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Abstract

This paper discusses problems with wage subsidy proposals, specifically focusing on the proposal in *Rewarding Word* by Edmund Phelps. It shows that the book uses one price theory to argue that the whole benefit of a wage subsidy will go to workers (rather than firms or consumers), but it uses an opposing price theory to argue against the Earned Income Tax Credit, unions, and public jobs. These and other inconsistencies in the book make it a weak argument for its conclusions.

Phelps’s Economic Discipline as Undisciplined Economics

Karl Widerquist

“Physical labor is as much a necessity for him [a serf]...as intellectual work is for me...I can't help thinking just as he can't help plowing or mowing. Just as I could not stand his terrible physical labor, but would die of it in a week, so he could not stand my physical inactivity, he would grow fat and die.”

-Tolstoy's Prince Andre (a fictional character set in 1806)

“Many academics...in relatively privileged circumstances cannot see how those working in a factory...could value it as a means to have a sense of contributing something to the country's collective project, which is business...We should feel sorry, not envious, about the lazy surfer [who does not labor if given another option] he doesn't know what he's missing.”

-Edmund Phelps (2000)

Poverty and inequality have in a small way reappeared on the political agenda in the United States. The political climate is not yet favorable for a major change in the direction of social policy toward unconditional support for the poor, but politicians have been showing interest in small reforms to anti-poverty policy such as an expansion of the Earned Income Tax Credit (EITC) or the replacement of it with an improved wage-subsidy scheme. Wage-subsidy proposals are usually put forward as a way to help the poor, but several less-attractive features of wage-subsidies are often ignored by their proponents. First, many of the benefits of wage subsidies are likely to be captured by the employers who pay poverty wages. Second, wage-subsidies do not benefit the poorest of the poor, those who are unable to enter the job market—primarily the children single-parents who are too busy with childcare responsibilities to enter the labor market. Third, tying aid for the poor to low-wage labor is the carrot that accompanies the stick of destitution for those who are out of waged labor. The carrot-and-stick combination can be seen an effort to discipline the poor into accepting that their lot in life is low-wage labor. Fourth, by tying support for the poor to market labor, wage-subsidies tie all help for the poor to economic behavior that is harmful to the environment. This article argues that these four problems with wage subsidies make them an inferior anti-poverty strategy to basic income, which is a small universal, unconditional income granted to all citizens as a right of citizenship.

One representative and in-depth wage-subsidy proposal is put forward by Edmund S. Phelps (1997) in his book *Rewarding Work: How to Restore Participation and Self-Support to Free Enterprise*. This article examines that proposal to reveal its internal inconsistencies. Phelps uses the assumptions of mainstream neoclassical economics inconsistently, making at times contradictory assumptions, to support his wage-subsidy proposal.

The Green Economics approach of this journal is highly critical of neoclassical economics; neoclassic models are often unrealistic and its practitioners often (selectively) ignore normative concerns (Kennet and Heinemann 2006). The Green Economics approach, as I will use it here, involves making economic modeling more realistic, uniting economics with other social science disciplines, and making the normative concerns of any economic study explicit. Specifically, any good social science needs to inform good social policy, and therefore it must be concerned not only with the overall level of economic activity but the health and wellbeing of all people and of the environment. Therefore, this paper is concerned with the main goal of the wage subsidies and of basic income—the relief of poverty—and the two most relevant possible side effects, the health of the economy and the health of the environment.

One question for those employing a broader approach to economics is to what extent to employ the models of neoclassical economics. Some heterodox economics believe the neoclassical school is a disingenuous rationalization for neo-liberal economic policies. They see neoclassical economists consistently supporting policies in which government cedes control of the economy to corporations, and see that neoclassical economics as no more than an excuse for such policies. I do not share this view of it as a whole, even if it has been used this way by some.

Neoclassical economics is a discipline—a consistent methodology for examining a certain types of issues. Its main shortcomings are in fact widely discussed under the headings of "market failure" (both micro- and macroeconomic failure) and "normative economics." The biggest failure of the discipline is not the lack of understanding of these issues, but the belief that they can be all be safely ignored *ceteris paribus*. Too often the ceteris paribus assumption is not used to mean not "all else equal" but "no other market failures exist." Once it is understood that multiple market failures and normative issues that demand examination exist in every market, appropriate neoclassical modeling can be a useful part of a green economist's toolkit—providing that use is disciplined and informed by ethical concerns.

A second reason for careful use of neoclassical economics is to communicate with mainstream and to evaluate the work of mainstream economists. Most economic work uses neoclassical economics and one cannot hope to evaluate it at all without employing neoclassical theory. This article employs neoclassical economics more for the second reason than the first. It neither accepts nor rejects neoclassical theory; it merely points out Phelps's undisciplined use of it. This article shows that a more disciplined look at wage-subsidies—even using neoclassical theory—indicates that either a much larger wage subsidy or a universal benefit for all of the poor would be necessary to solve the problems Phelps hopes to address.

This article is organized as follows: Part One explains Phelps case for wage subsidies over the basic income. Part Two shows how Phelps uses neoclassical economic theory inconsistently to support his conclusions and that the same theory, consistently applied, predicts that employers will capture a substantial portion of the subsidy. Part Three reveals a large number of additional problems with Phelps's approach, showing that to have a real impact on poverty a wage subsidy would have to be much larger than he proposes and even then it would leave out large numbers of people. Part Four compares the environmental impact of wage subsidies and basic income, showing that basic income is much more environmentally friendly.

Part One

Phelps does a good job of framing the problem of poverty and low wages. “The abysmal earning power of the disadvantaged … is the main source of the social pathologies attacking and weakening our cities. It is the cause, not the effect, of the much-decried culture of poverty” (p. 4). He discussed the misery of poverty and the social exclusion it brings. He makes a good argument that we need a market that pays every single worker at least $10 a hour (in 1996 dollars, more today). Yet, he proposes a wage subsidy of $3 per hour, which would only get wages up to $6 to $7 per hour. Phelps includes no discussion of how to fill the gap between the wages he says we needs and the amount he proposes to pay.

Phelps makes a good argument that subsidies for low-wage workers should be refocused on their hourly wages rather than on their total salary as the current EITC does. However, he also includes a poorly argued defense of the claim that the whole of the benefit of the subsidy will go to low-wage workers rather than to the employers who pay such low wages.

Phelps aims his argument primarily at people who think that his wage subsidy is too much and who need to be convinced of the need for a more active strategy to increase the living standards of low-wage workers. My skepticism is that it does not do enough; a more comprehensive policy like the basic income guarantee[1] (BIG) is necessary. BIG would ensure everyone an unconditional minimum income, so that no one would be completely destitute, but everyone who worked would be financially better off than those living solely off the minimum.

[1] It is also known as basic income, guaranteed income, negative income tax, or demogrant.

For a description of the basic income guarantee, see Van Parijs (2000), Chancer (1998), Aronowitz and DiFazio (1994), Clark and Healy (1997), Widerquist, Pressman, and Lewis (2005), and Widerquist and Lewis (2006).

Phelps compares the wage subsidy scheme to a basic income guarantee in his contribution to the book *What's Wrong with a Free Lunch?* (Phelps 2000). He believes that the most important priority is to get more poor people working, and best way to do that is with a wage-subsidy. Most basic income supporters believe that the most important priority is to eliminate poverty, and the best way to do that is with an unconditional transfer. Phelps (1997; 2000) essentially makes one normative and one positive argument against a basic income guarantee.

Phelps's normative argument is that it is wrong to say that people who cooperate to create a social product owe anything to people who refuse to cooperate. As he puts it, "If we Earth people discover Martians who are unwilling to trade or collaborate with us, do they nonetheless have a claim (to a basic income guarantee) too?" I have addressed this issue in several articles (Widerquist 1998, 2005, 2006a, 2006b), and therefore I will not address it here, except to summarize my answer to his question as follows: So long as the Martians remain on Mars and we remain here, we owe them nothing. But if we annex Mars, and privatize all of its natural resources so that Martians cannot have access to them without first obtaining some of our money, then yes, the Martians have a claim too—whether they are willing to cooperate with us or not.

The main focus of this article is on Phelps's positive argument for wage subsidies. This stems from his belief that wages are determined entirely by workers' productivity. If so, given existing skills,[2] the only policy that can increase incomes is a wage subsidy. He believes that non-work-based redistribution (such as BIG) encourages workers to drop out of the labor force, lowering their employability and their wages. I have no doubt that a wage subsidy can do some good for the disadvantaged, but I intend to show that Phelps proposal is too small to do what he claims it will and his argument that its benefits will not be captured by low-wage employers relies on an undisciplined use of neoclassical economics.

Part Two

Phelps refers repeatedly to mainstream neoclassical economic theory to support his arguments for a wage subsidy, but he does not mention that that same theory predicts that only a fraction of the benefits of a wage subsidy goes to workers. In neoclassical theory, a subsidy increases the wage received by workers, lowers the wage paid by employers, and increases the level of employment. If, as Phelps supposes, the subsidy also leads indirectly to an increase in the supply of labor, employment increases further, wages paid by employers decreases further, and wages received by workers decrease back toward (but not likely to) their original level. Firms then have to decrease their output prices to sell the higher level of output, passing some of the benefits of the subsidy on to consumers.

Phelps reaches the conclusion that only workers benefit from the wage subsidy by ignoring the neoclassical theory of price determination. He assumes instead that the wages of labor have a fixed natural price. As he puts it, “Employers, in their competition for workers, find themselves ultimately paying each worker a wage equal to what they estimate the worker’s productivity to be.” He goes on to say, “A sharp increase in the number of [workers with a given

[2] He effectively argues that increased education cannot raise productivity and wages far enough fast enough.

skill] would cause congestion (hence diminishing returns) in the short run but not in the long run when capital facilities would catch up" (p. 65). Phelps states this hypothesis as if it is an accepted part of mainstream theory, but it is actually is closer to Adam Smith's theory of natural price from more than 200 years ago than it is to modern neoclassical theory.

In neoclassical terms, Phelps's natural price is the assumption of long run constant returns to scale, which implies a horizontal long run demand for labor, giving one permanent fixed wage at a given productivity. Demand may slope down in the short run, causing fluctuations, but the natural wage returns in the long run. Because the demand for labor is a derived demand, the demand for goods would also have to be horizontal and there would have to be no long run substitutability between labor and any other factors of production. Firms have to be willing to give any number of available workers a job without lowering the going wage, and consumers have to be willing to buy any amount of the goods these workers produce without lowering the price. Under these assumptions, any effort (aside from a subsidy) to make employers pay higher wages would be completely frustrated by the movement of capital.

The more common neoclassical hypothesis is that the long run equilibrium price is determined by the interaction of both supply and demand. Long run equilibrium is reached by the adjustment of both price (wage) and quantity (employment). Productivity is just one of many factors that influence this price, and an increase in supply of workers with a given skill level will permanently drive down wages for all workers of that skill level. Workers are paid their productivity in a sense, but only according to their marginal productive, and workers have a different marginal product at every level of output. Ultimately, wages depend less on a worker's physical ability to convert inputs into outputs than on the interaction of workers' subjective willingness to accept a job's various possible wages and consumers' subjective willingness to buy the products workers produce at various prices. Thus, the assertion that workers are paid their marginal product says little about what they will actually be paid.

Phelps presents very little evidence for his natural-price hypothesis. He observes that wages across United States seem to be unrelated to the number of workers or the number of unemployed in that wage group, and that wages are not particularly depressed in countries in which the unskilled are a large portion of the employed (p. 159-160). This last observation is difficult to rectify with the well-known observations that U.S. firms pay much lower wages to workers in Mexico performing similar labor to workers in the United States, and that wages of the unskilled vary greatly across countries—often along with the minimum wage and other non-productively-related factors. His observation about workers across the United States could simply be explained as the existence of a national labor market (that labor and capital are sufficiently mobile to equalize wages across the country in the long run). If these interpretations are correct, his observations provide no evidence for his natural price hypothesis.

In fact, there is substantial evidence to the contrary. If Phelps's theory were true, unions could succeed only temporarily in increasing the wages of their workers above the marginal product, "but not in the long run when capital facilities would catch up." Firms in the unionized sector would go out of business and non-unionized sectors would expand until there were no more successful unions. Unions have declined since their peak in the post-war period, which suggests that the long run demand is more elastic than short run demand, but the fact that unions have continued to have any success contradicts natural price theory.

Natural price theory also makes an extremely unsupportable prediction. That is, an effective minimum wage would drive unskilled employment to *zero* in the long run. If the long run demand for labor is horizontal at the fixed marginal product of labor, any effort to raise unskilled wages above the natural price of labor will drive *all* employers out of the unskilled labor market in the long run. The large number of workers, who are clustered around the minimum wage and who receive raises whenever the minimum wage increases, demonstrate conclusively that the minimum wage is effective for some workers. The fact that demand for these workers has not fallen to zero after decades of effective minimum wages, demonstrates that the assumptions necessary to support Phelps's hypothesis of a natural price do not hold.

The theory that productivity is the only determinant of wages leads to other unspportable predictions. Under Phelps's theory, if every man in America woke up one morning with the skills of an NBA player there would be a temporary drop in the wages of basketball players, but in the long run "capital facilities would catch up" so that every man in America would be paid the same as NBA players are today. Neoclassical theory predicts instead that demand could not support such a large supply of basketball players, even in the long run, and that the wages of NBA players would be driven down to the wages of ordinary workers.

If the ramifications of a consistent application of the assumption are unbelievable, the assumption is unbelievable. Phelps uses the assumption of a natural price of labor to reach the conclusion that firms do not benefit from the wage subsidy (p. 110). Without the assumption of a natural price of labor, neoclassical theory predicts that firms will capture some of the benefit of a wage subsidy. Empirical evidence from wage-subsidy programs in several European countries shows that employers have been extremely successful in capturing the benefits intended for workers (Bouquin 2005).

Phelps also uses this fixed-natural price assumption to address the question of whether employers will simply substitute low-wage workers for higher-wage workers saying, "The only real question is the extent to which the productivity of the more productive workers in the economy will be brought down by the employment of more workers from the ranks of the less productive." (p. 119-120) Modern economic theory, on the contrary, supposes that there is at least some substitutability between different factors of production, including more and less skilled labor, and that an increase in the availability of one decreases the demand for another. An increase in the supply of less-skilled workers leads to decline in the demand for higher-skilled workers, causing a permanent decrease in the wages and employment level of those workers.[3]

Phelps uses another fallacious argument firms will not benefit from the wage subsidy in the long run. According to Phelps, "firms cannot swallow the subsidy for their owners, since their competition for workers, who are at first generating more revenue than before, ensures that their wages rise until the abnormal profit is eliminated." The assumption that competition eliminates an abnormal profit *rate* is not sufficient to say that firms cannot capture part of the surplus in the form of increased returns. After an initial windfall, entry of new firms or expansion of existing firms eliminates the abnormal profit rate at higher levels of investment and total return. That is, firm owners as a whole have more wealth than before; only the rate of profit on their wealth returns to the same level as before. This in no way implies that firms do not benefit. Phelps only manages to give that impression by inviting the reader to mistake the profit rate with the total benefit to producers.

Phelps relies on the natural-price assumption to conclude that the increased optimism workers would have, "a 'multiplier effect' of alleviating the pessimism and poor preparation that tend to spread like a contagion in poor communities, which would raise wages another notch." (p. 128). In this case, he is more upfront about his conclusions being the opposite of what mainstream theory predicts (that the increased supply of workers would drive wages down not up). If a more active and optimistic worker is a more productive worker, increased productivity

[3] This effect could be mitigated by complimentarity between more and less skilled workers.

could counteract some of the negative effects on wages of a greater supply of labor, but would be unlikely to reverse it, unless there is a fixed natural price of labor.

Despite Phelps's heavy reliance on natural-price theory, he makes exceptions to his assumption whenever the conclusions are not to his liking. For example, when he discusses public jobs as an alternative solution (p. 147 – 148), he uses efficiency wage theory to conclude that employers will cut back on their own hiring until the unemployment rate is back where it was before the public jobs were introduced. He could have said, as he does when a tight labor market is caused by his employment subsidy, that it would have a multiplier effect "raising wages another notch" (ignoring efficiency wage effects), but here he ignores any multiplier effect of optimism, and assumes that it will only lead to a return to efficiency wage unemployment.

The most blatant contradictions to natural-price theory come when he discusses labor unions and the Earned Income Tax Credit (p. 88 – 89, 145 – 147). He says, "According to any standard economic analysis, the tax credit program operates to reduce the wage of low-wage workers before the tax credit is taken into account. … For those workers not qualifying for the tax credit, therefore, the effect must be a reduction in their wage before and after taxes" (p. 89). That is a correct statement of standard economic analysis, but Phelps already threw out standard economic analysis. In his theory, EITC cannot reduce the wages of people who are not eligible unless it some how makes them less productive. If EITC lowers the before-credit wage, so must Phelps's employment subsidy, and therefore firms or consumers must capture some of the benefit he so strongly claims go only to workers.

For unions, "Legislation protecting the rights of unions to use strikes and other threats to drive up members' wages…may cause some to be excluded and driven into other industries to face lower wages" (p. 87). Again, Phelps makes an accurate statement of modern economic theory but a complete contradiction of his own natural price theory, which as shown above, predicts not only no unionism in the long run but also no negative effects on workers driven into other industries unless unionism in one industry somehow makes workers in other industries less productive. To be consistent with his own statements (p. 119) he would need to say that unionism could move workers from one industry to another but could not affect long run wages in any industry.

Part Three

Fixed-price theory is only one of the inconsistencies in Phelps's proposal. This section discusses several others.

When Phelps touts the benefits of work, he says that work is so rewarding that people of independent means often choose to work (p. 14), but when he discusses the evils of the welfare state, he says that society should be structured so that workers must have a job, and claims that being eligible for welfare benefits, "is very much like being born with a silver spoon in your mouth" (p. 92). This contradiction betrays an elitist attitude that applies one standard to judge the rich and another to judge the poor. Phelps has no negative judgment about an absentee owner who chooses not to work, but he calls a worker a "converted sinner" if destitution disciplines her into taking a poverty-wage job. He believes that work is inherently beneficial beyond its financial rewards. It brings satisfaction, a sense of self-worth, and socialization to workers. He trusts the upper class to see those benefits and to work even though they don't have to, but he doesn't trust the lower-class "silver spoons" to see those benefits without being forced into the labor market. Certainly work brings many of these benefits to many people, but Phelps is mistaken to believe that all jobs can confer all these benefits to everyone. Many people—artists, entrepreneurs, mothers, Buddhist monks, etc.—may see the necessity of having to have a low-wage job at all times as a barrier to achieving a sense of self. Others, even if they value work, may get few if any of the benefits Phelps sees in it if they find themselves stuck in a low-wage/low-status job for life. Enforcing work means forcing some people to a fulltime lifetime in a job they hate. Perhaps the reason that the lower classes don't see the benefits Phelps sees in menial labor is because they know more about it than he does.

When he discusses the causes of the problem, payroll taxes are bad because they devalue work (p. 96 – 99), but when he discusses subsidies, payroll taxes are good and should be increased to finance them (p. 116 – 118). It is a small and hopefully temporary increase, but if the payroll tax—at the level it is now—is part of the problem, it is surprising that an increase in the payroll tax is part of the solution. He discusses only two other revenue sources—increased income or sales taxes. All three of these primarily tax wage and salary earners. He does not even consider other possible taxes that would put the burden on profit and rental income, such as capital gains taxes, luxury taxes, Tobin taxes, inheritance taxes, land taxes, pollution taxes, wealth taxes, etc. It would make sense finance wage subsidies by taxing the unintended beneficiaries—the owners of firms—rather than by raising a tax that by Phelps admission is part of the problem for lower- and middle-class workers.

Similarly, when he discusses alternative solutions, the minimum wage is a bad thing because it creates unemployment (p. 145 – 147). But, when he defends the subsidy against objections, the minimum wage is a good thing because it keeps firms from reducing wages to capture the subsidy for themselves.

Inequality between low-wage workers and higher-wage workers is bad, because the low-wage workers will be more likely to suffer, "a lack of self-esteem, self-realization, and social participation, a lack of good health, a narrow choice of lumpy goods, a short supply of positional goods, and a deficiency of social consumption" (p. 23), but throughout the book inequality between low-wage workers and welfare recipients is good because it increase work incentives, as if it did not also create all the bad effects of inequality along with it.

Phelps stresses efficiency wage unemployment when discussing other proposals, but ignores the effects of efficiency wages on his employment subsidy. Efficiency wages require workers to face a very real fear of losing their jobs, and a level of employment that makes losing their jobs frightening enough to keep workers loyal to their employers. In short, efficiency wages give employers power over workers by imposing a real and permanent insecurity on all employees and leaving a portion of the labor force permanently unemployed. A subsidy can make employment more rewarding if and when a worker is employed, but it does nothing to relieve her basic insecurity or to help the unemployed. If efficiency wage unemployment exists, a certain part of the labor force is unemployed for no fault of their own, and punishing individuals for being unemployed cannot eliminate unemployment.

A subtle but important contradiction exists between the subsidy table in the text (p. 113), which he refers to throughout the book, and the more detailed subsidy table at the end of the book (p. 175), which he does not refer to in the text. The table within the book shows the subsidy beginning at $4 an hour raising the after-subsidy wage to $7. (Then the subsidy gradually phases out as wages increase.) The text refers repeatedly to the subsidy raising wages from $4 to $7 (p. 113, 133, 146, 152), which would be an increase of 75%. But $4 is not the *lowest* wage eligible for the subsidy; it is the *highest* wage eligible for the full subsidy. All wages between $3.01 and

$4.00 per hour are eligible for the full $3-per-hour subsidy, so that the subsidy necessarily raises wages only to $6.01. An increase from the prevailing minimum wage at the time the book was published—$5.15 per hour—to $6.01 is a hardly transforming increase of 16.7%, and it would be accompanied by a 41.6% decrease in the wage paid by firms—even though Phelps claims firms will not benefit. However, most of the book was probably written before October 1, 1996, when the minimum wage was only $4.25. This would make the actual wage increase $1.76 or 41.4% (from $4.25 to $6.01). The decrease in wages paid by employers would be $1.24 or 29.2% (from $4.25 to $3.01). A 41% increase will make almost any worker happy—unless she's been promised a 75% increase. Why the lack of openness? Is Phelps ashamed that his proposal subsidizes wages at $3.01? If so, why doesn't he actually make the minimum level $4.00? Or, does he really think $3.01 is the best level to start with? If so, why doesn't he proudly discuss the increases for $4.25 to $6.01? This book reads like the pitch of an unscrupulous used-car salesman; you never seem to know just what you're being sold.

Even the most generous interpretation of Phelps's wage subsidy proposal still leaves works well short of the level of income Phelps argues they need at the outset. As he describes how difficult it is to live off the current minimum wage, Phelps declares, "A wage of $6 an hour does not catapult those earnings into the middle class…It does not seem that a dollar more will be sufficient either" (p. 20). He sees large barriers to social inclusion for wages below $10 per hour, but his plan gives the biggest subsidy to workers making an after-subsidy wage right in the range that he decried in the chapter 2 ($6.01 to $7.00). The subsidy cannot get workers up to that $10 an hour level, because by the time the wage is near $10 the subsidy is already mostly phased out to less than 5% of wages. If one agrees with Phelps's statement of the problem on page 20, it is hard to agree with the level of subsidy proposed in the rest of the book. Phelps proposal ends up being a subsidy *only* for poverty-wage employment.

The subsidy proposal could be rewritten to make a real impact on workers. If the minimum subsidy level were $6.00 instead of $3.01, with the same $3.00 subsidy and gradual phase-out rate, it would give the lowest-wage workers an after-subsidy wage of $9.00 per hour, providing a significant boost in incomes (over 75%). Given the numbers of workers in each category in the table on page 175, this version would be somewhat more expensive than Phelps's proposal, but not outrageously so, and it would probably be accompanied by more of the external savings described in chapter 9. If this subsidy fails to increase employment enough, then we could consider making the subsidy a larger portion of the $9 after-subsidy wage—perhaps $4 per hour with a $5 minimum. But the government should not subsidize poverty-wages as Phelps proposes.

These arguments show that for a wage subsidy to have a substantial impact on poverty it would have to be much large than Phelps and most other proponents advise and even then it would leave out large numbers of people who are either unemployed or unable to enter the labor market.

Part Four

Some basic income supporters promote it as an environmental policy because it can free people from the necessity of working in environmentally damaging industries to meet their basic needs. This argument is true, but there is another other side to the necessity issue. Basic income also makes it possible for people to consume products that might be environmentally unfriendly without doing work that could be environmentally helpful. If we were comparing basic income to a policy that aided the poor by hiring them to do environmental clean-up, the work-oriented policy might be more environmentally helpful, but that is not what wage-subsidy advocates propose.

Wage subsidies that force people to take whatever jobs are available to receive aid. This strategy has two environmentally-unfriendly effects that basic income does not have. By making one input (i.e. workers) in the production process cheaper and more available, wage subsidies encourage greater use of other inputs (e.g. natural resources), greater consumption of outputs, and great production of byproducts (e.g. carbon emissions and toxins). From this comparison it is possible to conclude a priori that basic income is a more environmentally friendly anti-poverty policy than wage subsidies. Either one could be combined with more direct environmental policies, but as long as production involves environmental depletion, basic income has these two environmental advantages over wage subsidies.

Conclusion

Phelps's wage-subsidy program relies on undisciplined economics. An academic discipline is a consistently applied methodology. The discipline of economics is set of assumptions about the workings of the economy. Non-mainstream economists have challenged mainstream assumptions and built disciplines on alternative assumptions. But Phelps uses one assumption to defend his proposal and the opposite assumption to attack other proposals. Conclusions of such reasoning have little value. His proposals, like most wage-subsidy proposals offers too little to workers and much of what it offers is likely to be captured by employers, leading to greater environmental depletion.

However, a largely wage subsidy (aimed more definitely and ensuring a living wage) would be an extremely positive step even if it would not be the ideal social reform. Better yet, reform should move in the direction of universal benefits to help not only poverty-wage workers but also those unable to work because of efficiency wages, childcare responsibilities, or other factors. The fact that Phelps's plan lacks the ambition to significantly increase wages and that he tries so hard to ignore the benefits his plan will give to employers implies that his top priority is not to increase the living standards of low-wage workers but to "convert sinners" and get more poor people working, and more people helping to deplete resources, even at poverty-wage jobs. Phelps identifies many important problems with the low-wage labor market, but it would take a much more ambitious plan to address those problems effectively.

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