Abstract

In the last twenty years or so, the Spanish welfare state underwent a dramatic shift from a type of protection that stressed the right to one's job to one emphasizing the right to a replacement income. Such a shift has been — and to a large extent can legitimately be — justified on grounds of both justice and efficiency. What is needed now, in Spain and throughout Western Europe, is a further shift that essentially consists in fitting at the bottom of the traditional means-tested and/or categorical safety net a modest income unconditionally paid to each citizen. As an indispensable instrument in the fight against the growing dualization of our societies, such a shift too can be justified in terms of both justice and efficiency.

I wish to talk to you about a very simple idea that at first sight has little or nothing to do with either justice or efficiency. Basic income is an income unconditionally paid to all citizens. How could it be just to give able-bodied citizens something for nothing? How could it be efficient to impose a massive tax burden on the economy and throw away the proceeds by distributing them indiscriminately to all? And yet my claim is that the introduction of a basic income at the basis of our West European welfare states would greatly improve both the justice of our society and the efficiency of our economy.

This sort of claim was hardly taken seriously when I first started uttering it over ten years ago, along with a small number of people around Europe. Ten years later, it is still far from gathering an easy consensus, but it is arousing intense interest from the bottom to the very top of our societies. In my own country (Belgium), support for the idea was initially

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confined to the Flemish and francophone green parties. But now some top businessmen, such as the C.E.O. of the Belgian firm with the largest turnover (Petrofina) and the head of the most thriving food supermarket chain (Colruyt) have indicated in recent interviews that this was the direction in which we needed to move. Less anecdotally, the Association of Flemish economists recently organized a massive congress on the future of the social security system and devoted the whole of one of its main and best attended sessions to the discussion of basic income.¹

But enough stories. Let us get down to business, first by characterizing basic income in a precise way. A basic income is an income unconditionally granted to all on an individual basis, without means test or work requirement. In other words, it is a form of minimum income guarantee that differs from those that now exist in various European countries through its being paid (1) to individuals rather than households; (2) without requiring the performance of any work or the willingness to accept a job if offered; and (3) irrespective of any income from other sources. This last distinguishing feature can be illustrated, in very stylized fashion², by the contrast between diagrams 1 and 2, which respectively depict currently existing means-tested guaranteed income schemes (and even more roughly, unemployment benefit systems of the type that exists in Spain) and a genuine basic income securing the same minimum income.

**Basic income is just**

How can one possibly conceive of establishing that a basic income is just? There is not the slightest hope of doing so unless one questions one central assumption of much of what is said and written in connection with the justice/efficiency issue, namely that fairness is a matter of income alone, for example a matter of maximizing the minimum income. That this feature of conventional thinking about fairness or justice is inadequate can be shown in two apparently opposed but actually complementary ways.

Firstly, consider a difficulty often mentioned by those involved in the fight against poverty. On the one hand, they stress the importance of

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¹ See Despontin & Jegers (1995 & 1996). There are other countries in which the debate is more advanced than in Belgium, especially the Netherlands (see van der Veen & Pels eds. 1995 for a recent status quaestionis), the United Kingdom (see e.g. Atkinson 1995 and the publications of the Citizens Income Study Centre) and Ireland (see Reynolds & Healy eds 1995). But even in a country like Argentina, an active debate has now been initiated (see Lo Vuolo ed. 1995).

² I assume, for example, that there is no other public expenditure apart from the guaranteed income scheme, that taxation is linear and that all households are identically composed (e.g. only childless couples).
access to a job if one is to break the vicious circle of poverty. On the other hand, they forcefully argue that the income level currently enjoyed by the jobless poor is seriously inadequate and should be significantly increased. For reasons of both justice and efficiency, however, the lowest net wages should noticeably exceed the replacement income paid to the jobless. But the higher these wages, the harder it is for poorly skilled people to find a job. It follows, it seems, that there is a fundamental conflict between the two objectives of an effective strategy against poverty. The better it does on the income side, the worse it seems bound to do on the job side. By trying to encapsulate justice into a criterion of maximin income or of maximum replacement income, we have focused all attention on the first objective and ignored the second one. Should not the right to work matter to justice on a par with the right to an income?

Secondly, we have also completely ignored so far the right not to work, or the right not to do work one does not like doing. As long as people care exclusively about income, or the possibility to consume, there is some appeal in identifying the worst off, the least advantaged, as those with the lowest incomes, and hence as interpreting as an unambiguous move towards greater fairness any measure that leads to an increase in the lowest incomes. But once some people start saying, even at the lower end of the income scale, that they would rather have more free time than more income, fairness can no longer be read from the final income distribution. In particular, an increase in the lowest incomes that is obtained by putting more pressure on those inclined to attach high value to free time would not count as an unquestionable move towards more fairness. It may stem from an unfair discrimination against those with a lesser taste for consumption.

Thus, access to an income, access to a job and access to leisure are all dimensions that need to be taken into account when discussing justice. This is where basic income comes in. For like a minimum income administered though means-tested, willingness-to-work-related benefits, a basic income provides access to consumption. But unlike such a minimum income, it provides more than that. Firstly, since it is granted irrespective of income from other sources, it can be used by the recipient who so wishes as an employment subsidy. It enables those who attach importance to (paid) work per se to accept a low pay - lower than what they could afford in the absence of a basic income - in exchange for actual access to waged, cooperative or self employment. Whereas a rising means-tested benefit makes it increasingly difficult for unskilled people to find a job, a rising basic income makes it increasingly feasible. Secondly, since it is not restricted to those willing to accept any job for which they are deemed suitable, basic income also gives each individual the option not to work. This is not important because many would choose not to work at all - this is most unlikely -, but because it gives every individual the power not to accept just any working conditions.

Hence the following suggestion. Although it does make sense to formulate justice in terms of a maximin criterion, what is to be maximinned
cannot be income alone. It must rather be something like the real freedom (as opposed to the sheer right) to do whatever one might like to do with one's life, including consume, get a job and perform enjoyable activities. Introducing a basic income and pitching it at the highest feasible absolute level would precisely maximin such real freedom, and hence provide what justice demands.\(^3\) Moves in that direction, for example the replacement of the current minimum income by a basic income at the same level, or, more realistically, the introduction of a "partial" basic income combined with the reduction of all replacement incomes by a corresponding amount (and no more), would unambiguously enhance justice.\(^4\) I am not trying here to present a full argument, only to convey the underlying intuition. But I have said enough to indicate the direction in which I believe the justice argument needs to go.\(^5\)

### Basic income is efficient

Let us consider a measure that consists in replacing a simple minimum income system of the means-tested variety by a basic income that guarantees the same level of minimum income, or, more modestly, by one that introduces a lower, "partial" basic income and reduces all other replacement payments (pensions, unemployment benefits, student grants, etc.) by a corresponding amount. If the argument outlined above is correct, such measures could be defended by appealing to justice. But how could they be defended on grounds of efficiency? How could such measures be expected to have a positive impact on the national product? At first sight, the opposite must be the case, for two reasons.

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\(^3\) This modified "Rawlsian" account of justice is sketched in Van Parijs (1991: chap. 9). It is systematically presented and defended in Van Parijs (1995a).

\(^4\) A "partial" basic income is a fully unconditional and individual income at less than the subsistence level. This is the sort of proposal that I regard as most fruitful to work out and discuss for the sake of short and medium term social policy reform. An elaborate proposal of this type was made, in a controversial report by the Dutch Scientific Council for Government Policy (WRR 1985). Van der Veen (1996) offers a careful assessment of a partial basic income proposal (versus the current conditional minimum guarantee) in terms of social justice as maximin real freedom.

\(^5\) I am here leaving aside the important question of whether this would constitute an optimal enhancement of justice, as compared e.g. to redistribution towards poorer countries. The relevance of this question in the present context is limited by the following consideration: if I give an unfair advantage to one of my children over the others, it is no excuse, and no justification of the status quo, if I point out that there exist further people even less advantaged than the least privileged of my children. See, however, Van Parijs (1995b) for further discussion of the international side of justice.
Firstly, such measures will involve granting a transfer to many people who currently get nothing. It follows that a greater tax yield will be required to maintain the minimum income level, and hence that marginal tax rates cannot but go up for significant categories of earners, thus generating a downward pressure on the national product. True, this implication must not be overstated. As long as we are speaking of a low basic income, much of it can be financed simply by a relabelling of the corresponding part of existing transfers (pensions, unemployment benefits, etc.) and by the abolition of a number of tax exemptions (e.g. on the first slice of earned income) or tax rebates (e.g. for dependent spouses) that no longer serve a purpose.\textsuperscript{6} Moreover, the increase in the tax yield required for the transfers themselves will be partly offset by a decrease in the administrative cost of the transfer system. In an era of computerized payments, the bulk of this cost is the cost of checking entitlements. Obviously, the less conditional the system, the lower the latter cost.\textsuperscript{7} Finally, any net increase in the tax yield that may be required can be distributed in such a way as to minimize the effect on factor supply, for example by leaving reinvested profits untouched, or by taxing the lowest slice of all earned incomes at a higher rate.\textsuperscript{8} There is no doubt, however, that the introduction of a significant basic income would involve some increase in marginal tax rates, and that this increase can be expected to exert a downward pressure on (declared, domestic) factor supply and hence on the (taxable) national product.

Things look even worse as soon as one reflects on the specific nature of the use that would be made of this increased taxation. What a basic income does is increase the feasibility or the attractiveness of escaping from the wage relation in order to become self-employed, form a partnership, join a cooperative or simply stay at home. This increased bargaining power, this greater autonomy may be most desirable in itself. Indeed, it is closely linked to the ethical case for basic income sketched in the previous section. But, at least in a capitalist economy, it may have disastrous economic

\textsuperscript{6} Precise simulations have been made for various countries. See e.g. Atkinson (1989: part III; 1995: chap. 6) and Parker (1989) for the U.K., Gilain & Van Parijs (1996) for Belgium.

\textsuperscript{7} Even when a "partial" basic income is introduced side by side with a residual means-tested benefit that makes up the difference between the basic income(s) of a household and the socially agreed minimum income for households without income from a further source, administrative costs can be expected to shrink significantly, as a number of low categorical benefits could be scrapped (child benefits for students, unemployment benefits for part-time workers, etc.) while the reduction in the depth of the unemployment trap would mean that less people would need to claim means-tested benefits.

\textsuperscript{8} As in James Meade’s (1989, 1995) proposal. Note that such regressive taxation with a basic income is more favourable to people with low potential earnings than progressive taxation with a means-tested benefit system that amounts to taxing low earnings at 100 percent.
consequences. For even if capital income were not taxed at all in order to finance the basic income, the improvement of every worker's bargaining power would exert an upward pressure on wages and working conditions. The resulting negative effect on the rate of return to capital would foster capital flight, the substitution of consumption for saving, perhaps even organized investment strikes.9

The conclusion, it seems, is that introducing a basic income, even at a low level (while keeping residual transfers in the way sketched above), would lead to a significant fall in the expected national income. Indeed, this fall may be so significant that introducing a basic income at a level equal to the current level of means-tested benefits may simply constitute an unsustainable option. If this were the end of the story, the efficiency argument would fail badly. But when faced with arguments about the deadweight losses associated with higher marginal tax rates, economic advocates of basic income may quietly concede the point - just as Schumpeter could have agreed with all that has been said about the static inefficiency of monopoly capitalism. But just as Schumpeter argued that this was no more than petty accountancy, relative to the massive dynamic efficiency of the creative destruction associated with monopolistic firms, similarly contemporary economic advocates of basic income argue that quibbling about marginal tax rates is of little significance in regard to basic income's massive contribution to making our economy more dynamic, less cripplingly rigid, less stiflingly conflictual than it would otherwise be. Let me spell out some of the arguments on which such claims could be based.

One interesting — though quite speculative — argument was suggested to me by Samuel Bowles.10 It emphasizes the costly conflicts increasingly generated in our economies, as a result of two major trends. The spread of significant environmental externalities and the increase in the share of wealth held in the form of information, rather than material goods, differ greatly in both substance and origin. But they have one feature in common: they greatly enhance the importance of property rights which are extremely difficult to define and enforce. Using Ouchi’s (1980) typology, one can distinguish three types of social coordination. Bureaucracies are optimal when there are neither sharp conflicts of interests nor significant uncertainties about who is entitled to what. Clans are optimal when there are no conflicts but high uncertainties. Markets are optimal when there are conflicts but no uncertainties. When there are both sharp conflicts and high uncertainties, coordination breaks down and chaos sets in. This is what is

9 This is a central aspect, for example, of Wright's (1986) or Roland's (1988) misgivings about basic income proposals in a capitalist context.

10 It is hinted at, in general terms, towards the end of Bowles & Gintis (1986).
increasingly threatening to happen in a market economy pervaded by the two trends mentioned above. Now, it seems safe to predict that these trends will persist, and hence that it will become increasingly difficult to make sure that whoever is responsible for wealth destruction/creation actually pays/is paid for the damage/benefit caused. Assuming that sharp conflicts of interests are with us forever, the only option open to forestall economically damaging chaos, then consists in reducing what is at stake in the market game, i.e. in making an increasing part of people's material welfare depend on society's overall productivity, rather than on their individual contribution. A basic income is the most natural way of institutionalizing this solution.

A second, more precise argument has been developed in particular by Guy Standing, Director of Labour Market Research at the International Labour Organization. It stresses the crucial role basic income would play, directly and indirectly, in fostering the flexibility of our economies. With a basic income, individuals can go through repeated and protracted periods in which their activities earn them less than a subsistence wage, for example as they retrain between two jobs, as they learn new skills on the job, as they keep old skills alive in a period of reduced professional activity, as they launch new businesses, etc. As a result and without the (often opaque and costly) aid of special schemes, adjustments of all sorts are made easier and an entrepreneurial spirit is encouraged throughout society. This direct and individual impact on the flexibility of the economy is further reinforced by an indirect, collective impact. If each individual worker is protected by the availability of a significant unconditional income and the possibilities it opens up, there is less justification for a number of regulations which currently constrain the labour market, such as restrictions on patterns of working time or even minimum wage legislations. The sort of flexibility which modern technology increasingly requires could therefore acceptably be traded by the labour movement against the income security provided by a basic income.

A third argument focuses on the growing importance of the unemployment trap — the trap in which a growing proportion of the population is stuck as a result of the operation of the safety net provided by unemployment benefits and/or a means-tested guaranteed minimum income. This trap has several dimensions. It partly consists in the lack of a (sufficient) income differential between a person's situation at work and out of work. But what keeps people from actively looking for a job or accepting one if offered is also the uncertainty associated to the change in administrative status (from benefit claimant to waged or self-employed worker): given the anticipated difficulty of recovering the right to benefits if things go wrong, people on the breadline can simply not afford the risk.

taking a job. Further, once in the trap, unemployed people are subjected to a cumulative process that keeps deepening it, through the obsolescence of their skills, the erosion of their motivation and the employers' discrimination against them precisely because the length of unemployment is used as a negative indicator of ability and motivation. 12

For an economic advocate of basic income, it is wrong to be mesmerized - as are many economists who have only paid superficial attention to the basic income issue - by the threat of rising gross tax rates. For the tax elasticity of factor supply, whether cheaply invoked or laboriously studied, is completely overshadowed by the considerations just outlined. If such an advocate is right 13, the effect of higher tax rates would be negligible in comparison. Indeed, the shift from the current system to a basic income system may involve no rise in overall tax rates at all, as the favourable impact on output growth would generate the required increase in the tax yield with unchanged rates.

What about the second argument brought up by the economic critics of basic income, the argument that, whatever happens to tax rates, every worker's increasing freedom not to work brought about by a growing basic income is bound to affect negatively the rate of return on capital, and hence the growth of output? An economic advocate of basic income is bound to give the same sort of answer as to the first argument: the advantages of a more flexible, less conflict-ridden economy will more than offset the disadvantages - in terms of profitability - of the workers' improved bargaining position. But the confidence with which this answer will be uttered is bound to be more fragile than in connection with the first argument. After all, we have tinkered with tax rates on a massive scale during the last century, but in no society has more than a small minority of citizens ever been given the real option not to work.

My aim, in any case, has not been to establish that the introduction of a basic income would boost efficiency, nor indeed that it would bring us closer to a just society. My aim has only been to indicate what form this two-fold case for basic income needs to take if it is to be successful. My own conviction is that, in advanced industrial societies, a strong claim of justice

12 These various dimensions of the trap are analyzed in more detail in Van Parijs (1996a). The uncertainty dimension of the trap, often overlooked by economists, is usefully documented in Jordan & al.

13 The "If" is important. Robert Haveman, who was my discussant when I presented an earlier version of this talk at the University of Wisconsin, was outraged by the cavalier dismissal of painstaking econometric research which I seemed to condone. The message I wanted to convey, however, is not that such research is unimportant, but rather that those involved in it should not lose sight of the broader picture when drawing their conclusions. As it happens, Haveman (1988, 1996) himself advocates a reform of contemporary welfare states that would include the introduction of something quite close to a partial basic income.
can be made, along the lines sketched above and developed at length in my
Real Freedom for All (Van Parijs 1995a), for a sizable basic income; and
that sufficient confidence can be gained on the economic side for the
efficiency claim to be responsibly held. This confidence, however, is not
independent of the plausibility of the justice claim. For whether a basic
income can boost flexibility (at least along the indirect, collective path
delineated above), and whether it can significantly reduce the overall level
of conflict, is very sensitive to whether a basic income is perceived as a fair
way of distributing part of the social product. If organized workers, for
example, see basic income as an outrageous racket on the fruit of their
labour, the net effect on rigidity and conflict may well end up being
negative. In this light, it turns out to be simply impossible to assess the key
economic propositions about basic income independently of the ethical
claims that are being made on its behalf.

To put the point more provocatively, the debate on basic income is one
area in which there is nothing illegitimate about - duly circumscribed -
 wishful thinking. It is right that the conviction that a basic income is
demonstrably just should influence the belief that introducing it would be
efficient and, partly therefore, the belief that it is politically feasible.
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