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**A comparison of the macroeconomic consequences of basic income  
and job guarantee schemes**

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## 1. Introduction

In this paper we compare and contrast two policy responses to rising income insecurity in the form of proposals to introduce a universal Basic Income (BI) and proposals to introduce a Job Guarantee (JG). Both challenge the prescriptions of the dominant neo-liberal policy agenda.

In his 1987 Ely Lecture to the American Economics Association, Princeton economist Alan Blinder described the failure to provide productive employment for all those willing and able to work as one of the “major weaknesses of market capitalism”. He argued that the failure had been “shamefully debilitating” since the mid 1970s, and that the associated costs make “reducing high unemployment a political, economic and moral challenge of the highest order” (Blinder, 1989: 139).

The situation remains that governments around the world have abandoned the goal of full employment and are content to pursue the diminished goal of full employability and to impugn the unemployed. The dominant economic orthodoxy has, since the mid-1970s, supported policy makers and politicians who have deliberately and persistently constrained their economies under the pretext that the role of policy is to ensure the economy functions at the so-called natural rate of unemployment. Discretionary monetary and fiscal policy decisions have prevented their economies from generating enough jobs to match the preferences of labour force, and enough hours of work to match the preferences of those who are employed. The result has been persistently high unemployment and rising levels of underemployment (Mitchell and Carlson, 2001). Ironically, highly desirable, labour-intensive projects go undone to the detriment of all (see Mitchell, 1998; Wray, 1998). The cumulative costs of the foregone output and unemployment are huge and dwarf the costs of alleged microeconomic inefficiency (Mitchell and Watts, 1997; Watts and Mitchell, 2000).

A key outcome of these disturbing labour market trends has been rising income insecurity for individuals and families. It is in this context that we consider the BI and the JG.

The provision of an unconditional BI, set at a ‘liveable’ level and payable to all citizens, is advocated by a number of public policy theorists as a means of addressing income security (see Van Parijs, 1997; Widerquist and Lewis, 1997; Clark and Kavanagh, 1996; Lerner, 2000; and Tomlinson, 2000, Basic Income European Network, 2004). We argue that this solution is palliative at best and is based on a failure to construct the problem of income insecurity appropriately and a failure to understand the options that a sovereign state which issues its own currency has available to it to ensure full employment is maintained. Nogeura (2004: 3) expresses a view common to the BI proponents when he asserts that “Full employment is not a reality any more, not even for male adult breadwinners. Unemployment - including long-term unemployment- has become a regular feature of our social landscape.” This compliance to the neo-liberal agenda is representative of the problem that the BIEN has in dealing with the problem of income insecurity.

In this paper we show that there is no constraint on achieving full employment other than the ideological and political constraints. Interestingly, the philosophical notions of citizenship and individual rights that underpin the BI approach are also those which were the pillars of full employment. In other words, to be able to introduce a BI one would have to traverse the same ideological and political barriers that a proposal to

return to full employment would have to confront. In that sense, the BI looks to be a very second-rate option compared to a full-scale public sector employment program.

In that vein, we prefer to solve income insecurity at its root by focusing on the causes of unemployment. We argue that the solution lies in restoring the role of the State as an ‘employer of last resort’ (see Mitchell, 1998; and Wray, 1998). The Centre of Full Employment and Equity (CofFEE) has developed a complete model of the Job Guarantee in which the Federal Government would provide jobs paid at the Federal minimum wage to all unemployed (Mitchell and Watts, 2001) as well as a Community Development Job Guarantee in which jobs are provided for both the young and long-term unemployed (Mitchell, Cowling and Watts, 2003).

These proposals and similar ones from Wray (1998) recognise the options that a fiat-currency issuer (sovereign government) has and the responsibilities it has for the achievement and maintenance of full employment.

In assessing the place of each proposal in a full employment strategy the paper will be structured as follows. Section 2 outlines the BI and JG models and the different ways they construct the income security ‘problem’ to be solved. Section 3 sets out the requirements for an effective and sustainable full employment policy and assesses the extent to which each model meets these conditions, and under what circumstances. Section 4 considers the nature of coercion under the BI and JG and the possibility for dynamic transitions to a broader and more inclusive notion of work. Conclusions are presented in Section 5.

## **2. Constructing the problem<sup>2</sup>**

How we construct the problem conditions the way we attempt to solve it. It is easy to pose a ‘false problem’ and then develop rhetoric to ‘solve it’. In the context of public policy we argue that it crucial to construct the initial problem meaningfully. So in the debate between those who advocate that the State should guarantee income and those who argue that the State should guarantee employment what exactly is the nature of the problem?

In this section we argue that there are two parts to the problem of income insecurity: (a) a need to understand the underlying rather than proximate causes of income insecurity; and (b) a need to understand the power that a sovereign state which issues its own currency has in terms of solving the underlying causes. On the first point, we argue that BI advocates attempt to solve the income insecurity directly but, in so doing, fail to address its underlying causes – namely unemployment. On the second point, we argue that BI categorically fail to understand the realities of modern money in fiat currency economies and thus falsely believe that governments are financially constrained. This leads them into a number of traps that are illusory at best. However, it also exposes the BI approach to the criticism that in a modern monetary economy it would be inflationary relative to a scheme that guarantees employment.

### **2.1 The problem of income insecurity**

Essentially, BI advocates concentrate on income insecurity whereas JG proponents argue that income insecurity is only an aspect of a broader problem which focuses on the role on employment in a mixed capitalist economy which is continually constrained by inflationary biases. In this paper, we argue that the BI construction is consistent with the neo-liberal economics of individualism and competitive markets constrained by market imperfections. We argue that it is based on a false premise and

a curious inconsistency. The false premise is that there fiat-currency issuing governments are financially constrained. The inconsistency is that the political conditions that would have to be present for BI to be a reality require the State to recognise the philosophical values of citizenship and individual rights. Underlying the advocacy for a BI, is the claim that full employment is no longer achievable ‘by reasonable means and necessitates lower wages, less social protection, more stress, social illness and inequality (Standing, 2002: 272, quoted in Harvey, 2003: 16). But we argue that the values that underpin a transition to a BI are the same that are required to restore full employment as a macroeconomic priority. Recognising both the false premise and the logical inconsistency, we suggest that the BI is not a sustainable option in the present environment, even if we can rediscover a ‘collective will’. The debate should really be about whether the BI can be consider a superior option in a monetary economy where the fiat-currency issuer is a monopoly and the private markets are constrained by inflationary-biases.

In that context, the JG model challenges the BI construction by: (a) by explicitly incorporating the fact that the State does not have financial constraints but rather has political constraints. In this way, the JG model abandons any association between its macroeconomic underpinnings and the government budget constraint that is a centrepiece in neoclassic (orthodox) economics,<sup>3</sup> and; (b) by arguing that the only sustainable policy that can resolve income insecurity is to restore full employment. In this sense, the problem is constructed a systemic failure in the form of ill-conceived and executed macroeconomic policy which is imposed on vulnerable individuals who are powerless to improve their outcomes.

#### The Basic Income approach to income insecurity

In crafting a case for an unconditional basic income, the BI literature gives little attention to the causes of income insecurity although they clearly relate it to the rise of mass unemployment identified in the introduction. Leading BI theorist, Philippe Van Parijs, approaches the problem by drawing on a liberal egalitarian conception of justice. He argues that individuals must be afforded ‘real freedom’; a state marked by both the absence of restraints on action and the presence of the means to realise one’s projects (cited in Gintis, 1997: 181). This requires that scarce social resources, including access to paid employment, should be distributed so as to maximise the value of opportunities available to the least well off.

Van Parijs (1997: 5) concludes that capitalism can be justified by redistributing wealth in the form of a BI payable to all individuals irrespective of their household situation, income derived from other sources and their relationship to the means of production. It would not be restricted to the involuntary unemployed but would be paid to people who choose not to engage in paid work including housewives, househusbands, surfers and tramps. Our attention in this paper is on what Clark and Kavanagh (1996: 400) describe as a “full basic income” in which the BI is set above the poverty line, replaces all other forms of public assistance, and is financed through an increase in tax rates or a widening of the tax base.

While macroeconomic analysis within the BI literature is seemingly limited to how the scheme would be financed, its advocates, none-the-less, argue that the introduction of a BI is a means to reconcile the objectives of poverty relief and full employment (see Van Parijs, 2000; Clark and Kavanagh, 1996; Basic Income European Network, 2004). How then will a BI, and the decoupling of income from

work, lead to full employment? The answer to this question lies in how one constructs the problem and how one defines full employment.

The existence and persistence of unemployment in BI models is generally accepted, and rarely explained. However, Van Parijs (1991) presents a discussion that it both an explanation of unemployment and a model of BI financing. Cowling, Mitchell and Watts (2003) provide a lengthy analysis which shows that Van Parijs's explanation of unemployment is rooted in orthodox neoclassical theory. We only summarise their argument here. For Van Parijs, unemployment arises because wage rigidities impede atomistic competition and prevent the labour market from clearing. Various possibilities are offered to buttress the existence of the wage rigidities including the role of trade union power and minimum wage legislation, and bargaining outcomes, which generate "efficiency wage" outcomes and promote "insider-outsider" arrangements. Unemployment is thus the result from departing from a competitive equilibrium rather than a consequence of systemic failure at the macroeconomic level.

His conception of the problem then leads to a rather bizarre, and very neoclassical, solution in terms of a redistribution of a type of 'property right' represented by the alleged existence of 'employment rents'. Van Parijs (1991: 124) saying that in the case of scarce jobs: "...let us give each member of the society concerned a tradable entitlement to an equal share of those jobs."

Accordingly, BI payments can be 'financed' by taxing workers who enjoy 'employment rents'. Van Parijs (1991: 124) claims that:

"...these rents are given by the difference between the income (and other advantages) the employed derive from their jobs, and the (lower) income they would need to get if the market were to clear. In a situation of persistent massive unemployment, there is no doubt that the sum total of these rents would greatly swell the amount available for financing the grant."

In this way, a BI enables workers to live a decent, if modest, life without paid employment. But the 'full employment' conception that is implicit in this rendering is also unacceptable. Full employment is engineered through an artificial withdrawal of labour supply. In the current parlance, the 'unemployed' are reclassified as 'not in the labour force' and the unemployment problem is 'solved'. Van Parijs concludes that the case that the surfers are living off others is invalid because:

"...it is a serious misdescription of what Malibu surfers are doing if all they live off is their share, or less than their share, of rents which would otherwise be monopolized by those who hold a rich society's productive jobs" (1991: 130-31).

Cowling *et al* (2003) show that there are insurmountable problems with this conception of unemployment and the model for financing the BI.

1. Within the logic of this analysis, efficiency wage bargains reflect freedom of association and maximising decisions on both sides of the contract. Productivity would fall if firms only offered the competitive wage. Recruitment would become more difficult and turnover would rise. The wage outcomes are not dysfunctional and are not imperfections that can be eliminated to restore an otherwise (perfectly) competitive labour market;
2. It is assumed that efficiency wages inhibit the market-clearing processes by imposing wage rigidity. Why would firms hire at wages lower than the efficient

wage? Clearly, if workers are willing to work at the efficient-wage, and there are queues for jobs, then there must not be enough demand for the output they produce. Unemployment is demand-deficient in this case;

3. Justice for Van Parijs (1991) occurs when there are no employment rents, which means wages equal their (textbook) competitive levels. Assume we eliminated the ‘imperfections’ (that create the rents) then within the logic of the competitive neoclassical market model there would be equal endowments, market-clearing real wages and zero involuntary unemployment. There would also be zero employment rents and zero employment envy. Clearly, there would be no tradable commodities to support the basic income. In other words, this form of BI financing depends on the existence of ‘market imperfections’ rather than any inalienable right to income at the expense of others;
4. The BI literature presumes that the good (employed) life that the worker has is at the expense of the unemployed and that scarcity is the problem. But while jobs might be scarce can we say that there are no useful activities for the unemployed to be engaged in should there be a demand for their services? Can we say that the provision of an income without work is equivalent to the provision of an income with a job?

The final point is at the heart of the difference between the BI approach to income insecurity and the JG approach to income insecurity. We argue that a more efficacious, and less apologetic, response to unemployment and income insecurity is to look at why people are being deprived of the opportunity to undertake paid employment and to alter the conduct of macroeconomic policy so that it is consistent with full employment. The Job Guarantee is an alternative approach to achieving this end.

#### The Job Guarantee approach to income insecurity

What is the cause of income insecurity? A solution has to go beyond offering a palliative that treats the symptom. The single most significant source of income insecurity is unemployment (Sen, 1997; Saunders, 2003). The attack on income insecurity should always begin with policy initiative that directly aims to restore full employment.

Several authors have shown that the persistently high unemployment in most OECD economies over the last 30 years has been the result of economic growth in OECD countries being below the level required to absorb labour force growth and growth in labour productivity (Mitchell, 1998; Wray, 1998; Mitchell, 2001). Countries that avoided the plunge into high unemployment in the 1970s maintained a “...sector of the economy which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified” (Ormerod, 1994: 203).

In contradistinction to BI explanations, the Job Guarantee (JG) model explains the persistence of unemployment as a system failure – the result of erroneous macroeconomic policies, which have failed to generate enough jobs, and enough hours of work, to match the preferences of the labour force. The level of unemployment at any point in time is a choice made by the Federal government when it sets and calibrates its budget parameters. Persistent unemployment is the product of persistently inadequate budget spending. Ipso facto, JG advocates argue that the State

must use its power as the issuer of currency to maintain levels of aggregate demand compatible with full employment and inflation control.

The JG model is outlined in Mitchell (1998) and Mitchell and Watts (2001) and can be summarised by the following features

1. **Full Employment:** The public sector operates a buffer stock of jobs to absorb workers who are unable to find employment in the private sector. The pool expands (declines) when private sector activity declines (expands). There is thus an open-ended offer by government to purchase labour.
2. **JG Wage:** The JG wage rate is best set at the minimum wage level to avoid disturbing the private wage structure. In other words, the government ‘hires off the bottom’ and does not compete for purchases with market prices.
3. **Social Wage:** The state supplements the JG earnings with a wide range of social wage expenditures, including adequate levels of public education, health, child care, and access to legal aid. Further, the JG policy does not replace conventional use of fiscal policy to achieve social and economic outcomes. In general, we prefer a higher level of public sector spending.
4. **Family Income Supplements:** The JG is not based on family-units. Anyone above the legal working age is entitled to receive the benefits of the scheme. We would supplement the JG wage with benefits reflecting family structure. In contrast to workfare there will not be pressure applied to single parents to seek employment.
5. **Inflation control:** The JG maintains full employment with inflation control. When the level of private sector activity is such that wage-price pressures forms as the precursor to an inflationary episode, the government manipulates fiscal and monetary policy settings (preferably fiscal policy) to reduce the level of private sector demand. The resulting rise in JG employment indicates the degree of private sector slack that is necessary to resolve the distributional struggle over current real income. Incomes policy may be complementary to reduce the JG employment level consistent, at any point in time, with inflation control if desired.
6. **NAIBER:** The ratio of JG employment to total employment or Buffer Employment Ratio (BER) that is consistent with stable inflation results from the redistribution of workers from the inflating private sector to the fixed price JG sector – it is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER). Its microeconomic foundations are not akin to those underpinning the neoclassical NAIRU.
7. **Workfare:** The JG is not a more elaborate form of Workfare. Workfare does not provide secure employment with conditions consistent with norms established in the community with respect to non-wage benefits and the like. Workfare does not ensure stable living incomes are provided to the workers. Workfare is a program, where the State extracts a contribution from the unemployed for their welfare payments. The State, however, takes no responsibility for the failure of the economy to generate enough jobs. In the JG, the state assumes this responsibility and pays workers award conditions for their work.
8. **Unemployment benefits:** Could be phased out, optional or abandoned. The JG *per se* can operate with any option. However, we would abandon unemployment support after a short period because the JG offers paid work instead.
9. **Administration:** The JG would be financed by the sovereign government which has a monopoly on currency issuance. We anticipate it would be organised and implemented locally.

10. Type of Jobs: JG workers would work in many socially useful activities including urban renewal projects and other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control, and the like), personal assistance to pensioners, and other community schemes. There is now an extensive literature on this (see Cowling, Mitchell and Watts, 2003).

In summary, unlike the BI model, the JG framework directly addresses the cause of income security by tying a secure income to a work guarantee. Any person who is able to work will be able to access a job that provides a 'living wage'. Persons unable to work will be provided with a 'living income'. Full employment is attained by adjusting the level of aggregate demand (to ensure that the economy provides sufficient work opportunities) rather than by engineering labour supply adjustments, which define the problem away. The JG differs from a standard Keynesian approach because it provides only the minimum demand expansion (the cost of hiring the unemployed workers) rather than relying on market spending and multipliers. The inflationary impacts are thus significantly different.

The BI approaches the question of income security from the pessimistic view that unemployment is inevitable and a result of market imperfections rather than a macroeconomic failure. BI policy then proposes to decouple income from work and supports this suggestion with arguments based on notions of "justice". The economics of the approach, however, lack credibility. Full employment can possibly be achieved by encouraging an artificial labour supply withdrawal under a generous BI. The unemployed simply move into the not in the labour force statistics. This is a common method of dealing with persistent unemployment. The rapid rise in disability pension recipients, particularly concentrated among less employable and older workers, has been a notable trend in several countries in the 1990s. By failing to address the macroeconomic issues, BI advocates have been reluctant to engage in a meaningful debate on the merits of the restoration of full employment. As noted, Standing (2002: 272) provides a neo-liberal solution to the achievement of full employment. Noguera (2004: 15) just refers to the 'infeasibility not to mention the undesirability of such a situation' in which every-able to work citizen had a job.

## 2.2 False premises lead to false conclusions<sup>4</sup>

Apart from constructing the problem of income insecurity incorrectly, we note that in the mainstream BI literature, the case is made for the introduction of a BI within a 'budget neutral' environment. This is presumably to allay the criticism of the neo-liberals who eschew government deficits. It should be noted that when we use the term government in this paper we are referring to the level of government that has a monopoly over the issuance of fiat-currency.

One of the sensitive issues for BI proponents is thus its perceived 'cost'. In this section, we show that much of this debate is conducted on false premises and as a consequence, erroneous conclusions are made about the viability of the BI. Specifically, we argue that government is not financially constrained in its spending (Mosler, 1998; Wray, 1998; Mitchell, 1998; Mitchell and Mosler, 2002). It is convenient for neo-liberals to cloak their contempt for government spending (unless it is specifically assistance that advances the interests of their own lobby group) in the authoritative sounding concept borrowed from orthodox economics known as the 'government budget constraint' (GBC).



## The realities of modern money

The abandonment of macroeconomic demand management outlined in the previous section has been accompanied by an obsession by government and their ‘business oriented audience’ with budget surpluses and a denial that they promote persistent unemployment (Mitchell and Mosler, 2002). Contrary to the myth peddled by neo-liberalism there are no financial constraints on federal government spending. The myth starts with a false analogy between household and government budgets. The analogy misunderstands that a household, the user of the currency, must finance its spending, *ex ante*, whereas the government, the issuer of the currency, spends first and never has to worry about financing.

Neo-liberalism argue that the GBC represents an *ex ante* financial constraint on government spending, whereas in fact it is only an *ex post* accounting identity. The GBC literature outlines three sources of government ‘finance’: (1) taxation; (2) selling interest-bearing government bonds to the private sector; and (3) printing money. A deficit (spending above taxes) is thus ‘financed’ by a combination of (2) and (3). Various scenarios are constructed to show that deficits are either inflationary, if ‘financed’ by ‘printing money’, or ‘crowd-out’ private sector spending by pushing up interest rates, if ‘financed’ by debt.

A summary of the many flaws in this argument is presented here (see Mitchell and Mosler, 2002 for more detail). The government is the sole provider of *fiat currency* or money. A monetary economy typically requires a federal budget deficit for smooth functioning and full employment. To understand this argument we note that tax liabilities must be discharged using this currency. Government spending provides the private sector with the currency they need to pay their taxes and to net save. As government spending precedes tax payments it logically cannot be financed by taxes. Further, if private sector desires to net save are to be fulfilled then aggregate government spending must exceed taxation (a budget deficit). Budget surpluses squeeze the desires of the private sector to hold financial assets, net save and pay taxes and ultimately lead to mass unemployment.

The GBC approach then argues that budget deficits have to be financed with debt issues, which place upward pressure on interest rates by increasing demand for private funds. However, this fundamentally misconstrues the way the banking system operates. All transactions between private entities, like commercial banks, net to zero because for every asset created, a matching liability exists. Thus no *net* assets can be *created* by transactions between private entities. The money creating role of banks specified in economics textbooks is thus misleading. The only source of net money creation is via exchanges between government (including their central bank) and the private sector (net government spending; government bond trading and foreign exchange trading by the central bank).

Central banks conduct monetary policy by setting and maintaining a target cash (short-term) interest rate, which then influences the overall structure of interest rates. For example, if there is upwards pressure on the cash rate due to heavy demands for funds in the commercial banking system, the central bank will buy government bonds from the private sector and thus inject cash.

A budget deficit amounts to a *net* injection of cash into the system and creates a *system-wide* excess in the reserve accounts that commercial banks hold with the central bank. These accounts are central to the settlements system where the multitude

of transactions between individuals and banks are resolved. Banks do not like to hold excess reserves in these accounts because they typically earn zero interest. Thus, system-wide cash surpluses place downward pressure on the cash rate as banks try to lend out the excess reserves. Of-course, in *net* terms these transactions cannot clear an overall cash surplus. If the central bank is intent on holding its interest rate target then it must drain these excess reserves from the system. This is why government debt is issued. It serves as a liquidity drain to allow the central bank interest rate target to be sustained. The private sector purchases the debt to earn a market yield on their reserve holdings. So, far from pushing interest rates up, debt issues maintain existing rates, which would otherwise fall. If there no debt were issued, then the cash rate would fall. However, this would not constrain government spending but merely alter the asset returns available to the private sector.

The private sector may increase their consumption if they cannot find suitable interest-bearing assets to absorb their cash surplus. This would necessitate a decline in net government spending to avoid an overheated economy. This also relates to the neo-liberal claim that money creation always creates inflation. The relationship between monetary growth (nominal demand) and the price level is complex and depends on the state of aggregate supply. In times of deficient-demand, business firms have excess capacity and will respond to increased demand for their products by increasing production and employment rather than increasing prices.

In summary, the government, as the issuer of money, cannot be financially constrained and has an obligation to ensure that its net spending is sufficient to maintain full employment. Any ‘policy package’ that justifies its position on the basis of perceived government financial constraints is thus based on erroneous foundations.

This account of the way modern governments work in terms of their fiscal and monetary policy decisions has important implications for the BI debate. We first summarise what this analysis means for understanding the problem of unemployment.

#### Understanding the macroeconomic roots of unemployment

First, following Mitchell and Mosler (2002), we argue that involuntary unemployment arises when the private sector, in aggregate, desires to earn the monetary unit of account, but doesn’t desire to spend all it earns. Firms do not hire because they cannot sell the output that would be produced. In this situation, nominal (or real) wage cuts *per se* do not clear the labour market, unless those cuts somehow eliminate the desire of the private sector to net save, and thereby increase spending. The only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and eliminate unemployment is the government sector. It does this by (deficit) spending. Such net savings can only come from and is necessarily equal to cumulative government deficit spending. The government deficit (surplus) equals the non-government surplus (deficit). A systematic pursuit of government budget surpluses must result in a systematic decline in private sector savings.

Second, the non-government sector is dependent on the government to provide funds for both its desired net savings and payment of taxes to the government. To obtain these funds, non-government agents offer real goods and services for sale in exchange for the needed units of the currency. This includes, of-course, the offer of labour by the unemployed. The obvious conclusion is that unemployment occurs when net

government spending is too low to accommodate the need to pay taxes and the desire to net save.

Third, the pursuit of government budget surpluses will be contractionary. Pursuing budget surpluses is necessarily equivalent to the pursuit of non-government sector deficits. The decreasing levels of net savings ‘financing’ the government surplus increasingly leverage the private sector. Increasing financial fragility accompanies the deteriorating debt to income ratios and the system finally succumbs to the ongoing demand-draining fiscal drag through a slow-down in real activity.

#### The implications of modern money for the Basic Income approach<sup>5</sup>

Once we recognise that there is no financial constraint on government spending we can avoid many of the problems that BI theorists have put in their own path. These include: (a) if the budget impact is kept to a minimum, there will be only small aggregate demand impacts and it is unlikely that a BI scheme would provide sufficient hours of work to meet the preferences of the labour force. It is highly unlikely that labour participation rates will fall with the introduction of the BI, given the rising participation by women in part-time work (desiring higher family incomes) and the strong commitment to work among the unemployed (Widerquist and Lewis, 1997; Tann and Sawyers, 2001); (b) with a modest BI increases in the supply of part-time workers is likely (full-timers reducing work hours and combining BI with earned income). While the BI option may increase wages for the most disadvantaged workers in the labour market (as employers try to attract them into marginal jobs) it is more likely that the employers (in the secondary labour market) will utilise this increase in part-time supply to exploit the large implicit subsidy and reduce wages and conditions, which is acknowledged by BI advocates, including Van de Veen (1998) and De Groot (1997); (c) it is possible that some full-time jobs will be replaced with low wage, low productivity part-time jobs leading to falling investment, skill accumulation and ultimately falling average living standards; (d) to ‘finance’ a more generous BI, higher taxes would be necessary which could impact on labour supply – should substitution effects dominate.<sup>6</sup>

We conclude that under conditions of budget neutrality, the maximum sustainable level of the BI would be modest. The aggregate demand and employment impact is likely to be small, and even with some redistribution of working hours; high levels of labour underutilisation are likely to persist. Overall we do not consider this enhances the rights of the most disadvantaged nor provides work for those who desire it (see Cowling, Mitchell and Watts, 2003). Little (1998: 131) points out that while the BI might enable individuals to exist without work “it does not provide any firm promises of paid work for those who don’t have a job but who want to contribute their labour to the generation of social wealth”

However, new, more profound problems arise if we introduce a BI into a ‘functional finance’ paradigm (Wray, 1988). We argue that the BI approach locks the economy in to an inflationary bias which when combined with the current ‘independent’ central banks would prevent it from achieving sufficient growth to offer real employment options to the workers.

Following the logic of the previous section, it is clear that to avoid ‘locking the economy into persistent unemployment, the introduction of the BI should be in the form of a net government stimulus (that is, deficit-financed). However, the two

approaches to income insecurity depart at this point in because a JG maintains price stability (anchors the value of the currency) whereas the BI approach is inflationary.

In this setting, a deficit ‘financed’ BI constitutes an indiscriminate Keynesian expansion and as it lacks any inbuilt price stabilisation mechanisms, inflationary pressures would result. This follows directly from our analysis in the previous section on the financial options facing government.

In the monetary paradigm we outlined above it is clear that the value of the currency is determined by “what is required to obtain it for payment of the given tax liability” (Tcherneva, 2003). In the BI, there is nothing provided in return for the government spending. Tcherneva (2003) states that “if a program is instituted whereby the population can obtain freely the unit, which fulfills the tax obligation, the value of the currency will deteriorate sharply.” In the JG program, the value of the currency is intrinsically related to the JG wage – the wage becomes a nominal anchor for the currency. If it becomes harder to obtain the wage (if working hours in the JG sector are increased) then the value of the currency rises.

In this way, the JG is the only way to generate and sustain full employment with price stability. Mitchell (1998) argues that the JG is in effect a buffer stock that is generated with a ‘fixed price/floating quantity rule’ (see also Wray, 1998: 135-137). The JG workers are ‘buffer stock’ workers which stabilises the price of labour throughout the economy. Given the JG does not compete with private sector wages (it hires at a ‘fixed price’), redistributions between the private sector and the buffer stock can always be manipulated to stabilise any wage inflation in the non-JG sector. The quantity of JG workers this ‘floats’ in accordance with private sector demand levels.

In this environment it does matter if the net stimulus to aggregate demand was induced by (1) a higher BI with an unchanged tax system; or (2) an unchanged BI with lower taxes; or a combination of the two. Demand for labour would clearly increase more than under the budget neutral regime, but it is the impact on labour supply that is of critical importance.

If the level of BI is increased, it is reasonable to surmise that total labour supply would decrease, while the impact of lower tax rates on the labour supply of incumbent workers will depend on the relative magnitudes of their income and substitution effects. Given the net stimulus to employment and output, there is the logical possibility of excess demand for labour at full employment<sup>7</sup>, where the full employment level of employment has been artificially reduced in the presence of the BI.

In the absence of an inbuilt counter-inflation mechanism, this excess demand would cause demand-pull inflation. Rising wages would make the BI relatively less attractive. This may lead to some ‘lifestylers’ choosing to return to the labour market, while the government may respond by raising taxes and/or reducing government expenditure, which would tend to raise unemployment. In both cases demand pressure would decline, but to the extent that the inflationary process had assumed a cost-push form, wage and price inflation may only decline slowly.

It is thus possible that an unsustainable dynamic could be generated in which there are periodic phases of demand-pull inflation and induced cost-push inflation at low rates of unemployment, followed by contractionary policy and high rates of unemployment. These economic outcomes are consistent with indiscriminate Keynesian policy of the past. The dynamic efficiency of such a pattern is highly questionable given that the

hysteric consequences of unemployment keep being manifested. Even if this Keynesian expansion could achieve full employment, considerable economic inflexibility is created. The ebb and flow of the private sector cannot be readily accommodated, and the likelihood of inflation is thus increased (see Forstater, 2000). In addition, the inflationary process at full employment could threaten to change the distribution of real income, weakening the inducement to invest and making the achievement of sustained full employment even more difficult (Rowthorn, 1980). Over time there would be political pressure to raise the BI in line with changing community expectations that reflect the higher wage levels. Policy makers would need to correctly anticipate the impact on labour supply.

Thus, the introduction of a BI policy designed to achieve full employment is likely to be highly problematic with respect its capacity to deliver both sustained full employment and price stability.

Some BI supporters recommend financing the BI through other forms of taxes to avoid alienating workers, but there appears to be no consensus. If taxes are shifted from labour to capital - bringing about a nominal redistribution of income - this may induce price increases to restore the real distribution of income, or will weaken the inducement to invest.

Finally, we need to consider the effect of a BI on social attitudes to work and non-work. While BI advocates argue that the universality of the payment will make it more acceptable to the community, this claim ignores the distinction between BI recipients who choose to work and those that choose more leisure and no paid work. Sharon Beder (2002:2) observes that work is still at:

“the heart of capitalist culture ... [and] ... to make sure there is no identity outside of employment, the unemployed are stigmatised. They tend to be portrayed in the media as either frauds, hopeless cases or layabouts who are living it up at taxpayers’ expense. Work is seen as an essential characteristic of being human. No matter how tedious it is, any work is generally considered to be better than no work.”

The introduction of a BI is likely to further violate attitudes to work and non-work.

In summary, the BI fails to satisfy the essential criteria for an effective and sustainable full employment policy as outlined in Section 3.1. Any policy that entails the imposition of a liveable BI violates attitudes to work and non-work. A BI policy that achieves full employment, in part by engineering an artificial reduction in labour supply, is likely to be unsustainable because of frequent episodes of stagflation, which could impact on the real distribution of income. And a BI, which fails to achieve full employment, despite its impact on labour supply, does not provide sufficient hours of work to meet the preferences of the labour force.

### **3. The labour market and the welfare system: rights and obligations**

Noguera (2004: 2-3) notes that the welfare states which were developed in post-war Europe recognised social and economic citizenship which was firmly anchored in formal employment. The Keynesian full employment commitment was buttressed socially by the development of the Welfare State, which defined the state’s obligation to provide security to all citizens. Citizenship embraced the notion that society had “a collective responsibility for the wellbeing of its citizens” (Jamrozik, 2001: 15) and replaced the deserving-undeserving poor dichotomy (Timmins, 1995: 21). Transfer

payments were provided to disadvantaged individuals and groups and a professional public sector, provided standardised services at an equivalent level to all citizens.

Accompanying neo-liberal attacks on macroeconomic policy have been concerted attacks on supplementary institutions such as the industrial relations system and the Welfare State, because the move to persistently high labour underutilisation has placed pressure on the Welfare State 'bridge'. This in turn has led to a reappraisal of the 'philosophical objective' and a move towards user-pays.

To force individuals to become accountable for their own outcomes, welfare policy changes have introduced responsibilities to counter-balance existing rights while promoting the movement from passive to active welfare. Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt. Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs. Increasingly governments are imposing tighter controls on the 'victims' of the unemployment in order to continue with their receipt of income support. Unfortunately, no reciprocal obligation is on government to ensure that there are enough jobs.

This focus on the individual ignores the role that macroeconomic constraints play in creating welfare dependence. The preoccupation of government with instituting behavioural requirements and enforcing sanctions for welfare recipients suggests that dependence is perceived as an individual preference. However, it is a compositional fallacy to argue that the difference between getting a job and being unemployed is a matter of individual endeavour. The unconstrained choice of welfare dependency as a lifestyle is fundamentally different from the pursuit of income support as a right of citizenry by a powerless individual in the face of macroeconomic failure.

The BI school considers that the solution to this systemic failure of government economic policy is not the re-introduction of a full employment policy, but rather the recognition by the State of the philosophical values of citizenship by the introduction of an unconditional income. But a government that recognises individual economic and social rights associated with the introduction of a BI should be equally predisposed to implement a full employment policy. If governments introduce a BI, but maintain their obsession with the maintenance of budget surpluses, then this form of income support is likely to be subject to the same type of pressure that has reduced the coverage, duration and level of public benefits over the last decade in many Western economies.

We have already pointed to the problematic macroeconomic impact of a BI, even if the requirement of budget neutrality were to be disregarded. In addition, there are a number of claims about the impact of the BI on the functioning of the macroeconomic labour market which warrant serious examination.

Drawing on the work of Van Parijs, Noguera (2004:7) explores the question of whether a BI should be paid to those who can access a good job, but have no intention of taking it up. He argues that from a liberal point of view there is no justification in rewarding those with expensive tastes who appropriate a scarce valuable asset, such as a job, yet exclude those 'who could and would take advantage of a similar opportunity'. Likewise, those who voluntarily give up employment opportunities to which they are entitled should not be punished, particularly when others can then appropriate this portion of income which would otherwise be unavailable. In earlier

work Farrelly (1999) rejects this argument stating that this treatment of the voluntarily unemployed undermines the responsibilities required of just citizens (see also Lipietz, 1992).

Van Parijs' argument collapses if a JG is introduced to overcome the unemployment problem (see also Farrelly, 1999: 290). In private correspondence, Widerquist challenged this perspective stating that Van Parijs's argument is not solely reliant on there being unemployment. It depends on some jobs being more desirable than others and the labour market not performing the matching function effectively, in addition to not providing a consistently adequate level of wage income to those who wish to undertake paid work. He states that Van Parijs' argument only collapses if the labour market is perfectly fair, so everyone was paid exactly what s/he contributed and everyone was able to work as much as they wanted in order to generate income (Watts, 2002).

Are more concerned with the quality of jobs, which may well be in short supply, rather than creating sufficient work for all? Thus even if wages and conditions were made more even due to workers increased bargaining power, the introduction of the BI has failed to address the most fundamental source of labour market insecurity namely its inability to create sufficient jobs.

Noguera (2004:17) asserts that the introduction of a BI brings about a more rational distribution of jobs and working time according to citizens' preferences. Further, individuals would be allowed to decide for themselves how to balance work, employment income and leisure (Noguera, 2004: 19). Thus improved labour market outcomes are alleged to result from individuals being liberated from the need to work and from being able to veto bad jobs, thereby forcing a restructuring of jobs and improved matching, so that quality jobs would be available to more workers.

BI advocates are split on the impact of the BI, however, with Van de Veen (1998) and De Groot (1997) both pointing to the benefits of its employment generating effects through subsidising the wages of workers with low productivity. Thus low productivity, low wage jobs with the likelihood of poor working conditions are viewed by them as complementary rather than substitutes for the BI. It must be acknowledged however that net job creation will only result from an increase in aggregate demand. This neo-liberal solution is based on increased 'choice' for individual even though the choices not particularly meaningful for an individual seeking to improve her/his economic opportunities by taking paid employment.

Noting the presence in many written constitutions of the freedom to choose one's profession and/or job, Noguera (2004: 20-21) concludes that it is better guaranteed by a BI than any 'workfarist, welfare to work or activation policy'.

Noguera seems to be confusing the alleged freedom to refuse a job under a *livable BI*, a concept which is in itself highly problematic<sup>8</sup> with the presence of sufficient jobs and hence the ability to exercise a real choice in determining which job to undertake. Meaningful job choice necessarily implies the presence of full employment.

While the BI is designed to enable individuals to make real choices about employment, there must be sufficient paid work undertaken in aggregate to produce goods and services in the domestic economy in response to aggregate demand arising from consumption and the other forms of expenditure. Why should we expect an employed worker, who is not responsible for the plight of the unemployed to sacrifice income to pay for the non-work of another, irrespective of whether unemployment is

voluntary or involuntary? One person's freedom from the work imperative under capitalism is another worker's alienation. With their individualistic perspective, BI advocates never address this macroeconomic constraint on *real freedom*. In this context, the later analysis of the claim that a JG is coercive is significant.

This failure to explore the macroeconomics of the BI is shown in even sharper relief when the ecologists' arguments for basic income are analysed. Fitzpatrick (2002: 144) is quite clear:

For ecologists, people should be opting out of the labour market: the fewer people that are actually contributing to GDP growth then the more the brakes will be applied to such growth. In fact, we should aim at a full BI as soon as possible in order to provide people with the incentive to abandon wage-earning.

This quotation fails to understand that the implementation of a BI is not supposed to be a deflationary policy that curtails consumption and other components of aggregate expenditure. Even under budget neutrality, there is likely to be an increase in consumption arising from the shift in the distribution of income to the low income groups, who typically have a higher propensity to consume than high income earners. The individual freedom to reduce hours of work is presumed to aggregate to a collective reduction in hours worked and output. This represents a classic example of the fallacy of composition which is a common characteristic of faulty reasoning in orthodox macroeconomics. Significantly, there is no discussion in this book chapter of the long term increases in labour market participation in Western countries and the absence of any significant anti-consumerism amongst populations in developed economies.

In the same volume, Humphrey (2002: 52) sees the implementation of a BI as a means of achieving ecologically appropriate behaviour:

The commitment that ecologically appropriate behaviour has to brought forth in a non-coercive or paternalist manner, coupled with the belief that anti-ecological behaviour drives from material insecurity, come together in justification of Basic Income policy.

Certainly the imperative to maintain environmentally destructive forms of employment, such as logging, as a source of employment in rural areas is removed by the implementation of a BI, but the implementation of a BI within a stimulatory or budget neutral policy does nothing to curtail levels of consumption, and hence the collective imperative to work, as noted above.

There is a presumption in the BI literature that the good (employed) life that the worker has is at the expense of the unemployed and that the scarcity of jobs is the problem. But while paid jobs might be scarce can we say that there are no useful activities for the unemployed to undertake? Can we say that the provision of an income without work is equivalent to the provision of an income with a job? This distinction is at the heart of the JG approach to income insecurity. In fact, there are more than enough jobs that can be made available; the problem lies in there being inadequate levels of spending to 'fund' them. Scarcity then is a chosen policy position that the government adopts rather than being any natural occurrence that is beyond our control as a collective to address.

Payment of a BI to all citizens would signify a further withdrawal by the State from its responsibility to manage economic affairs and care for its citizens. Young people must be encouraged to develop skills and engage in paid work, rather than be the



passive recipients of a social security benefit A growing body of evidence points to a strong link between long-term unemployment of the young and social exclusion, where the latter is manifested in economic deprivation, the absence of institutional support, and social, cultural and spatial isolation (see, for example, Kieselbach, 2003: 74). The argument that deep seated problems of social exclusion in high unemployment areas are solved by more generous ‘benefits’ and a tolerant attitude to voluntary joblessness, ignores the societal ethic about work

The failure to engage in paid work, for whatever reason, cannot be narrowly construed to be merely an inability to generate disposable income which can be compensated for through a benefit, but entails a much broader form of exclusion from economic, social and cultural life. Harvey (2003) notes the benefits of stable work with decent wages, health and retirement benefits. The advocates of a BI fail to explain how its availability will promote meaningful engagement on the part of the disadvantaged, who have limited income earning opportunities. The universal availability of the BI, does not overcome the stigma associated with voluntary unemployment of the able-bodied, who do not have caring or other responsibilities.

The achievement of full employment would rule out the need for BI, if those citizens who are unable to work, due to illness; disability or caring responsibilities are eligible for social security benefits. This is precisely the JG solution.

The unfairness of the labour market with respect to pay and conditions can be much more efficiently addressed via regular improvements in the pay and conditions of JG jobs.

#### **4. Coercion and the future of work<sup>9</sup>**

In the previous section we established a preference for the Job Guarantee in terms of its ability to satisfy the essential conditions for a successful full employment policy within the constraints of a monetary capitalist system. The case made for the JG leaves two outstanding and important issues to be discussed:

- (a) Is a compulsory JG overly-coercive; and
- (b) Does the BI model introduce dynamics that can take us beyond the oppressive reliance on work for income security?

For example, Van Parijs (1993) considers “a capitalist road to communism” via the introduction of a universal income guarantee. We will argue that the JG provides a stronger evolutionary dynamic in terms of establishing broader historical transitions away from the unemployment (and income insecurity) that is intrinsic to the capitalist mode of production. We see the JG as a short-run palliative and a longer-term force for historical change.

##### **4.1 Coercion**

If the vast majority of workers prefer to work then the systemic failure to provide a sufficient quantum of jobs imposes harsh costs that can be alleviated by the introduction of a JG. In this regard, the JG is a source of freedom - the capitalist property relations notwithstanding. But it is entirely possible that some people – the ‘sea-changers’ – do not value work in any intrinsic sense and if confronted with the choice between the JG and a BI would take the latter option every time. A blanket JG is coercive in its impact on this particular group. The BI advocate would likely recommend a simple modification that would ‘merely’ make the JG voluntary within the context of a universal BI.

To understand this criticism of the JG we note that the underlying unit of analysis in the BI literature is an individual who appears to be to resemble McGregor's (1960) theory X person. Theory X people are found in neo-classical microeconomics textbooks and are self-centred, rational maximisers. In this conception, Thurow (1983: 216) says "man is basically a grasshopper with a limited, short-time horizon who, liking leisure must be forced to work and save enticed by rewards much greater than those he gets from leisure."

Reinforcing this conception of human behaviour is a libertarian concept of freedom. Optimal outcomes require an individual to have free choice and BI proponents see a decoupling of income from work as an essential step towards increasing choice and freedom. From a Marxist perspective, BI offers the hope of taking subsistence away from any necessity to produce surplus value. At least for a given individual that takes the BI! Accordingly, proposals like the JG are met with derision because they represent the antithesis of individual freedom. Even if the vast majority of individuals desire to be employed, a flexible system would also permit those who did not want to work to enjoy life on the income guarantee.

By denying citizens the opportunity to choose between the JG and the non-work alternative of the BI, it is alleged that the JG becomes an unnecessarily coercive and harsh system. However, taking the orthodox government budget constraint version of the BI at face value, confronts BI proponents with a major dilemma. To finance the scheme some people have to work. It is difficult to believe that all those who are working are choosing to work in preference to not working. However, under capitalist property relations, workers in general have to work to survive.

Van Parijs (1993: 179) asks "what is 'unfair' about living off the labour of others when everyone is given the same possibility? Facing this possibility, some will choose to do no or little paid work. Others will want to work a lot, whether for the additional money or for the fun of working, and thereby finance the universal grant. If the latter envy the former's idleness, why don't they follow suit?"

There are a number of problems with this conception of a free and fair system. First, our lives do not all begin at the time of the inception of the BI. Individuals who, under different circumstances, may have taken the no-work option have entered into commitments, like having children. In that sense, prior constraints prevent them from "enjoying" the freedom. Second, the financing logic fails due to the inherent fallacy of composition. The BI system becomes undefined if everyone chose to take the nonwork option. So we are left with the uncomfortable conclusion that under the BI the "coercion of work" is neatly transferred to those who continue to undertake paid work, while under the JG the "coercion of work" is shared by all.

No form of wage labour is non-coercive under capitalism. The question is what forms of coercion are most likely to lead to changes in the mode of production over time. The importance of the work ethic in reinforcing capitalist social relations cannot be underestimated. We repeat Sharon Beder's (2002: 2) observation that the problem is that work is still at the "heart of capitalist culture ... and is seen as an essential characteristic of being human". No matter how tedious it is, any work is generally considered to be better than no work" (Beder, 2000: 2).

The BI proponents argue that the introduction of a universal income guarantee "moves us closer (*ceteris paribus*) to communism, as defined by distribution according to needs" (Van Parijs, 1993: 162). In other words, the BI approach contains

a dynamic that can steer society away from capitalism towards a communist state. Marxist supporters of the BI see this as a major advantage, a palliative under capitalism but also the seed to its end.

What is the validity of this claim?

#### 4.2 Transition to the future of work

In Australia there are several trends that are placing our traditional notions of work and income under stress:

- There has been a decline in the growth of full-time jobs and a striking share of new jobs are part-time and precarious (Borland, Gregory and Sheehan, 2001);
- Unemployment has persisted at high levels for nearly 30 years;
- There is growing underemployment among part-time workers;
- The number of marginal workers in general are rising as is the number of former workers supported by disability pensions;
- There has been a polarisation emerging between those with too much work and the underemployed with too little (Watts and Burgess, 2000); and
- Reflecting these labour market trends is the increasing income inequality in Australia with the bottom 50 per cent of the population having a smaller income share than the top 10 per cent of income earners (Saunders, 2001, Table 3).

Many of these trends have been exhibited in other Western type economies. The future of paid work is clearly an important debate. The traditional moral views about the virtues of work - which are exploited by the capitalist class - need to be recast. Clearly, social policy can play a part in engendering this debate and help establish transition dynamics. However, it is likely that a non-capitalist system of work and income generation is needed before the yoke of the work ethic and the stigmatisation of non-work is fully expunged.

The question is how to make this transition in light of the constraints that capital places on the working class and the State. BI advocates think that their approach provides exactly this dynamic.

Clearly, there is a need to embrace a broader concept of work in the first phase of decoupling work and income. However, to impose this new culture of non-work on to society as it currently exists is unlikely to be a constructive approach. The patent resentment of the unemployed will only be transferred to the “surfers on Malibu”!

Social attitudes take time to evolve and are best reinforced by changes in the educational system. The social fabric must be rebuilt over time. The change in mode of production through evolutionary means will not happen overnight, and concepts of community wealth and civic responsibility that have been eroded over time, by the divide and conquer individualism of the neo-liberal era, have to be restored.

#### 5. Conclusion

Work remains central to identity and independence and persistent unemployment remains the central cause of income insecurity. While the introduction of an unconditional BI has superficial appeal - as a means to allow individuals to subsist without work - the model fails to come to grips with the failure of macroeconomic policy to provide paid employment opportunities and secure incomes for all.

Alan Blinder was right to describe reducing high unemployment as a “political, economic and moral challenge of the highest order”. In this paper we set out the conditions that must be met if a full employment strategy is to be both effective and sustainable. Unlike the BI model, the Job Guarantee model met each of these conditions within the constraints of a monetary capitalist system.

Little (1998: 131) notes that:

Basic income advocates may suggest that the decoupling of income from work performed is likely to result in a growth of activity in the voluntary community sphere but do not identify clearly enough how community relations are going to be developed sufficiently. In other words, pecuniary measures associated with basic income cannot, by themselves, regenerate the concept of community and a more forthright and clearly defined role for the state is necessary.

This role for the state is embodied in the Job Guarantee. It is a far better vehicle to rebuild a sense of community and the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer. It also provides the framework whereby the concept of work itself can be extended and broadened to include activities that we would dismiss as being “leisure” using the current ideology and persuasions. In other words, the JG can take us into a convergence with the BI aspirations via the development of concepts of work within the work ethic paradigm.

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<sup>3</sup> We use the terms neo-classical, orthodox, and neo-liberal interchangeably here while recognising that they are in fact not equivalents in every case.

<sup>4</sup> This section draws heavily on Mitchell and Mosler (2002).

<sup>5</sup> This section draws heavily on Cowling, Mitchell and Watts (2003).

<sup>6</sup> While some BI advocates, such as Widerquist and Lewis (1997:35-36), argue that there will be little impact on the participation rate of the recipients of BI who are on low pay or are unemployed, Lerner (2000) points to the liberating impact on individuals who can make real choices about whether or not to participate in paid work. Noguchi and Lewis (2004) cite evidence that increased hours of work have limited civic participation and hence social capital formation. They view BI as a subsidy for leisure, which will promote higher levels of civic participation with beneficial social effects.

<sup>7</sup> The alternative is that the excess demand for goods would be increasingly met via imports with consequential effects for the exchange rate and the domestic price level, which accentuate the inflationary pressure.

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<sup>8</sup> By assumption, there is a critical level of the BI, at which the balance of power in the labour market fundamentally changes, but inevitably there are differences in individual reservation incomes according to their respective potentials to earn wage income. In short for some workers with plenty of income earning opportunities, the critical BI is relatively high. Thus the setting of a BI at a livable level for most workers may cause a massive distortion in the functioning of the labour market.

<sup>9</sup> This section draws heavily on Cowling, Mitchell and Watts (2003).