



A System of Basic Income Versus the Job Guarantee

Martin Watts*

**DRAFT, SEPTEMBER 2002. NOT TO BE QUOTED
WITHOUT PERMISSION OF THE AUTHOR(S).**

*The views expressed in this paper are those of the author(s),
and do not necessarily represent the views of BIEN or BIEN-Suisse.*

*Centre of Full Employment and Equity, The University of Newcastle, Callaghan NSW 2308,
Australia. Home Page: <http://e1.newcastle.edu.au/coffee>. Email: coffee@newcastle.edu.au

Contents

Acknowledgement.....	v
Abstract	vii
1. Introduction.....	1
2. The two schemes.....	3
2.1 Basic income	3
2.2 Job guarantee (JG).....	4
3. Citizenship: Its rights and obligations	7
4. The economic consequences.....	13
4.1 Financing the schemes.....	13
4.2 Employment and wages.....	16
5. The environment	18
5.1 Lifestyle choices under a BI.....	18
5.2 JG and the environment.....	20
6. Conclusion	21
References	23

Acknowledgement

I wish to acknowledge the constructive comments on an earlier draft by an anonymous referee, Michael Lewis, John Tomlinson, Karl Widerquist and the participants at the Department of Economics Research Seminar at The University of Newcastle in July 2001.

Abstract

I contrast the impact of basic income (BI) and a job guarantee on job creation, skill development, the wage structure, investment, employment, living standards and government deficits and debt. The macroeconomic impact of the BI is rarely explored in the literature, which tends to take an individualist perspective. The consequences for human rights of these schemes are also investigated. The environmental implications of running a fully employed economy under a Job Guarantee are explored. In the long term the two schemes may converge with the re-conceptualization of what activities constitute work.

1. Introduction

Despite the upturns of the late 1980s and late 1990s, unemployment rates in Australia and the European countries, including France, Italy and Germany, have never been restored to levels in the early 1970s, prior to the first oil shock (Bell, 2000; OECD Economic Outlook, various issues). For example, over the last two decades, the lowest rate of unemployment in Australia was 5.4 per cent (November 1989). By contrast in 1974, the rate of unemployment was less than 3 per cent. Most researchers acknowledge that the economic and social costs of sustained high unemployment are substantial (see, for example, Sen, 1997a,b; Junankur and Kapuscinski, 1992; Watts, 2000).

In addition, in these countries there has been an increased fragmentation of employment with a rising share being non-standard (ILO, 2001). A strengthening of the managerial prerogative with respect to the number of and timing of hours of work through labour market deregulation have accompanied this. There has been a long-term increase in the share of part-time employees who seek more hours of work, and in particular, those who seek full-time hours, signifying underemployment. In addition, hidden unemployment remains significant with Australian estimates in 1999 in the order of 266,000 (Mitchell and Carlson, 2000). Mitchell (2000) presents Australian data for 1970-2000, which shows that the failure of public sector employment to grow proportionately with the labour force explains the persistent unemployment. There has also been a long-term increase in wage inequality in Britain, the United States of America (USA) and Australia (Watts, 2001 and references therein). Real wage growth has been modest.

Thus working men and women in many OECD countries are now confronted with increasingly fragmented working arrangements which generate insecurity about the number and timing of hours of work, modest real wage growth, significant wage inequality and persistent official unemployment and underemployment.

In Australia, Britain and the USA, and increasingly in Europe, unemployment is being viewed as an individual, not a collective problem, which

warrants further supply side reform. This was epitomized in Australia by the introduction of the “Work-for-the-Dole” scheme in late 1997 and its consolidation via the development of mutual obligation in mid-1998 (Burgess et al., 2000). The New Deal was developed in Britain (HM Treasury, 1997) and in the USA; Clinton signed the Personal Responsibility and Work Opportunity Act of 1996. The three initiatives required active engagement by the unemployed in training, job search, forms of work and other activities in exchange for unemployment benefit. Monetary and fiscal policy in these countries has been geared to keeping inflation low and to achieving budget surpluses, respectively. Strong economic fundamentals allied with deregulated markets are viewed as both necessary and sufficient for the return to full employment. Despite the OECD Jobs Study (1994), there is increasing scepticism about the capacity of neo-liberal reforms to reduce the persistent high unemployment.

An unconditional Basic or Guaranteed Income (BI) set at a livable level and paid to all citizens as a means of reducing economic insecurity is now advocated by public policy theorists, including Van Parijs (2000a) in Belgium, Fitzpatrick (1999) in the UK, Widerquist and Lewis (1997) (USA), Clark and Kavanagh (1996), Lerner (2000) (Canada) and Tomlinson (2000) (Australia). BI is alleged to redress the power imbalance in the labour market, overcome poverty and unemployment traps, lead to a voluntary redistribution of work hours and encourage individuals to adopt creative family and community activities in their leisure time. The debate about the appropriateness of a BI is normally framed in the general context of the current welfare to work arrangements (Handler, 2002; Wax, 2002).

On the other hand, to counter persistent unemployment, US researchers, including Forstater (2000) and Wray (1997, 2000) argue in favour of the government acting as an employer of last resort, providing jobs at a fixed minimum wage to all those individuals of working age who want them. Mitchell and Watts (2001a) in Australia favour the concept of the job guarantee (JG) that is similar in philosophy. The JG approach, which is largely neglected in the literature, acknowledges that there is important work to be undertaken on social and environmental projects that do not satisfy the calculus of profit. Thus through

the appropriate allocation of JG employees under a buffer stock mechanism, full employment is achievable and environmentally sustainable.¹

In this paper, I critically assess these two interventionist approaches to income insecurity and a malfunctioning macroeconomy, which share a rejection of contemporary supply side solutions. The advocates of a BI typically take a narrow, individualistic perspective by viewing the BI as a solution to income security through income redistribution, without recognizing the wider social, economic and environmental consequences. In particular, the BI is not a full employment policy, if it is “financed” through increased taxes. Also pressing environmental problems would not be addressed in a systematic fashion.

In Section 2, the properties of the two schemes are summarized. In Section 3, we examine the different underlying conceptualizations of rights and obligations that characterize the two schemes. The economic and environmental implications of BI and JG are contrasted in Sections 4 and 5 respectively. Concluding comments are in the final section.

2. The two schemes

2.1 Basic income

Van Parijs (2000a) defines basic income as “an income paid by a political community to all its members on an individual basis, without means test or work requirement” (see also Lerner and Clark, 2000; Fitzpatrick, 2001). It replaces other forms of social welfare benefits including unemployment benefits and child allowances and pensions that in a number of countries, such as Britain and Australia, are subject to means tests. Supplements can still be given to those who suffer illness/disability. Lerner and Clark (2000) envisage different rates being paid to elderly, adults and children.

¹ Wax (2002) confines her analysis of the employer of last resort scheme to a single sentence.

A full basic income sets income above the poverty line, so it is a liveable level of income. A partial BI lies below the poverty line with either some form of public assistance for those individuals with an inadequate income or the requirement that they work.

It is often recommended that BI be ‘financed’ by a flat tax on all other personal incomes with the elimination of all or most tax deductions in order to widen the tax base (Clark and Kavanagh, 1996). A revenue-neutral, partial basic income implies a lower marginal rate of tax, but it would be less effective in combating poverty (Fitzpatrick, 2001, p.2). Alternative taxation regimes (such as an energy, land or natural resource taxes) or an expanded value added tax and even a new tax instrument, such as a Tobin tax on speculative capital movements are also advocated by some commentators. In Section 4 we argue that the financing of a BI is not an issue, *per se*, although it is acknowledged that different tax regimes have different distributional consequences.

Van Parijs (2000a) argues that the Basic Income is a universal system, which should have a higher take up rate and the absence of any stigma on recipients (see also Fitzpatrick, 2001). Van Parijs argues that the BI embodies equal rights for all and workers’ freedom and security would be increased. The BI would be easy to understand and cheap to administer. It would tackle poverty and unemployment traps, because it would not be withdrawn when people secure a job and/or experiences an increase in earnings.

2.2 Job guarantee (JG)

Mitchell and Watts (2001a) outline the basic features of the JG:

§ Buffer stock of jobs: The public sector operates a buffer stock of jobs that expands (declines) when private sector activity declines (expands). These jobs are available to all able-bodied people who are capable of working. The JG fulfils an absorption function and minimizes the costs associated with private sector flux. The number of JG jobs would be less than the current level of (under) employment because the expansion of activity induced by the implementation of

this programme would lead to an increase in the demand for goods and services produced by the private sector.

§ JG wage: The JG wage would be the minimum wage, to avoid disturbing the private sector wage structure and to ensure the JG is consistent with stable inflation. The JG wage may be increased over time in line with economy wide increases in productivity to promote increasing private sector wages and productivity.

§ Structure of incentives: Using a neo-classical labour/leisure analysis, Mitchell and Watts (2001b) show that, under realistic assumptions about relative rates of pay,

- the JG option would be preferred to unemployment, if the unemployment benefit were zero;
- a private sector job would be preferred to a JG job; and
- a JG job would be preferred to workfare in which unemployed individuals were required to work for a specified number of hours in exchange for their benefits. Thus an appropriate structure of incentives could be created without upsetting the private wage structure.

§ Social wage: A wide range of social wage expenditures, including adequate levels of public education, health, child care and access to legal aid supplements JG earnings. The JG policy does not replace the conventional use of fiscal policy to achieve specific social and economic outcomes.

§ Family income supplements: The JG is based on individuals. The JG wage (available to all working age people) would be supplemented with benefits reflecting family structure. In contrast to workfare in the USA, there would no pressure on single parents to seek employment.

§ “Loose” full employment: The JG policy introduces “loose full employment” because:

-
- the demand pressures would be less than if the unemployed were fully employed at market wages in the private sector, and
 - there would be no disruption to the relative wage structure of the private sector.
- § Inflation control: The JG wage provides an in-built inflation control mechanism (Mitchell, 1998, 2000b).
- § The JG is not a more elaborate form of workfare: Workfare does not provide secure employment with conditions consistent with community norms with respect to non-wage benefits and the like. Workfare does not ensure stable living incomes are provided to workers. Under workfare, the State extracts a contribution from the unemployed in exchange for their welfare payments. The State, however, takes no responsibility for the failure of the economy to generate enough full-time permanent jobs. In the JG, the state takes this responsibility and employees receive minimum wages and conditions.²
- § Unemployment benefits: The unemployment benefits scheme would be scrapped with the associated administrative infrastructure being used for JG operations. Mutual obligation for the unemployed would be redefined because the receipt of income would be conditional on taking a JG job. Those people of working age who are unable to work due to disability etc would receive a benefit.
- § Administration: The JG would be financed federally with the operational focus being Local Government. Local administration and coordination would ensure that the JG programme led to the creation of meaningful, value-adding employment.

² Atkinson (1996) advocates a participation income which requires a social contribution via part-time or full-time waged employment or self-employment, or participation in education, training, or job search, or the home care of children or elderly or regular voluntary work in recognized associations. If the contribution is defined very broadly, then there is little difference between a participation income and a BI.

§ Type of jobs: The JG workers would participate in many community-based, socially useful activities, including urban renewal projects, personal assistance to pensioners, and environmental schemes, such as reforestation, sand dune stabilization, river valley and erosion control (see also Section 5.3). The buffer stock of labour would however fluctuate with private sector activity and the design of JG jobs and the associated duties would have to reflect this. Projects requiring a critical mass of workers could face labour shortages as the private sector expanded. Thus the stock of standard public sector jobs, which is identified with conventional Keynesian fiscal policy, would be likely to expand, reflecting the political decision that these were essential activities.

3. Citizenship: Its rights and obligations

Van Parijs (2000b) supports a BI on the basis of a real-libertarian conception of justice. All members of society should be formally free, with a well-enforced structure of property rights that includes the ownership of each by herself, but also integral to the concept is the real value of those rights, measured by the resources the person has at her command to exploit her liberty. The distribution of resources should offer the greatest possible real opportunity to those with least opportunities, subject to everyone's formal freedom being respected.

This abstract concept of justice may appear to have merit because it has an individualistic focus, but it is divorced from the economic and institutional arrangements prevailing in a modern capitalistic economy, specifically the presence of a central government with specific powers, including the capacity to authorize transfers according to certain criteria, to impose harsh welfare regimes and to create jobs etc.³

³ Likewise Widerquist's work in which he examines the rights and obligations of Lazy and Crazy on an island while an interesting intellectual exercise adds little to the understanding of rights and obligations in a modern capitalistic economy.

Van Parijs claims that a BI set at the highest sustainable level satisfies this real libertarian ideal. BI represents a social dividend reflecting the productivity of nature and it should be received as a matter of right. Van Parijs rejects policies designed to provide workers with the option of meaningful work⁴ and consequently denies those who are unwilling to work the conditions for autonomy. The decision to be non-productive in the paid work sense through neglecting education, training and work experience has long-term repercussions for career opportunities.

Widerquist (1999, p.400) rejects a conditional guaranteed income linked to a work requirement because he argues that external asset owners are not obliged to work, so that the scheme falls short of reciprocity. Under a BI, all individuals have the same opportunity to live without working. In the absence of a BI, some members of society face the possibility of starvation if they choose not to work. A BI will not exploit middle-class workers, because their higher wages, resulting from a change in the balance of forces in the labour market (see below), will compensate to some degree for the imposition of taxes to pay for the BI (Widerquist, 1999). Also by not being forced to work, wage earners cannot be construed as being exploited. The macroeconomic reality, however, is that a high percentage of the working age population must work to sustain current living standards. This raises the question as to the level of the BI. Wilderquist presumes that a BI will be offered that provides individuals will real choices about whether to work or not, but there remains an ambiguity because individuals differ in their material aspirations and hence what they believe constitutes a liveable level of income. Handler (2002) argues that BI should be high enough to significantly reduce poverty but low enough to encourage people to seek paid labour.

Handler (2002) makes the distinction between citizenship, which refers to legal/political status within a nation state, and social citizenship, which describes the welfare state provisions. The latter is usually analyzed in economic terms by

⁴ Van Parijs (1995:91) claims that such policies “amount to using scarce resources in a discriminatory way, with a bias towards those with a stronger preference for being employed” quoted in Farrelly (1999:290).

reference to the decommodification of labour, protection against risks to earning capacity and reducing poverty. Increasingly social citizenship is understood in terms of a contractual relationship with obligations, rather than entitlements. Holder disagrees with Rosanvallon (2000) who believes that the contractual relationship will empower clients through the development of their capacities which will lead to their inclusion into society and hence into citizenship. Handler's argument is that inclusion through the imposition of workfare obligations is contradictory, because the acts of inclusion necessarily result in exclusion for those who cannot negotiate the barriers. Further the contractual relationship is not an equal one, given the capacity of welfare agencies to exercise power and utilize discretion. Handler documents the deficiencies of the welfare to work systems in the US and various European countries at length. He concludes that an equal relationship between the client and the agency would be fostered by a BI guarantee, which would then require the agency to provide acceptable terms for the client to participate. The BI would "restore social citizenship, alleviate poverty, and provide real freedom for people in terms of work, human capital development, and non-paid work" (Handler, 2002).

Handler (2002) argues that Anglo Saxon welfare policy has a poor record of separating the deserving from the undeserving poor. It is the fear that decent, hard-working poor people might slide into this latter group "that leads to conditions and sanctions in social welfare systems, that creates bureaucracies, and the other pathologies of welfare systems".

Handler (2002) asks, "How many working people would really turn down a job with decent working conditions to join the socially excluded? The disincentives to work are more a function of the available labor market conditions than welfare benefits".

Handler (2002), Wax (2002) and other writers, who have contrasted the introduction of a BI with the punitive welfare to work policies of Anglo Saxon governments, and to a lesser extent governments in Continental Europe, have fundamentally missed the point. Putting aside as to whether citizens have an obligation to engage in paid work, the underlying reason why modern welfare to

work policy is unjust is quite simply that the number of vacancies is significantly exceeded by the official unemployed and this imbalance is even greater if underemployment is also included in the measure of labour under-utilization. The average unemployment to vacancy ratio in Australia has been about 11 since 1974. No regimes of training, work experience or job search can redress such a deficiency of jobs. The Australian Government has conceded that Work for the Dole is a compliance measure, rather than an employment programme (DEWR, 2002). Clearly Governments in a number of countries have exploited the public support of mutual obligation for the unemployed, irrespective of the state of the labour market.

Handler (2002) asserts that the benefits of a BI should not be sacrificed because some would choose to remain socially excluded. Farrelly (1999, p. 284) argues that free riding is counter to the fundamental moral consideration, which underpins both socialism and capitalism. Van Parijs asserts that say surfers by giving up their claim on a job allow improves the access of others to the scarce job market. Farrelly (1999) rejects this argument stating that this treatment of the voluntarily unemployed undermines the responsibilities required of just citizens (see also Lipietz, 1992).

Farrelly (1999, p. 290) claims that Van Parijs' argument collapses if policies are introduced to overcome the unemployment problem. He cites microeconomic policies, including reduced working time and employment subsidies, but also the implementation of the JG would undermine Van Parijs' argument. In private correspondence, Widerquist challenges 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).

Thus the argument appears to be that with the introduction of an unconditional BI with its associated increased freedom of choice, workers would have meaningful choices and be able to veto bad jobs, thereby forcing a restructuring of jobs and improved matching, so that quality jobs would be available to more workers.

A permanently fully employed economy via the JG can more efficiently reduce discriminatory practices by employers and force the restructuring of jobs. The underlying assumption of Widerquist and Lewis is that there will be a large number of low wage jobs if the JG proposal is adopted. The implementation of the JG policy will also lead to the expansion of employment in the private sector through the multiplier effect. In setting priorities for the design of JG jobs in response to perceived environmental and social needs, it may be decided that more permanent public sector jobs should be created at the usual levels of wages and conditions, particularly in countries such as Australia, where the public sector has been significantly cut in the last decade. Again the required number of minimum wage JG jobs would be reduced. Finally the JG wage can be used as a component of industry policy, which will contribute to an absolute, if not relative improvement, in wages and conditions for the lower paid workers over time.

By contrast an indiscriminate Keynesian expansion that achieves full employment, via the creation of normal public sector jobs, creates considerable inflexibility in that the ebb and flow of the private sector cannot be readily accommodated, so that the likelihood of inflation is increased (see Forstater, 2000).

While it could be claimed that individuals should be left to make rational choices about training and work, education until a certain age is still compulsory, so the question is not about compulsion, per se, but rather at what age individuals should be considered responsible for their decision making. Even though the BI is universal, there may well be a stigma attached to someone of working age who chooses not to engage in paid work. Rightly or wrongly social status and feelings of self worth are attached to continuous paid work.

Australian cross-section evidence reveals that participation rates across regional areas exhibit significant variation, which reflects, in part, employment opportunities. There are an increasing percentage of households (in Australia) in which neither parent undertakes paid work. Contributing to this malaise is the lack of job opportunities for the less educated (Dawkins, Gregg and Scutella, 2002). This trend to increased household joblessness is likely to have significant repercussions for the next generation of potential workers. Ryan (2000) highlights the deficiencies of current labour market programmes in facilitating the movement from school to work of young people in a number of European countries. Also in a UK study Brennan, Rhodes and Tyler (2000) note that many of the factors bringing about social exclusion originate in the labour market. The problem is that the provision of BI is not a full employment policy. The tacit acceptance of this emerging underclass, which subsists on a BI, is highly undesirable.

Robeyns (2001, p.85) notes that in one respect a BI is good for women because they represent the majority of the poor, but it will tend to reinforce the gender division of labour with some women reluctantly foregoing paid work. It is important to note, however, that the household division of paid work reflects pay differences and discriminatory labour market practices, in addition to sexual stereotyping and hence the unequal distribution of unpaid work.

Robeyns questions whether an unconditional BI would lead to a recognition and revaluation of unpaid work, since it would also be paid to people who do not make any economic or social contribution. She favours a participation income, so that people who engage in socially valuable activities are entitled to a minimum income.

Burgess and Mitchell (1998) argue that employment and the receipt of income is an inalienable human right. Consistent with Farrelly (1999), they note that those not engaging in paid work are not accorded the status attached to employment because they make no contribution to market activity; the barometer of worth in a market economy. They also have no opportunity for long-term career advancement and are stigmatised. This violates basic concepts of community participation and citizenship.

Widerquist and Lewis (1997) argue that public employment (JG) is a vast improvement over any other strategies and, like a BI, acts as an automatic stabilizer and eliminates many sources of poverty. They applaud the fact that JG creates a reciprocal moral obligation rather than a one-sided moral obligation, associated with a no work, no income scenario, but they object to the absence of financial assistance for workers who choose not to engage in paid work. Wax (2002) concludes that the arguments concerning rights and responsibilities of individuals with respect to the unconditional receipt of income have yet to be resolved.

4. The economic consequences

4.1 Financing the schemes

Widerquist (1999, p.400) argues that the overhead costs of a conditional income scheme (JG) are much greater than those under a BI, although he acknowledges that the workers produce something of value under the JG. Van Parijs (2000a) notes that a work conditional system entails the costly supervision of low productivity, work-shy employees. Widerquist and Lewis (1997) ask whether the work shy would be fired for poor performance. The increased supervision would impose increased cost, but would also lower productivity and create antagonism. Supporters of a JG would acknowledge that the culture of inactivity, which is concentrated, in particular geographic areas in Anglo Saxon and Continental European countries would be hard to break. The creation of locally based jobs and a pressure to participate fully in society may contribute to the slow breakdown of these entrenched attitudes.

Widerquist and Lewis (1997) claim that there is no guarantee that an individual subject to a conditional income makes better use of her time than someone with a BI. This argument is contentious because JG jobs are not designed to be make-work, so in terms of “bang for a buck” a conditional income linked to a job is likely to be superior to an unconditional BI which permits

individuals to engage in both voluntary and leisure time activities.⁵ The authors are implying that, under a BI, the identification and response to unmet social and environmental needs through voluntary activities is superior to a collective solution via the creation of well resourced JG jobs under the auspices of regional or local governments, but “funded” at the federal level. Unpaid volunteers are unlikely to have the expertise to be able to set national priorities with respect to say resolving environmental problems. National and regional governments also have the expertise in their permanent workforces to supervise these projects.

Van Parijs (2000a) is reluctant to impose a flat tax with the BI because the low and high paid are then subject to the same marginal tax rate. Researchers note that there is a high effective marginal tax rate (EMTR) for some people on categorical selective benefits in Australia who are subject to multiple withdrawal rates (Tomlinson, 2000). With an average unemployment to vacancy ratio of 11 to 1 since 1975, the extent of the disincentive effect cannot be really tested. If the EMTR of the low paid is reduced then the tax burden must be shifted towards higher income earners under revenue neutrality. Dawkins et al. (1998) estimated that the introduction of a basic income so that social security recipients were no worse off required a marginal tax rate of 57 per cent under revenue neutrality. Orthodox theorists would be concerned about the impact of the high marginal tax rate on the incentive to work.

While advocates of the BI generally aim to achieve revenue neutrality, supporters of the JG acknowledge that the budget deficit must increase and decrease as required to maintain full employment. Watts and Mitchell (2000b, 2001) provide detailed estimates of a JG programme in Australia to achieve 2 per cent unemployment and remove underemployment. Using figures for 1999, quarter 4, they find that the net annual budgetary costs lie between \$5.5 and \$6.4 billion.

⁵ This is not to decry voluntary activity. With government withdrawing from many spheres of economic and social life, particularly in Anglo-Saxon countries, the provision of voluntary services is vital to maintain the social fabric.

The critics of the JG approach point to financial constraints that they allege would arise from higher budget deficits. Recent years have been marked by the vigorous pursuit of budget surpluses in many countries, including the USA and Australia. One of the most damaging analogies in economics, however, is the alleged equivalence between the household budget and the government budget. A household must finance its spending, *ex ante*, whereas the government spends first and never has to worry about financing. Government spending is desired by the private sector because it brings the resources (fiat money), which the private sector requires to fulfil its legal taxation obligations. The household cannot impose any such obligations. The government has to spend to provide the money to the private sector to pay its taxes, to allow the private sector to save, and to maintain transaction balances (Mitchell and Watts, 2001a). The budget relationship is an *ex post* identity, so financing is not a constraint. As the monopoly supplier of high-powered money, the official currency, through the Treasury, the Government has no need to acquire its own currency through taxation or bond issue. It may choose to issue bonds, however, to soak up liquidity in the banking system and support its target overnight interest rate (Mitchell and Watts, 2001a). The system of taxation is linked to income distribution objectives, rather than financing obligations. Notwithstanding the absence of the need to finance government expenditure or transfers (BI), there is a zero sum game with respect to the post-tax income distribution of income in a fully employed economy.

Orthodox economists assert that either deficits are inflationary, if financed by high-powered money (debt monetization), or they squeeze private sector spending, if financed by debt issue (see, for example, Ott and Ott, 1965). There are two flaws in this argument: (a) the link between monetary growth and inflation is not well established, and (b) the concept of debt monetization (money creation) is an inaccurate depiction of the issue of high-powered money. We show that the negative connotations of budget deficits fail to meet the test of logic and empirical scrutiny (Mitchell and Watts, 2001a). Thus neither the BI nor the JG is necessarily limited in its scope by financing considerations.

4.2 Employment and wages

Van Parijs (2000a) argues that under a BI scheme, the securing of a job does not interfere with the entitlement, as long as the marginal tax rate on income from work is less than 100 per cent, so that low wage earners can take risks with jobs. By contrast, many anti-poverty programmes in the USA, such as TANF, food stamps, unemployment insurance and even public housing, are hard to qualify for so that a cycle of welfare dependency is created through a reluctance to take paid work (Widerquist and Lewis, 1997). Thus both poverty and unemployment traps would be undermined, and, if the BI were set at an adequate level, the worst poverty would be overcome by this integration of tax and benefit systems. (This is particularly important in the USA where there is a higher incidence of low wage employment and limited social welfare provisions, except for Food Stamps and the EITC, see Ingles, 2001; Clark and Kavanagh, 1996).

Van Parijs (2000a) claims that the strength of the BI proposal is based on the combination of the no-work test and the no-means test. The tax structure provides the incentive to undertake work, despite the absence of the work test (see also Widerquist and Lewis, 1997, p.34). But the absence of the work test also means that workers are not forced to take poorly paid, insecure jobs with no career opportunities to supplement their unconditional incomes. Thus the weakest participants in the labour market have increased bargaining power, as compared to a scheme of work conditional, guaranteed income. This is alleged to shift the balance of power in favour of workers and lead to an improvement of wages and conditions in marginal jobs, many of which will be non-standard.

Widerquist and Lewis (1997, p.35-36) note that 10 per cent of Americans work full-time but are below the poverty line. They claim that some low waged Americans have a strong commitment to work because, even before restrictions were imposed on accessing public assistance, most recipients were off public assistance within three years. Thus the impact of BI on labour supply would be low.

On the other hand, Lerner claims that the provision of a secure subsistence income will lead to less connection to formal work. This hypothesis ignores the

observation that the overall labour force participation rate has been rising in most OECD countries and the majority of consumers appear to be pursuing more material intensive lifestyles. For example, the overall participation rate in Australia has risen from 61.9 per cent in February 1986 to 74.8 per cent in May 2000. In part, this reflects the desire to undertake part-time work by women.

In Australia, the percentage of families with one or more dependants, which have both parents employed rose from 42.1 per cent to 44 per cent between February 1988 and February 1998. This suggests that families are seeking to increase real income.⁶

Many two-income families have high incomes with a greater correlation of partners' incomes now with the increased participation of women in post-school education, higher labour market participation and increased hours of work. It is unlikely either that this evolving pattern of labour market behaviour was motivated by the desire for even greater income security than in the past or that participation would significantly diminish under a BI.⁷ People are attracted to high incomes and career opportunities. Thus it is not evident that the provision of a Basic Income will lead to a significant shift away from market to non-market activities, unless the BI is very high, because material demands remain unsatisfied which will tend to lead to workers at least maintaining their post-tax incomes. Some secondary income earners, particularly women and teenagers working part-time, may withdraw from the labour market, if a BI is introduced. Some primary and secondary earners may try to reduce hours of work by undertaking part-time or casual work to supplement their Basic Incomes. Unless the BI is very generous, so that a significant number of part-time workers choose voluntarily not to engage in paid work, there could be an increase in the supply of part-time workers which could even strengthen the hand of employers in a segmented labour market. Also employers are likely to be able to exploit the large implicit subsidy by reducing

⁶ Over the same period, the percentage of families with no parent working rose from 13.1 to 16.2.

⁷ It is acknowledged that with the increased managerial prerogative, some (two income) families may work more hours than they would choose.

wages and conditions. Thus there is likely to be a growth of low wage, low productivity jobs which employers has no incentive to restructure through new investment. As a consequence the growth in average living standards would decline, along with investment and skill development.

The impact on aggregate consumption of the introduction of a BI under revenue neutrality is unclear. We shall assume that a flat rate income tax is imposed. First higher income earners suffer higher levels of tax, but whether this translates into lower consumption depends on whether the increased tax rate is absorbed in lower saving. Lower income earners and the unemployed enjoy higher post tax incomes *ceteris paribus*. Low-income earners tend to have a higher propensity to consume than high-income earners. Also the introduction of the BI could lead to an export led recovery, due to the increased labour flexibility and lower per unit labour costs, but movements in the exchange rate may counter this. The overall impact on demand and hence aggregate hours of work is likely to be relatively small, but there may be a redistribution of working hours. Again it should be emphasized that a fully “financed” BI is not a full employment policy. A deficit financed BI is an indiscriminate Keynesian expansion which is likely to raise inflation.

These macroeconomic changes might lead to a realignment of wage relativities, but rates of under-utilization of labour in many countries are high, and the supply of part-time labour is relatively elastic, so the impact may be small. The alternative to higher employment and/or hours of work is that the country’s material needs would be increasingly met via imports with consequential effects for the exchange rate.

5. The environment

5.1 Lifestyle choices under a BI

A BI has some appeal to Greens because it is alleged to undercut the employment ethic and to challenge the productivist assumptions, which legitimate

that ethic (Fitzpatrick, 2001, p.3).⁸ Consequently some ecologists support the BI because it is alleged to entice people out of employment so that there is a slower rate of economic growth. The macroeconomic effects of a BI on consumption, production and hence aggregate employment are ignored. The achievement of a Green society with slower growth would require a massive change in public consciousness, through the rejection of the consumerist mentality, as well as institutional change. If Greens are to support the BI, then they must argue that BI channels growth in ecologically friendly directions through reduced throughput and/or a change in production techniques.

Lerner and Clark (2000) emphasize the increase in labour market flexibility that arises from the introduction of a basic income. Lerner (2000) argues that workers benefit through enhanced career choices, the opportunity for sabbaticals and flexitime etc (see also Fitzpatrick, 2001, p.2). She suggests that education can assume the important major role in the development of human potential. The improved choices about lifestyle would foster a shift from materialism and consumerism, reflecting a change in consciousness. Non-market activities, such as parenting, care giving, volunteerism and philanthropy would be re-evaluated. More time could be spent with families and involvement with communities. Employment opportunities could be shared with some workers choosing reduced hours and other taking sabbaticals etc. Thus Lerner (2000) is enthusiastic about the BI because workers have more freedom to develop interests and activities outside of waged work (Fitzpatrick, 2001). Lerner and other writers tend to focus on the changed circumstances at an individual level and their possible impact on individual behaviour, and ignore the macroeconomic impact.

On the other hand, the introduction of a BI could reinforce existing values, assumptions and habits (Mellor, 1992) with recipients simply treating the BI as a lump sum gain in income with a minimal effect on hours worked due to

⁸ Offe (1993) suggests that a BI could enable the introduction of targeted and selective environmental policies leading to the termination of some forms of production. A good example in Australia would be the acceptance of the closure of timber mills in regional areas once the environmental issues could be separated from the means of sustaining regional communities.

consumption expenditure being sustained or even increased. Dobson (2000) notes the contradiction between the anti-materialism of Green thought and the proposal to finance the BI out of the revenue generated from taxing workers.

Thus the belief that a BI brings about changes in behaviour compatible with a Green economy is founded on an act of faith. Even if individuals chose to adopt less materialist lifestyles, there is no guarantee that uncoordinated individualistic behaviour will lead to the promotion of coordinated and coherent voluntary activities that address pressing environmental problems. Van Parijs “version of liberalism is too individualistic to the detriment of the common good” (Farrelly, 1999, p. 291).

5.2 JG and the environment

The JG proposal will assist in changing the composition of final output towards environmentally sustainable activities, which are unlikely to be undertaken by traditional private sector firms. A JG job should be offered as long as it increases the Genuine Progress Indicator (see the Australian work of Watts and Mitchell, 2000a). Future policy must consider environmental risk factors and threshold effects in the use of natural capital. A risk-averse attitude is wise (Zarsky, 1996, p. 172). Indiscriminate (Keynesian) expansion fails because it does not address the need for risk aversion. It is not increased demand *per se* that is necessary but increased demand in certain areas of activity (Mitchell and Watts, 2001a).

Forstater (2001) outlines the wide range of environmental tasks that could be available under a JG programme that is not motivated by the pursuit of profit. These include

- § labour intensive recycling (including reuse, repair and reduce);
- § the transformation of homes to be more energy efficient;
- § the operation of public vehicles to assist in the reduction of automobile use and traffic congestion;

-
- § the transformation of public infrastructure to solar and other others forms of renewable energy;
 - § the monitoring, cleaning up and rehabilitating of public and private sites;
 - § education programmes in schools; and
 - § research.

These programmes will be designed to reflect the environmental imperatives and will be located to reflect local assimilative capacities and also to minimize disruption to employees. These jobs cannot be construed as unskilled. Indeed some may be incorporated into the public sector stock of permanent employment.

6. Conclusion

The two interventionist programmes outlined in this paper both recognize that there are chronic problems of income insecurity and underemployment in a number of Western economies which are not being adequately addressed by welfare to work policies.

BI is an individualist rather than collectivist solution to income inequality and income insecurity in the sense that the economic outcomes depend on individual choices about employment, consumption and leisure time activities against the backdrop of the BI. Some advocates, including Lerner (2000), assume that through unpaid activities, individual and community initiatives will spontaneously meet the pressing social and environmental needs of society.

On the other hand, the JG programme provides certainty with respect to employment and income and thus addresses the issue of poverty. It is a collectivist solution in that the government assumes direct responsibility for employment and income generation, as well as the identification of social and environmental ills. The government remains subject to the political process.

In contrast to the BI, the long-term career possibilities of all prospective employees are enhanced under the JG. The expertise of local councils, state and

federal governments is exploited to address the backlog of environmental and social needs, some of which are the product of the withdrawal of the state. This is not to decry the role of voluntarism in social, cultural and environmental activities, but a sustained, coherent programme is required to meet unmet economic, social and environmental needs over the foreseeable future. For this reason, it can be argued that individuals have an obligation to participate in work.

Van Parijs (2000c) acknowledges that a conditional income (JG) may represent a step in the transition to an unconditional BI, following the reassessment of what constitutes work. He notes that a rigid participation income scheme risks opening up “a nightmarish scenario of an enormous bureaucracy entrusted with arbitrary monitoring powers”. The adoption of an unconditional BI is possible in the future, given rising labour productivity and falling hours of paid work, but the question remains as to whether the needs identified above would be met through an expanded role for voluntarism.

References

- Bell, S. (ed.) 2000. *The Unemployment Crisis: Which Way Out?*, (Melbourne, Cambridge University Press)
- Brennan, A., Rhodes, J. and Tyler, P. 2000. "The Nature of Local Area Social Exclusion in England and the Role of the Labour Market", *Oxford Review of Economic Policy*, 16(1), pp.129-146.
- Burgess, J. and Mitchell, W.F. 1998. "Employment, Unemployment and the Right to Work", *Australian Journal of Human Rights*, 4(2), pp.76-94.
- Burgess, J. Mitchell, W.F., O'Brien, D.J. and Watts, M.J. 2000. "Work for the Dole in Australia and New Zealand: A Critical Assessment", in J. Lee, B. Probert and R. Watts (eds.) *Work in the New Economy: Policy, Programmes, Populations*, (Melbourne, CASR: RMIT University), pp.81-101.
- Clark, C.M.A. and C. Kavanagh 1996. "Basic Income, Inequality, and Unemployment: Rethinking the Linkage between Work and Welfare", *Journal of Economic Issues*, 30(2), pp.399-406.
- Dawkins, P., Beer, G., Harding, A., Johnson, D. and Scutella, R. 1998a, "Towards a Negative Income Tax System for Australia", *Australian Economic Review*, 31(3), pp.237-57.
- Dawkins, P. Gregg, P. and Scutella, R. 2002. "Employment Polarisation in Australia", Melbourne Institute Working Paper No. 09/2002, University of Melbourne.
- Department of Employment and Workplace Relations. 2002. "Estimates Hearing of the Senate Employment, Workplace Relations and Education Committee", 20 February, Hansard p. 81.
- Dobson, A. 2000. *Green Political Thought*, 3rd Edition, (London, Routledge).
- Farrelly, C. 1999. "Justice and a Citizen's Basic Income", *Journal of Applied Philosophy* 16(3), pp.283-296.
- Fitzpatrick, T. 1999. *Freedom and Security*, (London: Macmillan).
- Fitzpatrick, T. 2001. "'Basic Income' in Greening the Welfare State" forthcoming in the *Palgrave*, Summer 2002.
- Forstater, M. 2000. "Full Employment and Economic Flexibility", in William F. Mitchell and Ellen Carlson. (eds.), *The Path to Full Employment*, (Sydney, University of NSW Press, CAER), pp.49-88.

-
- Forstater, M. 2001. "Full Employment and Environmental Sustainability". Paper presented to the *2001 Path to Full Employment Conference*, University of Newcastle, June.
- Handler, J.F. 2002. "Social Citizenship and Workfare in the U.S. and Western Europe: From Status to Contract", USBIG Discussion Paper No. 37, July.
- HM Treasury 1997. *Financial Statement and Budget Report 1997.*, (London, The Stationery Office).
- ILO 2001. "Key Indicators of the Labour Market", *World of Work*, 41, December.
- Ingles, D. 2001., "Earned Income Tax Credits: Do They Have Any Role to Play in Australia?", *The Australian Economic Review*, 34(1), pp.14-32.
- Junankar, P.N. and Kapuscinski, C.A. 1992. *The Costs of Unemployment in Australia*, (Canberra, AGPS: EPAC).
- Lerner, S. and Clark, C.M.A. 2000. Basic Income: Our Key to a Flexible Workforce, A Sane Society and a Better Life", *Canadian Dimension*, May, pp.32-35.
- Lerner, S. 2000. "The Positives of Flexibility". Paper presented to *Basic Income European Network VIIIth International Congress*, Berlin, October.
- Lipietz, A. 1992. *Towards a New Economic Order* (Cambridge, Polity Press).
- Mellor, M. 1992. *Breaking the Boundaries*, (London, Virago).
- Mitchell, William F. 1998. "The Buffer Stock Employment Model – Full Employment without a NAIRU", *Journal of Economic Issues*, 32(2), pp.547-55.
- Mitchell, William F. 2000a. "Full Employment Abandoned – the Role of the Public Sector", *Centre of Full Employment and Equity Working Paper*, 00-05, The University of Newcastle.
- Mitchell, William F. 2000b. "The Job Guarantee in a Small Open Economy", in William F. Mitchell and Ellen Carlson. (eds.), *The Path to Full Employment*, (University of NSW Press, CAER: Sydney), pp.89-116.
- Mitchell, William F. & Carlson, E. 2000. "Beyond the Unemployment Rate – Labour Underutilisation and Underemployment in Australia and the USA" *Centre of Full Employment and Equity Working Paper*, 00-06, The University of Newcastle.
- Mitchell, William F. and Watts, Martin J. 2001a. "Addressing Demand Deficient Unemployment: The Job Guarantee". Paper presented to the *2001 Path to Full Employment Conference*, University of Newcastle, June.

-
- Mitchell, William F. and M.J. Watts 2001b. "The Job Guarantee and Work Incentives", *Centre of Full Employment and Equity Working Paper*, 01-08, June.
- Offe, C. 1993. "A Non-Productivist Design for Social Policies", in Coenan, H. and Leisnik, P. (eds) *Work and Citizenship in the New Europe*, (Aldershot, Edward Elgar).
- Ott, D.J. and Ott, A.F. 1965., "Budget Balance and Equilibrium Income", *Journal of Finance*, 20, pp.71-71.
- Robeyns, I. 2001. "An Income of One's Own: A Radical Vision of Welfare Policies in Europe and Beyond", *Gender and Development*, 9(1), pp.82-89.
- Rosanvallon, P. 2000. *The New Social Question: Rethinking the Welfare State*, Princeton U. Press.
- Ryan, P. 2001. "The School-to-Work Transition: A Cross National Perspective", *Journal of Economic Literature*, 39(1),
- Sen, A. K. 1997a. "From Income Inequality to Economic Inequality", *Southern Economic Journal*, 64(2), pp.384-401.
- Sen, A. K. 1997b. "Inequality, Unemployment and Contemporary Europe", *International Labour Review* 136(2), pp.155-171
- Tomlinson, J. 2000. "The Basic Solution to Unemployment". Paper presented to the 7th *National Unemployment Conference*, University of Western Sydney, December.
- Van Parijs, P. (ed.) 1992. *Arguing for Basic Income*. (London, Verso).
- Van Parijs, P. 1995. *Real Freedom for All: What (if anything) can justify Capitalism?*, (Oxford, Oxford University Press).
- Van Parijs, P. 2000a. "Basic Income: A Simple and Powerful Idea for the 21st Century", Paper presented to *Basic Income European Network VIIIth International Congress*, Berlin, October.
- Van Parijs, P. 2000b. "A Basic Income for All: If You Really Care about Freedom, Give People an Unconditional Income", *Boston Review*, October/November.
- Van Parijs, P. 2000c. "Response", *Boston Review*, October/November.
- Watts, M.J. 1999. "Flaws in the OECD Labour Market Reform Agenda: Training, Wages and Jobs in the Buffer Stock Model". Paper presented to the *ISS International Conference*, Taegu, Korea, October.
- Watts, M.J. 2000a. "The Dimensions and Costs of Unemployment in Australia" in S. Bell (ed.) *The Unemployment Crisis: Which Way Out?*, (Cambridge University Press: Melbourne), pp.21-48.

-
- Watts, M.J. 2001. "Wage Polarisation and Unemployment in Australia", in E. Carlson and W.F. Mitchell (eds.) *Unemployment: The Tip of the Iceberg*, (Sydney: UNSW Press) 171-192.
- Watts, M.J. and Mitchell, W.F. 2000a. "Reducing the Costs of Unemployment in Australia: A Preliminary Assessment of the Impact of a Job Guarantee Programme, using the Genuine Progress Indicator". Paper presented at the *Study Group on Unemployment Seminar* at the International Industrial Relations Association World Congress, Tokyo.
- Watts, Martin J. and Mitchell, William F. 2000b. "The Costs of Unemployment in Australia", *The Economic and Labour Relations Review*, 11(2), December, pp.180-197.
- Watts, Martin J. and Mitchell, William F. 2001., "The Arithmetic of the Job Guarantee", *Centre of Full Employment and Equity, Working Paper 01-03*, May.
- Wax, A.L. 2002. "Something for Nothing: Liberal Justice and Welfare Work Requirements", Paper presented to The First Congress of the U.S. Basic Income Guarantee Network, *Fundamental Insecurity or Basic Income Guarantee*, March
- Widerquist, K. and M. Lewis 1997. "An Efficiency Argument for the Guaranteed Income", Working Paper 212, The Jerome Levy Economics Institute.
- Widerquist, K. 1999. "Reciprocity and the Guaranteed Income", *Politics and Society* 27(3), 378-402.
- Wray, L.R. 1997. *Government as Employer of Last Resort: Full Employment without Inflation*, Working Paper No.213, Jerome Levy Economics Institute.
- Wray, L.R. 2000. "Public Service Employment: Full Employment without Inflation", in E. Carlson and W.F. Mitchell (eds.) *The Path to Full Employment and Equity*, supplement to *Economic and Labour Relations Review*, 11, pp.187-214.
- Zarsky, Lyuba 1996., "Economy and Ecology: Sustainable Development", in George Argyrous and Frank Stilwell (eds.), *Economics as a Social Science: Readings in Political Economy*, (Sydney, Pluto Press), pp.171-177.