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### **A System of Basic Income versus the Job Guarantee: A Critical Assessment**

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Comments are welcome.*

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# **A System of Basic Income versus the Job Guarantee**

## **Abstract**

Two of the many schemes that have been advocated to cure the problem of persistent unemployment and income insecurity in developed economies are the system of basic income and the Job Guarantee.

It is argued that while 'human rights' may appear to be protected under a basic income system, its impact on job creation, skill development, the wage structure, investment and employment and living standards is problematic. The impact on these schemes on government deficits and debt are also considered.

The JG may represent a step in the transition to an unconditional BI, following the reassessment of what constitutes work in the light of rising labour productivity and falling weekly hours of paid work.

# **A System of Basic Income versus the Job Guarantee**

Martin Watts

## **1. Introduction**

Since the first oil shock in the early 1970s the Australian unemployment rate has exhibited a long term increase with the three subsequent recessions each leading to a further increase in the rate. In the last two decades, the lowest rate of unemployment has been 5.4 per cent (November 1989). By contrast in 1974, the rate of unemployment was less than 3 per cent. In addition, there has been an increased fragmentation of employment with a rising share being non-standard. This has been accompanied by a strengthening of the managerial prerogative with respect to the number of and timing of hours of work via award restructuring and the subsequent introduction of enterprise bargaining, and reduced protections for workers due to the emasculating of matters covered by awards. There has been a trend increase in the share of part-time employees who seek more hours of work, and in particular, those who seek full-time hours, signifying significant underemployment. In addition hidden unemployment remains significant with estimates in 1999 in the order of 266,000 (Mitchell and Carlson, 2000). Labour underutilisation was estimated at 18.9% in May 2001.<sup>1</sup> Mitchell (2000a) 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.

Most researchers acknowledge that the economic and social costs of the sustained high unemployment in Australia and other developed economies are substantial (see, for example, Sen, 1997a,b; Junankar and Kapuscinski, 1992; Watts, 2000a; Watts and Mitchell, 2001).

Over the same period of time there has been a long-term increase in wage inequality (see Watts, 2000b and references therein). In addition, there has been only modest real wage growth since the commencement of the Accord. This translated into a declining wage share until the mid-1990s (Carlson, Mitchell and Watts, 2001).

Harding and Szukalska (2000) surmise that the main factor affecting a child's chances being in poverty in Australia is the labour force status of their parents. They found that the chance of a child being in poverty if s/he had no parents earning an income in their family halved between 1982 and the mid-1990s, from 67 to 35 per cent. On the other hand, the risk of a child being in poverty in 1995-96 if one or both parents were working, was less than 10 per cent.

Thus Australian working men and women are now confronted with increasingly fragmented working arrangements which generate insecurity about the number and timing of hours of work, the slow growth of real wages, significant wage inequality, persistent official unemployment in excess of 6% and underemployment in excess of 15%. These trends in labour market outcomes have also occurred to varying degrees in Britain, Canada and the USA. In addition, despite compensation via the welfare system, poverty and income insecurity remain significant in Australia, particularly in households with no wage earners or in those in which work takes the form of self-employment.

Widerquist and Lewis (1997) note, however, that there a number of different causes of poverty, namely the physical inability to work, single-parenthood, the inadequate demand for labour, the low level of human capital formation and the lack of a work ethic. Further economic theory does not imply that equilibrium market clearing wages are necessarily above poverty wages.<sup>2</sup>

Both the current Howard Coalition Government and the previous Labor Government eschewed the adoption of policies of direct job creation to reduce the rate of unemployment. Monetary and fiscal policy 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.<sup>3</sup>

At the same time unemployment is viewed as an individual rather than a collective problem in Australia. This is epitomised by the introduction of the Work for the Dole

scheme at the end of 1997 and its consolidation through the development of mutual obligation in mid-1998 (Burgess et al, 2000). Another extension of the scheme to include single parents and the disabled was proposed in the 2001 Federal Budget.

The Government's solution to persistent unemployment is always further reform, rather than a fundamental change in policy. Despite the OECD Jobs Study (1994), there is increasing skepticism about the capacity of neo-liberal reforms to reduce the high unemployment rates that have prevailed in most OECD economies since the mid-1970s (Bell, 2000).

In Europe the concept of an unconditional basic income (BI) set at a livable level and paid to all a country's citizens is now advocated as a means of reducing economic insecurity by a number of public policy theorists, such as Van Parijs (2000a) in the Netherlands, Fitzpatrick (1999) in the UK, Widerquist (1999) in the USA, Clark and Kavanagh (1996) and Lerner (2000) in Canada and Tomlinson (2000) in Australia.<sup>4</sup> Typically it is argued that a flat tax should be used to finance the introduction of the BI (see Van Parijs, 2000a; Widerquist, 1999).

Most supporters argue that a BI, will redress the power imbalance in the labour market, lead to a voluntary redistribution of work hours and encourage individuals to adopt creative family and community oriented activities in their leisure time. Noting that there are many causes of poverty, Widerquist and Lewis (1997) argue that a guaranteed income is the best policy to cure it, irrespective of its cause.

On the other hand, researchers in the USA (see for example Wray 1997, 2000) argue in favour of the government acting as an Employer of Last Resort (ELR), providing jobs at a fixed wage to all those individuals of working age who want them. Mitchell and Watts (2001a) in Australia favour the concept of the Job Guarantee that is similar in philosophy to the ELR.

In this paper, I wish to assess critically these non-mainstream, interventionist approaches to solving the long-term economic and social problems of persistent unemployment and the absence of income security for a significant cohort of the population.

I conclude that the arguments in support of the right of the able-bodied to receive the BI and not engage in paid work are unconvincing. Second the advocates of a basic income scheme typically take a narrow individualistic perspective by viewing the BI as a solution to income security, without recognising the wider labour market, macroeconomic and environmental consequences. On the other hand, the Job Guarantee proposal is associated with certainty with respect to income and employment and provides the collective means of addressing the urgent environmental and social problems.

The supporters of BI fail to acknowledge that employment remains a major source of economic and social status. Further continuity of employment along with skill development and the accrual of experience are highly valued at both a personal and social level. In recognising peoples' right to receive a BI and, in some cases, not to work for sustained periods, these advocates fail to acknowledge that such behaviour would provide a poor signal to a prospective employer in the future.

On the other hand, Greens who advocate the BI emphasise the increased range of choices that are available to the working age population. Lerner (2000) has a utopian vision of a quantum change in consciousness by workers who reject a materialist perspective, reduce their labour market participation and engage in a greater volume of voluntary unpaid work associated with caring and environmental preservation. Thus the advocates of the BI do not present a unified view of its impact on the labour market.

The loosening of the links between income and work, which is characteristic of the BI, appears to have led researchers to neglect the employment impact of the likely increase in expenditure by consumers under this scheme.<sup>5</sup> Thus, while there may be a redistribution of hours of work under a BI, there is no guarantee that there will be a cut in total hours of work. On the other hand, it is unlikely that full employment would be achieved and also

pressing environmental problems would not be addressed in a systematic fashion. Thus the BI approach seems to be founded on the view that full employment is unsustainable for both economic and environmental reasons.

The JG approach acknowledges that sustained full employment driven by the private sector is unlikely, but 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. The JG may represent a step in the transition to an unconditional BI, following the reassessment of what constitutes work in the light of rising labour productivity and falling weekly hours of paid work.

In Section 2 the properties of the two schemes are summarised. In Section 3 we examine the different underlying conceptualisations of rights and obligations that characterise 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 is typically paid on a regular basis, rather than as a one-off lump sum. 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.

A full basic income sets income above the poverty line, so it is a livable level of income. A partial BI sets income below the poverty line with some form of public assistance for those individuals with an inadequate income or the requirement that they work.<sup>6</sup>

The basic income may not be ‘funded’ in a specific manner (see Section 4.1). It is often recommended that BI be financed by a flat tax on all other personal incomes, however, 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, 2001:2).

Except for the timing of payments, a negative income tax, of the sort promoted by Friedman (1962) is effectively the same as a BI.<sup>7</sup> In the latter BI is paid ex ante, and then work income is taxed.<sup>8</sup> Under the negative income tax, the net amount is paid as a transfer or tax depending on the level of work income. The two schemes differ according to the administration costs (Van Parijs, 2000a:15-16).

A flat tax is not the only method of financing such a scheme. Both a progressive tax on income and 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. Fitzpatrick (2001) argues that the left see a BI as a precursor to a social dividend scheme whereby unconditional income is funded out of the return generated by collectively owned resources rather than a negative tax per se, but governments have been prepared to sell public assets in many Western countries in the last decade.

Van Parijs (2000a) argues that the Basic Income is a universal system which should have a higher take up rate<sup>9</sup> and the absence of any stigma on recipients (see also Fitzpatrick, 2001). It embodies equal rights for all and the freedom and security of workers 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 as people move into employment and/or experience an increase in earnings.



## 2.2 Job Guarantee

Mitchell and Watts (2001a) outline the basic features of the Job Guarantee.

- (a) A buffer stock of jobs:** The public sector operates a buffer stock of jobs that expands (declines) when private sector activity declines (expands). The JG fulfills an absorption function to minimise the costs associated with the private sector flux.
- (b) JG Wage:** To avoid disturbing the private sector wage structure and to ensure the JG is consistent with stable inflation, the JG wage would be the minimum wage. The JG wage may be increased over time in line with economy wide increases in productivity as part of a policy to promote rising private sector wages and productivity.
- (c) The Structure of Incentives:** Using a neo-classical labour/leisure analysis Mitchell and Watts (2001b) show that, under realistic assumptions about relative rates of remuneration, (a) the JG option will be preferred to unemployment, if the unemployment benefit is zero; (b) a private sector job is preferred to a JG job; and (c) a JG job is preferred to workfare. Thus an appropriate structure of incentives can be created without upsetting the private wage structure.
- (d) 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.
- (e) 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 there would no pressure on single parents to seek employment.
- (f) “Loose” Full Employment:** The JG policy introduces “loose full employment” because: (a) the demand pressures would be less than if the unemployed were fully employed at market wages in the private sector, and (b) there is no disruption to the relative wage structure of the private sector.
- (g) Inflation control:** The JG wage provides an in-built inflation control mechanism (Mitchell, 1998, 2000b).

- (h) 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 jobs. In the JG, the state takes this responsibility and employees receive minimum wages and conditions.<sup>10</sup>
- (i) 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.
- (j) Administration:** The JG would be financed federally with the operational focus being Local Government. Local administration and coordination would ensure that the JG program led to the creation of meaningful, value-adding employment.
- (k) 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 stabilisation, river valley and erosion control. The buffer stock of labour would however fluctuate with private sector activity and the design of JG jobs and functions would have to reflect this. Projects or functions requiring critical mass 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**

#### **3.1 Basic Income**

Van Parijs (2000b) supports a BI due to his 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 make use of 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. He claims that a BI set at the highest sustainable level satisfies this ideal.

On the other hand, Galston (2000) notes that Rawls presents his conception of political community as a system of social cooperation. Social justice is 'the fair organization of such a cooperative venture and fair allocation of its joint products', in contrast to Van Parijs' notion of real libertarianism. Galston (2000) argues that reciprocity should be a necessary condition for social justice. Further, while an unconditional BI favours those subject to undeserved luck, in addition to the voluntarily unemployed, he suggests that contribution should be the basis of distribution (see also Phelps, 2000).<sup>11</sup>

Farrelly (1999) provides three Rawlsian objections to the role of BI in a theory of social justice. First, he challenges Van Parijs' claim that leisure is not a primary good, where a primary good is one that 'every rational man is presumed to want'. The set of primary goods underpin Rawls' concept of social justice. Van Parijs chooses not to include leisure because it would create a bias towards those who work hard. Farrelly (1999: 287-88) argues that this is merely question begging and notes that there has been a long standing campaign over reducing the length of the working day in many countries.<sup>12</sup> Also the inclusion of leisure would support an argument for a conditional income for those whose low hourly wages require them to work excessive hours to achieve an acceptable level of income.

Second Farrelly (1999: 284) argues that Van Parijs undermines the Rawlsian conception of democratic citizenship. He notes that the concept of justice enables the able-bodied, who do not wish to work, say surfers, to free-ride on those who work. Free-riding is counter to the fundamental moral consideration which underpins both socialism and capitalism. Van Parijs asserts that by giving up their claim on a job these surfers allow others to access 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). Van Parijs' argument collapses if policies are

introduced to overcome the unemployment problem. Farrelly (1999: 290) cites microeconomic policies, including reduced working time and employment subsidies, but also the implementation of the JG would undermine Van Parijs' argument.

Finally Farrelly (1999) states that Van Parijs' ideal of real freedom for all does not offer a theory of justice that could fulfil a diverse list of primary goods that Rawls stipulates, in particular self-respect. In advocating a BI in the context of real libertarianism, Van Parijs rejects policies designed to provide workers with the option of meaningful work<sup>13</sup> and 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.

Farrelly (1999) notes that Rawls advocates a diverse set of arrangements, including society taking on the role of employer of last resort. He is critical of advocating a simple solution to what is a very complex societal problem.

Widerquist and Lewis (1997) object to a moral obligation being imposed on individuals without property to work if society is not held to reciprocal obligation (see also Widerquist, 1999). They reject the use of a minimum wage, viewing the BI as a more comprehensive strategy that, in addition to providing choice, helps both the unemployed and the working poor. 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.

Gorz now supports an unconditional citizen's income free of work obligations (Levy, 2000). In the 1970s he regarded the division of labour as a historically necessary feature of capitalism which would be surmounted with capitalism's demise. Now he accepts the

division of labour as an ineradicable feature of a complex modern society. Thus alienation is inherent in the socialisation of production, and not merely in the capitalist form of organisation. Thus the well-rounded trades where artisans start and end the production process are increasingly rare. People can escape this narrow specialisation by decreasing working hours and cultivating other interests. In his view work must be recognised as just one dimension of life, but not its essence. The left has glorified the worker and work (Levy, 2000).

Gorz is wary of a minimum income that is linked to participation in community service or caring activities. He argues that activities are then not chosen for their intrinsic value but as a means of obtaining income. This seems to be a curious claim, since most of the working age population adopt an instrumental attitude in their paid work, given its alienating nature, and would continue to do so, albeit perhaps to a lesser degree, under an unconditional BI. Gorz suggests that free time is not the programmed leisure of consumer capitalism (see Braverman, 1974, 281-83, on the universal market) but rather is work performed for ones own reasons for friends, relatives and community. His socialist project is to limit the logic of profit and the reach of the market. He notes that the market depends on the constant expansion of wants and consumption that is antithetical to ecological imperative of conservation and limiting needs. In Section 4.2 we shall argue that, in the absence of a fundamental change in behaviour, the apparent logic of releasing individuals from paid work and production via a BI collapses when the aggregate impact of their guaranteed income on expenditure and production is considered. Gorz does acknowledge that a guaranteed income and reduced hours are not immediately realisable.

### 3.2 Job Guarantee

Drawing on Tool (1997: 6), Burgess and Mitchell (1998) note that there are two ways in which a right to employment can be established:

- ‘(a) To assert a natural right along the lines of the doctrine of natural rights which dominated the thinkers of previous eras.
- (b) To use factual experience and analysis of outcomes derived from these experiences. This is a pragmatic, instrumentalist approach’.

Burgess and Mitchell (1998) adopt the latter approach in arguing that governments are violating the right to work (Article 23 of the Universal Declaration of Human Rights<sup>14</sup>), by refusing to eliminate unemployment via the appropriate use of budget deficits. They note that unemployment is incompatible with fundamental human rights in that unemployed workers are denied access to the major source of income for the working age population. Their ability to participate in markets to satisfy their minimum requirements of clothing, food and housing is restricted. As long as employment is not considered to be a human right, a portion of the community will be excluded from effective economic participation.

The exclusion of those who are unable to participate in the labour market by virtue of age, infirmity and caring responsibilities is recognised by the provision of safety net protection (Burgess and Mitchell, 1998). But the unemployed no longer enjoy unqualified safety net protection with activity tests in many countries, and time limits on the lifetime receipt of welfare benefits in the USA. Without social transfers they have to depend upon savings, family transfers or black economy activities in order to sustain minimum living standards.

Burgess and Mitchell (1998) maintain that the right to work in the form of paid full-time (or fractional) employment should be guaranteed by the State and be legally enforceable in the same way as other rights.<sup>15</sup> They suggest that citizens should have a choice as to the type of work undertaken, should be paid at adult minimum rates, and be accorded the same rights and conditions that are associated with full-time employment (or pro-rata in the event of part-time employment). Holiday and sickness benefits, a safe workplace and protection against unfair dismissal should be included. Workers who exercise this right may use these guaranteed jobs as a stepping stone towards higher paid employment in the market sector.

The key question here is whether the inalienable human right should be to the receipt of income, without employment necessarily being attached, or whether the fundamental

right should be to paid employment. Consistent with Farrelly (1999), Burgess and Mitchell (1998) 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 BI acts as an automatic stabiliser 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 there remains a workfare type ethic with no work leading to no financial assistance.

The authors also argue that the government can exploit these workers if the conditional income is set too low. A similar argument can be expressed with respect to an unconditional BI.

Widerquist (1999:400) 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. Ironically under a revenue neutral BI, wage earners may be taxed so that another group obtains some freedom from the labour market.

Widerquist and Lewis (1997) argue that some workers will earn efficiency wages that are above the market clearing level, but others will be unable to secure these jobs and will be forced to take less attractive jobs. Workers receiving conditional incomes will not be able to quit the labour market believing it to be unfair. On the other hand, an unconditional BI enables workers to choose not to work in an unfair labour market. This argument is based on the assumption that the choice of no work at the unconditional BI is valued equally to an efficiency wage job, if not superior. In short the so called unfairness in the labour market arising from the payment of efficiency wages can be a source of envy to an individual operating under a conditional or unconditional income scheme.

Widerquist and Lewis (1997) reject the use of a minimum wage, viewing the BI as a more comprehensive strategy that helps both the unemployed and the working poor. There is no need to differentiate between the deserving and undeserving poor under a BI.<sup>16</sup> Also forcing the undeserving poor to work creates excess supply in a workfare environment.

## **4. The Economic Consequences**

### **4.1 Financing the Schemes**

Exploiting the orthodox labour/leisure choice analysis Widerquist and Lewis (1997:29) argue that if say \$300 per week is to be the effective minimum wage, then a JG wage of \$300 is necessary to ensure workers are indifferent between private and public sector jobs. On the other hand, a lower BI would be required to ensure indifference because leisure is a source of positive marginal utility.

Widerquist (1999:400) argues that the overhead costs of a conditional income scheme (JG) are much greater than those of the unconditional scheme, although he acknowledges that the workers produce something of value under the JG. Widerquist and Lewis (1997) claim that there is no guarantee that an individual subject to a conditional income makes better use of time than someone with a BI. This argument is highly dubious 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 socially useful and socially destructive activities. The authors are implying that the individual solution to unmet social and cultural needs that is possible under a BI is superior to a collective solution via the creation of JG jobs. Of course the JG scheme does not preclude the long-term reduction in weekly hours of work, by using JG wages and conditions as a component of industry policy.

Van Parijs (2000a) also challenges the claim that BI is more expensive than a work conditional system because he argues that the latter 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.

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.<sup>17</sup> In Australia, at least, many researchers note that there is a high effective marginal tax rate (EMTR) for some people on categorical selective benefits 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% 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 program in Australia to achieve 2 per cent unemployment and remove underemployment. Using figures for 1999(4), they find that the net annual budgetary costs lie between \$5.5 and \$6.4 billion.

The critics of the JG approach point to financial constraints that they allege would arise from higher budget deficits. Recent years being marked by a vigorous pursuit of budget surpluses, but one of the most damaging analogies in economics 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. The important difference is that government spending is desired by the private sector because it brings the resources (fiat money), which the private sector requires to fulfill 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).

Orthodox economists assert that either deficits are inflationary, if financed by high-powered money (debt monetisation), or they squeeze private sector spending, if financed by debt issue (see, for example, Ott, Ott and Yoo, 1975). 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 monetisation (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 Basic Income 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%, so that low wage earners can take risks with jobs. By contrast, many anti-poverty programs 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 basic income 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) argues that the strength of 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, 1997:34). 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 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 (1997:35-36) note that 10% 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 3 years. Thus the impact of BI on labour supply would be low.

It is most likely there will be some withdrawal from the labour market by secondary income earners (typically women) and the young, and a desire to reduce hours of work by some primary and secondary earners by undertaking part-time and casual work to supplement the Basic Income. Unless the BI is very generous, so that a significant number of part-time workers choose voluntarily not to engage in paid work, the labour supply response is likely to strengthen the hand of employers, who can exploit the large implicit subsidy by reducing wages and conditions. Thus there is likely to be a growth of low wage, low productivity jobs which employers have 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*, but some employees may reduce hours of work, without sacrificing their post-tax level of income. Low-income earners tend to have a higher propensity to consume than high-income earners. The overall impact on consumption and hence aggregate hours of work is likely to be relatively small.

Gorz and Lerner both claim that the provision of a secure subsistence income will lead to less connection to the world of formal work. This hypothesis ignores the observation that the overall labour force participation rate has been rising in most countries and the majority of consumers appear to be pursuing more and more material intensive lifestyles. The overall participation rate in Australia has risen from 61.9% in February 1986 to 74.8% in May 2000. In part, this reflects the desire to undertake part-time work.

In Australia, the percentage of families with one or more dependants, which have both parents employed rose from 42.1% to 44% between February 1988 and February 1998 which suggests that families are seeking to increase real income.<sup>18</sup>

Average real wages have stagnated in countries, including Australia and the USA, which could have contributed to the rising participation rate amongst women. 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 that this pattern of labour market behaviour is motivated by the desire for even greater income security than in the past that would diminish under a BI.<sup>19</sup> People are attracted to high incomes and career opportunities. The decline in participation is likely to be less than the current employment surpluses. 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 because material demands remain unsatisfied which will maintain and possibly increase hours worked. The alternative is that our material needs would be increasingly met via imports with consequential effects for the exchange rate.

The introduction of the BI could lead to an export led recovery, due to the increased labour flexibility and lower per unit labour costs, which would also counter the tendency for hours of work to decrease. These macroeconomic changes might lead to a realignment of wage relativities, but rates of underutilisation of labour in many countries are high, so the impact may be small.

Lerner and Clark (2000) point to an orthodox argument in favour of the BI put forward by Meade who argued that in a downturn insiders protect their wages against cuts and ignore outsiders who have little influence on wage setting. Workers are alleged to be less keen to fight wage cuts, due to the loosening of the link between work and income, so there would tend to be more labour market flexibility. This increased labour market efficiency would lead to increased employment and hence faster economic growth.<sup>20</sup>

## **5 The Environment**

### **5.1 Introduction**

Greens argue that full employment with all workers able to secure full time employment, if they so choose, is neither desirable nor sustainable (Fitzpatrick, 2001). Although an increasing percentage of part-time workers seek increased hours of work in Australia, there is a significant cohort who want part-time employment. Typically the solution to poverty and unemployment is faster economic growth and hence higher employment which is usually at expense of environment. On the other hand, a zero sum income redistribution and slower (unregulated) growth reduces the additional damage to environment.

Greens seek sustainability but also social justice. Accordingly a Basic Income has some appeal because it is alleged to undercut the employment ethic and to challenge the productivist assumptions which legitimate that ethic (Fitzpatrick, 2001:3). Consequently some ecologists support the BI because it entices people out of employment so that there is a slower rate of economic growth.<sup>21</sup> The key question is the extent that the imposition of an adequate BI reduces the rate of economic growth under revenue neutrality. This must entail a slower growth of hours worked, not merely a redistribution of hours (Fitzpatrick, 2001: 2) Dobson (2000) notes the contradiction between the anti-materialism of Green thought and the proposal to finance the BI out of tax revenue.

With the link between work and income having been loosened under a BI, the analytical focus tends to be on the liberating effect on workers with respect to their choice of hours

and thus the potential for the redistribution of working hours without the loss of post-tax income. System/macroeconomic effects are ignored, in particular the impact of a BI on consumption, production and hence aggregate employment.

As noted above, the impact on consumption of the introduction of a BI is likely to be small and hence aggregate hours of paid work will remain more or less unchanged. The only interpretation of Fitzpatrick's analysis of the BI and its impact on GDP growth is that the availability of an adequate BI would lead to a rejection of the consumerist mentality and a slow down of the growth rate of GDP which will be beneficial to the environment but this is not discussed. The achievement of such a Green society would require a massive change in public consciousness as well as institutional reorganisation. 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 consumption expenditure being sustained.

## 5.2 Lifestyle Choices under a BI

Some writers are confident that change in consciousness will occur. Lerner and Clark (2000) emphasise the increase in labour market flexibility that arises from the introduction of a basic income. The BI is viewed as the quid pro quo for the insecurity imposed on workers by employers. Lerner (2000) argues that workers benefit through enhanced career choices, the opportunity for sabbaticals and flexitime etc (see also Fitzpatrick, 2001:2). 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. 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 Clark (2000) quote Gorz who argues that a BI system is an activity multiplier not an activity

reducer because individual, collective, private and public activities now can develop without being profitable. Gorz does acknowledge that a minimum income is a necessary but not sufficient condition for social participation (Fitzpatrick, 2001:5). Again 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 system or macroeconomic impact.

Ironically Van Parijs (1992) argues that BI is growth friendly due to its impact on economic efficiency. If Greens are to support the BI, then they must argue that BI channels growth in ecologically friendly directions. This can only take place if there is reduced throughput and/or a change in production techniques.

Offe (1993) suggests that a BI could remove some of the productivist pressures so that targeted and selective environmental policies could be introduced 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 can be separated from the means of sustaining regional communities.

Andersson (1996) argues that the activities and lifestyle associated with ecological lifestyle are not necessarily encouraged by a full BI. He advocates a small unconditional BI and a citizen's wage for activity outside LM that is socially useful and environmentally friendly and also the promotion of 3<sup>rd</sup> sector, which is not organised around the state or the market.

Shragge (1994) argues that a BI plus compulsory volunteer work would constitute coercion and would undermine existing employment, thereby creating a pool of cheap labour. The State could respond by reducing the number of regular jobs. He claims that community agencies can supplement the BI without coercion, by building up their own groups and organisations.

Thus the belief that a BI brings about changes in individual behaviour compatible with a Green economy is founded on an act of faith. Even if individuals adopt less materialist lifestyles, there is no guarantee that this individualistic solution 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: 291).

### 5.3 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: 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 program 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 programs in schools; and
- research.



These programs will be designed to reflect the environmental imperatives and will be located to reflect local assimilative capacities and also to minimise disruption to employees.

## **6 Conclusion**

The two interventionist programs outlined in this paper both acknowledge that there are chronic problems of income insecurity and underemployment in a number of Western economies.

BI is an individualist rather than collectivist solution to income inequality and income insecurity. It also assumes 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 program provides certainty with respect to employment and income. In contrast to the BI, long term career possibilities of all prospective employees are enhanced. The expertise of local councils, state and federal governments can be exploited to address the backlog of environmental and social issues that need to be addressed 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 program is required to meet unmet economic, social and environmental needs.

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 will be enhanced in the future, given rising labour productivity and falling hours of paid work, but the question remains as to whether the needs identified above will be met through an expanded role for voluntarism.<sup>22</sup>

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<sup>1</sup> This series, denoted as U6a, is defined as total unemployed, plus all marginally attached workers, plus total employed part time who preferred to work more hours, as a percent of the civilian labour force plus all marginally attached workers (CofFEE Labour Market Indicators, <http://e1.newcastle.edu.au/coffee/>).

<sup>2</sup> They do not acknowledge that Post-Keynesians reject the argument that wage flexibility is necessary and sufficient for full employment.

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<sup>3</sup> For a concise statement of the belief that in the long-run full employment will be the outcome of low inflation see Reserve Bank (1996).

<sup>4</sup> In this paper, the term Basic Income will be used. Other terminology that is used includes, Guaranteed Income (Widerquist, 1998),

<sup>5</sup> It is hard to argue that consumption will fall when post-tax incomes for low income workers have increased.

<sup>6</sup> This individualistic focus promotes the formation of households is encouraged, because communal living is cheaper (Van Parijs, 2000a).

<sup>7</sup> Friedman (1962) advocated a minimum income based on a negative income tax to counter low wages which provides a symmetry with positive income taxes above a prescribed level of income. This was an alternative to big government arising from Keynesian demand management policies, particularly government expenditure (see also Fitzpatrick Chapter 1999 ch 5). The negative income tax scheme would preserve individuals' freedom to spend income in the manner that they chose.

<sup>8</sup> Payment of tax credits ex-post can influence behaviour. Workers in the USA tend to view the tax credit as a lump sum which has little influence on their labour supply behaviour, rather than as an inducement to increase their supply of labour (Ingles, 2001).

<sup>9</sup> By contrast there are significant problems that arise from targeted programs. They are difficult and costly to administer, inefficient, inequitable, intrusive and stigmatise the poor. As a result, such programs are likely to undermine middleclass support for social programs and income (Lerner and Clark, 2000).

<sup>10</sup> 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 recognised associations. If the contribution is defined very broadly, then there is little difference from the BI.

<sup>11</sup> By arguing that most people would want to make a contribution, Van Parijs appears to acknowledge the principle of reciprocity.

<sup>12</sup> The French 35 hour week law is a case in point.

<sup>13</sup> 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).

<sup>14</sup> Article 23 of the Universal Declaration of Human Rights states that: 'Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment'. Furthermore, 'everyone ... has the right to equal pay for equal work', along with 'remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection'. Article 25 elaborates on what an adequate standard of living means. In the Section titled International Covenant on Civil and Political Rights Article 8-3-a states that '[n]o one shall be required to perform forced or compulsory labour...'. (Burgess et al, 2000). Burgess and Mitchell (1998) note that the International Labour Office ratified the right to work with

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the 1946 ILO Declaration of Philadelphia asserting full employment as a national and international goal (Siegel, 1994, 60).

<sup>15</sup> Burgess and Mitchell (1998) point out that in most industrialised nations there is extensive legislation and common law governing employment and employment rights, including bargaining, EEO, non-discrimination, unfair dismissal (Ewing, 1996), yet there is no legislation on the right to work, despite the international agreements. Employment rights have been narrowly interpreted as encompassing the rights of those in employment and excluding any rights to those who are unemployed.

<sup>16</sup> They also note that the attempt to differentiate between the deserving and undeserving poor is incomplete because it ignores those who choose not to work because of unacceptable working conditions.

<sup>17</sup> Van Parijs (2000a: 14-15) appears to take the view that the more productive, better paid workers require incentives, whereas this is not required to the same extent for low paid workers who are more dependent on the BI. Van Parijs (2000a: 15) explores a low earners' overcharge which leads to low wage earners paying a higher marginal tax rate than their more productive counterparts.

<sup>18</sup> Over the same period, the percentage of families with no parent working rose from 13.1 to 16.2.

<sup>19</sup> It is accepted that institutional arrangements in some enterprises and industries may limit the choice of hours, so that some two income families may work more hours than they would choose.

<sup>20</sup> The simple link between wage moderation and faster employment growth can be challenged, but it is acknowledged that, given the obsession of most governments to fight inflation by the adoption of tight monetary policy, any policy initiative that moderates the inflationary biases will enable a higher sustainable rate of economic growth and employment through looser monetary policy.

<sup>21</sup> Fitzpatrick (2001: 4) provides some graphical analysis of the relationship between the level of BI and the *slowing* of the rate of GDP growth under revenue neutrality. There is a maximum optimal level of BI and corresponding rate of reduction of economic growth.

<sup>22</sup> Mitchell and Watts (2001a) note that the implementation of the JG may be accompanied by a modest expansion of fiscal policy to reflect the political judgement that essential environmental and social activities were being neglected.