally helpful. An issue that is not often addressed in discussions about production and the environment is the environmental cost of transportation to work. Many people commute to and from work by car, which is one of the most environmentally damaging things a person can do. This is true even in an era when emissions from cars are heavily regulated. Emissions such as hydrocarbons, sulphur dioxide, nitrogen oxides, carbon monoxide, and carbon dioxide appear to cause major damage to the environment and public health. If a basic income guarantee resulted in a net reduction in labour supply this might lead to a net reduction in miles driven. But the other side of the coin is that it might give people more disposable income with which they may purchase more costly transportation.

Because the total direct effect of basic income guarantee is not unambiguously toward better environmentalism, we cannot conclude that it is on its own an environmental policy. Some people might use their basic income to live Thoreau's simple life, but some might use it to live the most environmentally costly lifestyle they can on that amount of money. The basic income guarantee is better thought of as a tool to aid environmental policies.

One of the great debates about environmental policies is the allegation that they will 'cost jobs.' This allegation is not necessarily true. Better environmental policies may involve only a shift of

employment into more environmentally friendly occupations, but the allegation of jobs losses is plausible at least in the short run. Nevertheless, jobs are not the measure of the health of a society. The most important function of an economic system is to make sure that everyone has enough food to eat, adequate shelter, clothing, a meaningful life, and a sustainable future. A job does not ensure that a person has any of these things nor is it essential to having all of these things. The basic income guarantee can ensure that everyone has access to basic necessities such as food, shelter and clothing, and it provides access to resources with which to pursue a meaningful life. It does so whether or not environmental policies cause disruptions in the labour market.

Eco-taxes can be used to discourage pollution and the depletion of natural resources without forcing the poor to suffer the greatest costs of such a policy. Such eco-taxes can be combined with a basic income guarantee both to lessen the impact of the cost of those taxes on the poor and to reflect collective claims to resources. If firms pay a heavy tax for pollution, they have an incentive to avoid pollution. If firms pay a heavy tax for the ore they mine or the forests they deplete, they have an incentive to use less of these resources and to recycle what is already in use. If landowners pay a heavy tax on the value of land, they have an incentive to build more compact and manageable cities. However, these taxes also create an incentive for firms to pass on the added cost to consumers. If all else is equal, the relative cost of such taxes is greater for those with the lower incomes. However, if the revenue from these taxes is distributed equally to all citizens in the form of a basic income guarantee, they provide a net gain to anyone who has less than average impact on the environment and a net cost for anyone who has a greater than average impact on the environment.

Estimates of how much revenue can be raised from such taxes vary greatly, between 2 percent and 30 percent of GDP. That is, from far less than would be needed to support basic income guarantee to far more than enough. Good statistics do not exist, but encouraging evidence exists from the Alaska Permanent Fund. The State of Alaska actually has a small basic income guarantee supported by a fund created out of the states oil revenues. Each Alaskan resident usually receives between \$1,000 and \$2,000 a year from this fund. This is not enough to live on, but \$8,000 a year makes a big difference to a family of four living on the margin. Alaska has a great deal of oil wealth but this fund was created from just one-eighth of the state's oil taxes, which are low by international standards. If a fund were created out of all oil taxes plus similar

taxes on other mining, pollution, land value, use of the broadcast spectrum, and other activities, a great deal more revenue could be raised, quite possibly enough to support a substantial basic income guarantee.

However, there are political risks to this kind of policy. People might become more willing to allow greater depletion of natural resources, if they are being paid for it. The taxes would have to be seen as something to help preserve resources for future generations not simply to raise revenue for the current generation. Another problem is that there may be some level of contradiction in financing a policy we want to maintain by means of taxing activities we want to discourage. If taxes effectively discourage polluting activities, they would reduce the revenue for the basic income guarantee. If the goal of such a policy is to reduce environmental degradation with minimal cost to the poor, such a situation would mean that the goal was well achieved. But the goal is also to provide a guarantee of support for the poor. The better the policy achieves one goal, the less well it achieves the other.

## **6 Conclusion**

Programs that require the poor to prove their worth by demonstrating a willingness to accept employment require the government to spend large amounts of money on things other than direct payments to the poor. This is an inefficiency in itself, and it causes the second inefficiency of making errors possible by allowing people to fall through the cracks. The basic income guarantee has no cracks to fall through. It makes a simple, effective payment system to the needy without wasting funds on anything else. Therefore, if we want poverty reduction to be the central goal of poverty policy, the basic income guarantee is the most efficient way to do it.

We believe that the biggest barrier to a more effective poverty policy is a desire to judge the poor, but doing so hurts a lot of good people. Currently U.S. law requires those on welfare to work in return for benefits, and it limits the amount of time recipients are eligible to receive benefits to five years over their entire lifetimes (Centre on Social Welfare Policy and Law, 1996a). We are doubtful that this approach will do much to curtail poverty. In fact, it might actually exacerbate it. As more people are pushed off the welfare rolls, they will face increased pressure to compete in the labour market, putting downward pressure on wages. Thus, at best, the result of the welfare reform law might simply be to swell the ranks of the working poor, who have already seen their living standard stagnate for the last 30 years despite continued economic growth and great substantial increases in living standards for the higher classes.

Anyone who believes that the value of work is that it can provide workers with a better life, should be distressed by this. It is not necessary to have poverty, especially in a country as rich as the United States. If the goal is to eliminate poverty, the basic income guarantee is the most comprehensive means. In the end, the issue is a normative one. Should our society be so committed to the work ethic that we force the poor to work even at poverty wages? If we say yes to that question we are putting enforcement of a very strong version of the work ethic ahead of our shared desire to have an economy that provides a decent life for everyone. Instead we should conclude that eliminating poverty is so important that everyone deserves the resources required to meet their basic needs. There is plenty of room for work incentives by providing good jobs without making people face desperate poverty. We should reward the work ethic, not enforce the work ethic.

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## Notes

1 Medical care, though important to one's standard of living, we treat as a separate issue.

2 The term *work* is being used as it often is in neo-classical economics: time spent doing something one is paid a wage for. Non-market labour, such taking care of children is not considered work from this point of view, but just because something is not considered work, as economists define it, does not mean that it is not socially valuable.