

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

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## 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 towards universalism, specifically in the form of a Basic Income Guarantee. This chapter argues that the Basic Income Guarantee, in any of its various versions (for example, a negative income tax, a universal Basic Income, or the social dividend) is the most efficient and comprehensive method to attack poverty. It can also be used as part of a strategy for environmental protection.

The second section of this chapter defines poverty and our goal for poverty policy. The third section 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. The fourth section assesses the current system of poverty alleviation in the United States and two proposed reforms: publicly guaranteed employment, and the Basic Income Guarantee. The fifth section considers whether the Basic Income Guarantee can be made part of an overall strategy for environmental protection. The final section concludes the chapter.

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

This chapter 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 of 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 rather than relative poverty 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; Mishel and Bernstein, 1994), but this is not a debate we intend to join here. For present purposes, we accept the US

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 possible. People who argue for less generous forms of redistribution most often couch their arguments in terms of such programmes being counter-productive or ineffective. The goal of this chapter is to question not 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.

### **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.

#### ***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 a considerable grey area about how disabled one must be to be incapable of working (Dolgoff *et al.*, 1993).

#### ***Single-parenthood***

One cause of poverty could be that single parents cannot afford the time away from their children to work (Ellwood, 1988).<sup>2</sup> 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 per cent to 38.7 per cent. There is disagreement on whether this should be viewed as a root cause of poverty or not (Garfinkel and McLanahan, 1986; Mishel and Bernstein, 1994; Mayer, 1997). Some authors (Murray, 1984; Magnet, 1993; 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), whereas most single parents with children under the age of six years did not work, 46 per cent 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 remaining below the poverty line.

### *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 and/or low-wage employment. Keep in mind that, according to this view, low-wage employment is caused not by a 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 neoclassical 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 offer their labour at the going wage, perhaps because they are searching for a better-paid job. In this sense, their unemployment is ‘frictional’ rather than ‘structural’. In other words, when the demand for labour is low, wages simply fall until an equilibrium level is reached at which all workers who are willing to work at the much lower wage can find a job (Munday, 1996). There is, according to neoclassical economists, no unemployment except for the fact that some would-be workers have opted to exit the labour market. As such, the ensuing unemployment is entirely ‘voluntary’.

The problem with the neoclassical position is that, even if a full-employment equilibrium can be shown to exist, there is no reason to believe that the equilibrium wage will constitute 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 in 1776), but also by many others, that workers have a disadvantageous position in the labour market. That is, workers 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 some sectors of the economy. This ‘lack of market power’ in the hands of workers often leads to poverty, but tends to be overlooked. We therefore recommend that any poverty policy should be evaluated in terms of 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 by use of 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 which, in turn, leads to the bidding down of wages.

***Low level of human capital***

Human capital refers to the skills, knowledge, and abilities that make people more productive in their work. If the labour market is competitive, economic theory predicts that the people with more human capital (i.e., those that are more productive) 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 human capital skills end up either unemployed or employed in low-wage jobs (Atkinson, 1983; Becker, 1993; Ehrenberg and Smith, 1994).

***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 become disenchanted, they find the work on offer demeaning, they consider the wage an insufficient form of compensation, or they find it difficult to hold down a job. Individuals who choose not to work are considered ‘out of the labour force’, because they voluntarily choose not to participate at the going wage.

***Our view of the causes of poverty***

Considering all of the possible causes mentioned above, we adopt a largely agnostic approach in this chapter. Some of the possible causes of poverty are clearly more important than others but, 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 believe it would be a mistake to go so far as to assume that no-one has an insufficient desire to work or that certain kinds of policies do not discourage this 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 side of the political spectrum tends to focus on unemployment, whereas the right side tends to believe that people do not value work sufficiently. What tends to be left out of the discussion is that the extent to which people value work often depends upon wages and working conditions. People may not value work, not because they lack the work ethic, not because the alternatives to work are more appealing, but because the jobs available are not adequately 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 boost the profits of those who pay poverty wages to their employees.

The causes of poverty are many and complex, but the problem of poverty is a simple one to comprehend: 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 number of affected people. In 2002, there were 7.4 million people in the United States below the poverty line who had been in the labour force for at least 27 weeks. This amounted to 5.3 per cent of the US labour force (US Department of Labor/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.

## **Social policies to address poverty**

The current social support system in the United States, as in many other industrialised nations, involves a categorical approach to poverty alleviation in which different policies are tailored to deal with the different causes of poverty. The overall system is very complex and usually involves a great deal of overhead cost. The US version of the categorical approach heavily involves separating the ‘deserving’ and the ‘undeserving’ poor. We discuss the merits of this strategy and two proposals to broaden and simplify anti-poverty policy, guaranteed public employment, and the Basic Income Guarantee. We argue that the Basic Income Guarantee is the most comprehensive and efficient policy to address poverty.

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

Many policy-makers believe that those who cannot work (either because of disability or unemployment) are the ‘deserving’ poor, whereas those who simply do not work, are the ‘undeserving’ poor (Zastro, 1986). The strategy then becomes one of categorising the poor in terms of the cause of their poverty, creating a different solution for each deserving category, and encouraging the undeserving poor to get a job; this, to a large extent, requires good jobs to be available through policies such as the minimum wage, labour market regulation, and the promotion of full employment. If the strategy works perfectly, those who cannot work will be supported, and all those who can work will have their work disincentives eliminated. As we discuss below, this definition leaves out the person who does not work because of unacceptable working conditions.

The United States has an enormous yet incomplete system of overlapping poverty-alleviation programmes, as summarised in Table 6.1. Despite the large number of programmes, they are currently unable to eliminate all poverty or even draw all workers out of poverty. To recall, 5.3 per cent 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 form of assistance 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 US 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 that this approach

*Table 6.1* Poverty-alleviation programmes in the United States

<i>Category (cause)</i>	<i>Programme</i>
Physically unable to work	Social Security, SSI, Medicare, Worker's Compensation, Medicaid
Single parenthood	TANF, public housing, Medicaid, Food Stamps
Unemployment	Unemployment Insurance, food stamps, public housing, Medicaid
Low wages	Minimum wage, food stamps, public housing, Medicaid, earned income tax credit
Inadequate human capital	Public education, some counselling as a part of TANF and other programmes
Lack of work ethic	Employment Counselling, denial of benefits

has proven to be extremely expensive and not completely effective (i.e., very inefficient). The rest of this section discusses four reasons why the categorical approach is not efficient or effective:

- the problem with defining the 'deserving' poor;
- the cost of categorising each person;
- the harsh penalty for the so-called 'undeserving' poor;
- and the effect of the strategy has had on the market or bargaining power of workers.

First, how can one accurately define 'deserving'? Even if we accept the distinction between those that cannot and those that will 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? The arbitrariness of this categorisation is exemplified by the fact that single mothers were once considered 'deserving' but 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 correcting mistakes. The US 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. It is also 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 are extremely high; others quite low. The administrative cost of unemployment insurance, for example, is more than 85 per cent of the total programme budget whereas the administrative cost of social security is less than 1 per cent of the total budget (House Committee on Ways and Means, 1992).

Third, the impact on individuals of making and correcting misjudgments is critically important. People who are deserving, as currently defined, are often wrongly classified as non-deserving (Type 2 error); others who are non-deserving are sometimes classified as deserving (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 cheque 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 if in work, such as people who wait until their unemployment payment runs out before looking for a new 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 of labour. This not only places downward pressure on wages, it also reduces the market power of labour, often causing workers to seek a job quickly rather than seek a job commensurate with their human capital. Policy-makers 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, whereas workers are forced to desperately compete for jobs, employers do not have to desperately compete 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 are unacceptable. The strategy of imposing ‘tough love’ undermines our belief that people who work hard should be rewarded for it. The condition that those who work are ‘deserving’ implies that no-one who works full-time should live in poverty, yet, as we have highlighted, many workers in the United States do – not because they are lazy, but because of their weak bargaining position.

This problem can lead to a paradox of hard work. As workers work harder, more labour is supplied to the market, and the downward pressure on wages increases. This, in turn, forces workers to work even harder, thereby fuelling the cycle. 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 make ends meet. To simply reach the poverty line, many single parents on low hourly wages are required to work 70 to 80 hours per week. Even then, their

capacity to work this number of hours is dependent upon their access to a large amount of free childcare. Certainly, a person in this situation would be unable to save the money needed to start a small business or the time needed outside of work to learn skills to improve his or her situation. If it is at all possible, it can 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 of reward 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 thus help the unemployed and working poor alike.

### ***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 Temporary Assistance for Needy Families (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 acting as an Employer of Last Resort (ELR). Minsky (1986) proposed a version in 1986; another version, the Works Progress Administration, operated in the United States 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 Wray (1998) in *Understanding Modern Money*. The comments here are directed at that proposal. An evaluation of ELR as an economic stabilisation tool is beyond the scope of this chapter. 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, this 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 the ELR should involve 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).

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-alleviating policy, it must, therefore, be seen as part of a larger targeted system of benefits whereby the associated costs of determining who is eligible for a public job and who is eligible for other kinds of aid would count as the inevitable inefficiency of a poverty-alleviating strategy incorporating an ELR. Although the ELR would seem to eliminate the problem of separating the unemployed from those unwilling to work, it would not do that perfectly. Since the ELR offers a uniform wage, some people might be genuinely unemployed from higher-skilled occupations and thus be unwilling to accept the underemployment associated with an ELR job.

The ELR could help single parents in poverty, but not without serious side-effects. For example, the jobs could: (a) pay enough to enable workers to obtain private daycare; (b) include daycare as a fringe benefit; or (c) involve flexible hours and work-sharing arrangements so that groups of workers could take turns caring for each other's children. However, all of these possibilities 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' because of child-rearing commitments and responsibilities. But, because single parents and their children make up the majority of the poor, doing so would mean that a Job Guarantee would not help most people who live in poverty.

It has been suggested that the ELR could eliminate the problems of 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 the ELR should pay a living wage, he is not very optimistic that an ELR could or should attempt to increase the going wage in the labour market. He takes the position that the purchasing power of the going wage in the low-wage sector is beyond the control of policy. With a very small discussion of how and why the purchasing power of wages is determined, and whether it can be influenced by other policies, Wray states that increasing the ELR wage is equivalent to devaluing the currency and that other wages and prices will adjust upward to reflect the devaluation (Wray, 1998: 135–136). This implies that, if the going wage in the labour market is a poverty wage, the ELR alone is powerless to give low-wage workers a higher standard of living. Furthermore, if ELR jobs at the going wage are poverty-wage jobs, why is it so important to make sure that conventionally unemployed labourers have such an occupation rather than making sure that they, along with everyone else, have the power to refuse such a job? We are not suggesting that proponents of guaranteed public employment are of the view that stabilising the price level has the necessary benefit of leaving the working class with no other option but to work for poverty wages; however, they need to spell out how their strategy would get the poor back to work as well as haul them out of the poverty they are already having to endure. That said, we shall assume that, for the rest of this section, the

ELR system can be designed to pay the 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 could be shown to have the power to set higher wages. The policy could directly eliminate the symptom (low wages), but would less directly address its cause. ELR employees might or might not gain valuable work experience and the skills necessary to increase earnings if and when they return to the private sector. An extreme proponent of the low human capital view might fear that ELR 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 adjusted 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 as 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 or her job adequately, the problem resurfaces of separating those who cannot perform on account of mental disability from those who simply do not perform. 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 the 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 be paid as much as ELR workers, but would not remain completely destitute.

Like workfare, public employment could socialise the poor into recognising the value of work. However, it would do this more effectively than workfare if it positively rewarded work with the payment of 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. 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 have no reason to believe this would eventuate. 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 from those who should be eligible for other programmes, plus the administrative costs of other programmes, the ELR would have enormous overhead costs of its own. These would include the cost of administration, supervision, materials, transportation, and planning. Every town and neighbourhood would require facilities and managers to manage 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 of the economy.

Guaranteed public employment also has external costs that, despite being difficult 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, a rise in the negative health effects of commuting (e.g., stress and the respiratory problems associated with inhaling automobile fumes), and an increase in the environmental depletion of any scarce resource assets used in production. Traffic congestion and some types of work also tend to create noise pollution, which, if not a threat to health (see Godish, 2000), is certainly a cost.

Considering all of these costs, a public jobs programme could ultimately cost many times more than its wage cost. Thus, it is likely to be the most expensive of all programmes that we will be discussing in this chapter. The guaranteed income, because of its simplicity, would have low administrative costs comparable with 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 worthwhile goods and services that would justify the higher costs. However, participants would also be giving up the 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 ELR approach would be worth its cost.

The third less appealing aspect of public employment is that, although it and the guaranteed income would create an effective bed for private sector wages, the guaranteed income could have a greater impact 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 benefit of the subsequent 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 making work for work's sake?

### *The Basic Income Guarantee*

In this section, we argue that the Basic Income Guarantee is the most efficient and comprehensive poverty-alleviation 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 (see Lapman, 1965; Lord, 2003; Van Parijs, 2004). For our purposes, we need not go into detail about the technical differences between them. All of them are essentially a form of income insurance, thus providing a guarantee that no-one's income falls below the poverty line, for any reason. More than that, a Basic Income Guarantee would ensure that, the more one works outside of 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 earning no income through their own private means. 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 current tax and benefit system operating in most countries with a simple equation – that is, after-tax income equals the untaxed proportion of one's private income plus the government grant:

$$D = Y(1 - t) + G \tag{6.1}$$

where:

- D = after-tax income;
- Y = private income;

- $t$  = the marginal tax rate;
- $G$  = the government grant.

If the grant is greater than a person’s or a family’s income tax liabilities, net taxes ( $T$ ) are negative (i.e., the person or family is a net recipient of transfers). Hence:

$$T = Yt - G \tag{6.2}$$

For example (see Table 6.2), suppose we constructed a system with a \$10,000 grant for a family of three and a 50 per cent 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 the family began earning \$5,000 privately, its benefits would be reduced by \$2,500 (50 per cent of \$5,000), amounting to an after-tax income of \$12,500 (\$10,000 – \$2,500 + \$5,000 = \$12,500). If this family increased its private earnings to \$10,000, its 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 financially better off increasing its private earnings rather than relying solely on the Basic Income Guarantee.

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 government revenue available. Notice that, although the marginal tax rate is fairly high at 50 per cent, the average tax rate is much lower for most families. Notice also that, although the marginal tax rate is the same for all families, the overall effect of the tax benefit system is quite progressive. The marginal tax rate could, if necessary, be reduced by collecting revenue from other sources, such as property, sales, or wealth taxes, thereby reducing the need to raise 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,

Table 6.2 Hypothetical tax and income schedule

Private income (\$)	Net tax (\$)	After-tax income (\$)	Average tax rate
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%

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 providing a higher maximum supplement to retirees. The Basic Income Guarantee would eliminate the possibility of Type 2 categorisation errors. Someone truly unable to work, but who does not qualify for a particular programme 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 led to low wages or high unemployment and this was the primary cause of poverty. The unemployed would be able to live off of the minimum income until they found another job, while low-wage workers would receive an income supplement to bring their total income above the poverty line, thereby making them better off at all times than those who are not working.

The guaranteed income would also eliminate many of the negative side-effects arising from current policies employed to overcome the inadequate demand for labour. Unlike the minimum wage, a guaranteed income would not adversely effect labour demand. And unlike unemployment insurance, a guaranteed income would not encourage workers to remain unemployed until their benefits expire, nor leave them desperate to find any job once their benefits have expired. Workers on unemployment benefits must give up their entire supplement to take a job, and risk not being able to receive the benefits again if they choose to quit their job. For example, suppose that someone received \$200 per week in unemployment insurance. If the recipient were offered a \$250 per week job, s/he would lose all unemployment benefits and start paying income taxes. This would leave him/her little better off and possibly worse off than staying on unemployment benefits. A person in the same situation, but receiving a Basic Income Guarantee, could take the job and enjoy a rise in after-tax income from \$200 to \$325 per week without risking the loss of benefits if s/he feels the need to quit the job. Thus, the Basic Income Guarantee ensures that, the more one works, the more income one receives, while never having to fear complete destitution.

People who believe inadequate human capital causes poverty might voice qualified approval of the Basic Income Guarantee. A Basic Income does not treat the cause of poverty, but it effectively treats the symptom. It does little to directly enhance human capital, since it merely provides people with enough money to meet their subsistence needs. However, the Basic Income's potential appeal is that it would free up people's time 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 his/her human capital than a minimum-wage worker today, who would potentially have to work two jobs to keep a family of three above the poverty line. This would leave very little time available to increase their 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 argue that a policy providing enough money for people's basic needs would result in a severe work disincentive. As a consequence, society would not be able to get enough people to work to create the things needed for society to be sustained. 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. People do not simply work to earn money. 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 if they could because, no matter what a person earned, one would always be financially 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 hence it does not result in an inefficiency; inefficiency could be caused only 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 current anti-poverty programmes have. TANF, food stamps, unemployment insurance, and even public housing are all very difficult to qualify for. If something is difficult to obtain, it is risky to give it up. In a guaranteed income system, a worker takes no risk when accepting a job. This would greatly reduce the 'cycle of dependency' problem. A supporter of the 'bad values' view of poverty might respond by using the extreme version of the work ethic – that is, able-bodied persons are obligated to work for their subsistence. Those who hold this view tend to be ambivalent about or oppose poverty-alleviation 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 the ELR 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 – it is based on a belief that 'every man does not have his price'. On the whole, people will work if given an incentive to do so, and people are happier and better performed workers if they *choose* to work rather than if they are *forced* to work. Remember, as cited above, that 5.3 per cent of the labour force in 2002 lived in poverty. Since some

of those who made up this 5.3 per cent 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 the Aid to Families with Dependent Children (AFDC) had no time limits, most recipients were no longer on public assistance within three years. The 'cycle of dependency' tends to be most severe where there are few work opportunities in the private sector (Handler and Hasenfeld, 1997).

Recall that neither Keynesian nor neoclassical economic theory implies 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 to find workers, which leads to low wages in the least skilled labour markets. As a consequence, this thrusts upon workers 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 the minimum income alone, the market would respond with higher wages to induce them back to work. Even if wages did not rise sufficiently for everyone to re-enter work, wages would rise enough for the hard-working to be significantly better off than they are under the current system. Furthermore, they would certainly be better off than those who just lived off the minimum income.

Many people make the values argument against the Basic Income indirectly, saying that, because the work ethic is so strong in our society, we should advocate poverty-alleviation policies that are consistent with it. A guaranteed income is not consistent with the work ethic because it provides people with 'something for nothing'. To avoid eroding the work ethic, a guaranteed income, if enacted, would have to be set at a very low level. This would prevent the guaranteed income from meeting subsistence needs and thus defeat the main purpose of it. In all, if politicians and the public wish to avoid putting the work ethic at risk, they are unlikely to be willing to provide generous levels of governmental assistance to non-working people.

An ELR system would not, however, run into this problem. Poor persons who took the ELR 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, thanks to our societal adherence to the work ethic, public assistance beneficiaries would end up better off under a public employment scheme than with 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 a 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 forgo enough to cover the added expense of supervisors, materials, and all the other overhead costs associated with the public employment programme. In addition, there are the externalities discussed earlier that must also be taken into account. Because public jobs are likely to be

so much more expensive and involve so many more costs, it is doubtful whether the public at large would be willing to bear the burden of making sure recipients receive a higher income than under the guaranteed income. Even if they did, the recipients might not be better off because of the high cost of engaging in work. Work often comes with travel costs, childcare costs, and other costs. The money used to cover these expenses cannot be used to purchase food, shelter, clothing, and other goods and services. If these private costs were taken into account by the designers of a public employment programme, the ELR wages would have to be *significantly* higher to ensure recipients were better off with a guaranteed job than a Basic Income Guarantee.

### **The Basic Income Guarantee and environmental protection**

The Basic Income Guarantee has been endorsed by Green parties around the world, largely because of its potential environmental benefits. However, 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 gross mischaracterisation. It is instead something which can help reduce the human costs of environmental policies.

Some proponents of the Basic Income Guarantee promote it as an environmental policy because it can free people from the necessity of engaging in environmentally harmful production activities to meet their basic needs (e.g., Offe, 1992). This argument is plausible, but one must not forget that the other side is also true – namely, the Basic Income Guarantee makes it possible for people to consume products that might be environmentally unfriendly without having to conduct work that would otherwise be environmentally beneficial. 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 of all activities. 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 cause major damage to the environment and to public health. If a Basic Income Guarantee resulted in a net reduction in labour supply, this might lead to a net reduction in the distances travelled in cars. On the other side of the coin, the Basic Income Guarantee provides people with more disposable income with which they can purchase more environmentally damaging forms of transportation.

Overall, whereas some people might use their Basic Income to live Thoreau's simple life, others might choose to live the most environmentally costly lifestyle that a Basic Income can afford them. Since the Basic Income Guarantee does not regulate what people can spend their income on, the aggregate effect of a Basic Income Guarantee is not unambiguously towards a lower environmental impact. One cannot, as a consequence, conclude that a Basic Income Guarantee is an environmental policy in itself. It is therefore better thought of as a tool to aid environmental policies.

As Chapters 1 and 2 have revealed, one of the great debates about environmental policies concerns the allegation that they will ‘cost jobs.’ In our opinion, this allegation is not necessarily true. Better environmental policies may simply involve only a shift of employment into more environmentally friendly occupations, although 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 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 also 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.

Ecological tax reform – to be discussed in Part IV of the book – 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. Ecological tax reform can be combined with a Basic Income Guarantee both to lessen the impact of the cost of the taxes on the poor and to reflect the collective claim that society has on the scarcity rents which ordinarily accrue to the owners of resources. If, for example, firms pay a heavy tax for pollution, they have an incentive to avoid polluting in the first place. 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 between 2 per cent and 30 per cent of GDP. Whereas the lower end of the scale is far less than would be needed to support a Basic Income Guarantee, the upper end is more than enough. Encouraging evidence does exist in relation to the Alaska Permanent Fund. The state of Alaska has a small Basic Income Guarantee supported by a fund created out of the state’s 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 enormous 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 values, the 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 associated with this kind of policy. People might become more willing to permit greater depletion of natural resources, par-

ticularly if they are being paid from the proceeds it generates. 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 potential problem is the contradiction that lies in financing a policy that society desires by means of taxing activities it would rather 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 successfully achieved. But the goal is also to provide a guaranteed income support for the poor. Hence, the better the policy achieves one goal, the less successful it is at achieving the other.

## **Conclusion**

Programmes which 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 that is also compounded by a second inefficiency which can emerge if selection errors result in people falling through the cracks of the welfare system. The Basic Income Guarantee has no cracks to fall through. It involves a simple, effective payment system which assists the needy without wasting funds on support structures. Therefore, in our view, if we want poverty reduction to be the central goal of poverty-alleviation policies, the Basic Income Guarantee is the most efficient means of achieving it.

We also believe that the biggest barrier to a more effective poverty-alleviation policy is the predilection that modern society has for judging the poor, which invariably penalises a great number of honest yet needy people. Currently, US law requires those on welfare to work in return for the benefits they receive although it limits the time recipients are eligible to receive such benefits to five years over one's lifetime. We are doubtful whether this approach will do much to curtail poverty. In fact, we believe it might actually exacerbate it. As more people are pushed off the welfare rolls, they face increased pressure to compete in the labour market, putting downward pressure on wages. Thus, at best, the welfare reform laws might simply swell the ranks of the working poor who have already endured 30 years of stagnating material standards of living at a time when significant GDP growth has substantially increased the material standards of living of the wealthier classes.

Anyone who believes that, above all else, work can provide workers with a better life should be distressed by this evidence. It is not necessary for poverty to exist to the extent that it does in a country as wealthy as the United States. If the goal is to eliminate poverty, the Basic Income Guarantee is the most comprehensive means to achieving it. In the end, the issue is a normative one. Should society be so committed to the work ethic that it forces the poor to work at poverty wages? If the answer is yes, is society not putting enforcement of a very strong version of the work ethic ahead of a shared desire to possess an economy that provides a decent life for everyone? We should instead adopt the position that

eliminating poverty is important enough for everyone to deserve the resources required to meet their basic needs. With a Basic Income Guarantee in place, there is still plenty of scope to provide adequate work incentives by ensuring there is a sufficient supply of good quality jobs. There is no need to force people into poverty-maintaining forms of work by using destitution as the penalty for not working. Society should certainly reward the work ethic, but it should never enforce the work ethic.

## Notes

- 1 Medical care, though important to one's standard of living, we treat as a separate issue.
- 2 Neoclassical economists regard *work* as time spent doing something in return for a money wage. 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 most economists define it, does not mean that it is not socially valuable.

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