

**UNCONDITIONAL BASIC INCOME  
AND ECONOMIC EFFICIENCY**

**By**

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## TABLE OF CONTENTS

|  |    |
|--|----|
| INTRODUCTION .....   | 1  |
| SECTION I - UNCONDITIONAL BASIC INCOME AND ITS PHILOSOPHICAL FOUNDATIONS ..... | 5  |
| Unconditional Basic Income - Introduction .....                                | 5  |
| Implementation and Maintenance .....   | 6  |
| Philosophical Justification .....  | 9  |
| i) Land .....  | 10 |
| ii) Inheritance .....  | 12 |
| iii) Social Institutions .....   | 14 |
| iv) Jobs and Natural Talents .....   | 16 |
| SECTION II - SOCIAL WELFARE, EFFICIENCY, AND THE STRUCTURE OF UBI .....        | 18 |
| Social Welfare and Efficiency .....  | 18 |
| UBI vs. Alternative Welfare Schemes .....                                      | 24 |
| i) Unit of Assessment .....  | 25 |
| ii) Administrative Conditions .....  | 26 |
| SECTION III - UBI AND STATIC ECONOMIC EFFICIENCY .....                         | 31 |
| Empirical Testing of the Negative Labour Supply Response .....                 | 31 |
| Labour Flexibility and Static Economic Efficiency .....                        | 40 |
| i) Wage Levels and Labour Patterns .....                                       | 41 |
| ii) Unemployment and Poverty Traps .....                                       | 45 |
| iii) Labour Demand Issues .....  | 47 |
| Labour Productivity and Static Economic Efficiency .....                       | 49 |
| SECTION IV - UBI AND DYNAMIC ECONOMIC EFFICIENCY .....                         | 53 |
| Endogeneity Growth Theory, UBI, And Dynamic Efficiency ..                      | 53 |
| Rationalization of the Labour Force .....                                      | 59 |
| A More Competitive Labour Force .....  | 63 |
| CONCLUSION .....   | 67 |

## LIST OF TABLES AND FIGURES

|                  |    |
|------------------|----|
| Figure (1) ..... | 33 |
| Table (I) .....  | 37 |

## INTRODUCTION

An ever-present dilemma encountered by those who advocate the maintenance of variations of the modern welfare state is the compromise in economic efficiency that such systems are perceived to entail. In a capitalist, democratic state, any social reform is susceptible to the perceptions of the electorate. "...if a deliberate reform is to succeed, it must simultaneously satisfy two conditions: it must be widely regarded as having both 'ethical value' and 'economic value'"<sup>1</sup>. This paper will consider the reform proposal of an Unconditional Basic Income (UBI) and focus on how a UBI proposal addresses the issue of economic efficiency.

Section (I) will provide a description of the concept of a UBI, its variations, and proposed methods of implementation/maintenance. This will necessarily include an historical overview of the philosophical foundations that justify the provision of a Basic Income. Such philosophical justifications range from the writings of early Christian theologians and the memoirs of Juan Luis Vives, to the early suggested applications of UBI type schemes by Thomas Paine and J.S. Mill. Further, the more contemporary versions of such schemes offered by political/economic theorists such as James Meade and Philippe Van Parijs will be provided. Such an involved discussion in this area may at first appearance seem superfluous in consideration of the said focus of the paper (being efficiency implications), yet, an

understanding of the philosophical criteria on which UBI is grounded (such as the promotion of liberty and individual freedom) will prove particularly relevant in that these characteristics form the basis of some of the primary arguments for a UBI proposal promoting dynamic economic efficiency.

Section (II) introduces the question of efficiency to the subject of social welfare, and more specifically, the proposal for an UBI. There will be an initial discussion of how social welfare policy in general is perceived by more conservative theorists to hinder the efficiency of an economy and by other labour-oriented advocates to promote it. Following the summarization of these opposing views the focus will narrow to an examination of the structure of the UBI proposal, differentiating it from alternative means tested welfare schemes such as the Negative Income Tax (NIT) and the Guaranteed Annual Income (GAI). Contrasting these alternative schemes against UBI is useful, for it is argued (by UBI's advocates) that its unique characteristics make it a superior program selection with regards to the promotion of economic efficiency. The inclusion of GAI proposals in the discussion is also beneficial given similarities that they share with UBI proposals. While extensive experimentation has been conducted with GAI, to date, there has been no empirical testing of UBI schemes. In order to form a reasonable degree of expectations of the effects of a UBI in areas such as labour supply response, it will be necessary to employ the findings of

GAI experiments as surrogate indicators and extrapolate these results accordingly.

Section (III) discusses the static efficiency issues for a UBI. The concerns posed by sceptics of a UBI are outlined, including the claim that it inhibits work incentives. To this question, the aforementioned topic of labour supply responses will be addressed, highlighting the empirical work conducted by researchers such as Derek Hum and Wayne Simpson on GAI experiments (i.e. the Manitoba MINCOME scheme).

Of the more popular arguments for a UBI (especially amongst its conservative advocates) is the claim that it serves to augment the flexibility of the labour market. In theory, greater flexibility is attained through the elimination of poverty and unemployment traps as well as the rendering of minimum wage legislation as obsolete. Concerns, particularly with the complete removal of minimum wage as a welfare mechanism, are raised by liberal participants in the discussion who claim that along with the expected exploitation by employers of the absence of a minimum wage, there has been a deficiency in attention afforded to the demand side issues of labour flexibility.

The issue of labour productivity and how it is influenced by an alteration of an individual's income and wage structure has obvious relevance when considering a UBI. The short term effects of a UBI on labour productivity will include a consideration of

classic arguments such as efficiency-wage theory and to what extent they may apply to the distinct welfare reform of a UBI.

Section (IV) considers how a UBI proposal may influence the dynamic efficiency of an economy. The area of dynamic efficiency is where the advocates of UBI invest much of their optimism.

Believed to be the most cogent of arguments for UBI's impact on dynamic efficiency may be found in endogeneity theories of growth, which to a large extent reflect one of the philosophical foundations on which UBI is grounded, that being, the equalization of individuals' opportunities. This subject area, while promoting the maximum utilization of the resource of labour, also represents a re-visitation to the previously discussed issues of the flexibility and productivity of labour and how they may be effected by a policy that endeavours to equalize opportunities.

## SECTION I

### UNCONDITIONAL BASIC INCOME AND ITS PHILOSOPHICAL FOUNDATIONS

#### UNCONDITIONAL BASIC INCOME - INTRODUCTION

An Unconditional Basic Income, as defined by the Basic Income European Network (BIEN), is "an income unconditionally granted to all on an individual basis, without means test or work requirement." At the operative level it is characterized by the following three criteria, 1) it is distributed to individuals rather than households, the basis of entitlement being citizenship or legal residence<sup>2</sup>, 2) its distribution is irrespective of income received from alternative sources, 3) the individual is not required to be employed or seeking employment in order to receive the transfer. These definitive characteristics of UBI differentiate it from alternative welfare proposals such as the Guaranteed Annual Income (GAI) and/or the Negative Income Tax (NIT). The GAI and NIT are often referred to interchangeably (as they will be in this paper), and are defined as means-tested welfare schemes that involve a minimum income guarantee with additional income being taxed back at a rate subject to the specifications of the program. The guaranteed income requirement is satisfied through an ex-post government transfer to those whose employment income falls below the set guaranteed income standard.

As outlined by Gunderson;

"...there is a basic guarantee received by those with income below a certain level; those with higher income receive less income supplementation according to the program's implicit tax rate; and those whose income exceeds the program's breakeven point receive no benefits."<sup>3</sup>

A comprehension of the definitive characteristics of GAI or NIT will aid in the comparison of these programs with UBI for the purpose of forming labour response expectations.

Support for the implementation of a UBI can be found in all corners of the political and economic spectrum. Conservatives are attracted to its expected positive implications for labour market flexibility (to be addressed later) while liberals view it as an effective method for the alleviation of poverty. The 'Green' movement sees it as being less stressful on the environment and conducive to a policy of sustainable development in that "...the well being of the neediest is divorced from the question of economic growth, and...the moral justification of economic expansion"<sup>4</sup>. Advocates of women's issues interpret it as a means of providing more freedom and power to women in that the unit of assessment (and thus the recipient) is the individual rather than the traditionally male dominated household.

#### IMPLEMENTATION AND MAINTENANCE

While those who favour (or at a minimum are intrigued by) the idea of a UBI generally accept the aforementioned defining criteria of the proposal, there is less of a consensus concerning

issues such as the degree of implementation. The source of discord can be attributed to the varied interests to which the proposal holds appeal. Opponents of current packages of welfare and unemployment benefits may favour a complete replacement of these social programs with a UBI scheme, a proposition that some see as potentially destabilizing and unnecessary. As Philippe Van Parijs, secretary of the Basic Income European Network notes,

" If a basic income were introduced, the current levels of pensions, unemployment benefits, student grants, and so forth, would no doubt require significant adjustments, but the introduction of a basic income, as such, does not demand that they should be scrapped."<sup>5</sup>

Further, the preferred size of the basic income transfer has been deliberated upon by its advocates. Most accept that its size should be at least partially determined by a consensus on what the individual is entitled to as a custodian of the socio-economic structure from which all benefit by their membership (a concept to be expanded upon in the following discussion of philosophical justification).

Those who subscribe to a more liberal or socialist doctrine that focuses concern primarily on the issue of poverty alleviation may express frustration that a system of transfer based exclusively on a particularly restrictive notion of entitlement would yield a basic income of insignificant size. The preferred size of the basic income should alternatively represent the income level at which an individual would cease to exist in a state of poverty (however that state may be defined) in the absence of income from

other sources. Historically, arguments have been presented for the provision of a UBI type transfer as a co-ordinated act of charity, based solely on the premise of moral and ethical obligation (rather than justice oriented arguments of entitlement). John Stuart Mill in citing the merits of Fourierism proposes that,

"In the distribution, a certain minimum is first assigned for the subsistence of every member of the community, whether capable or not of labour. The remainder of the produce is shared in certain proportions, to be determined beforehand, among the three elements, Labor, Capital, and Talent."<sup>6</sup>

Outcome egalitarians feel that the optimal size of the transfer would be one that was pushed to the highest sustainable level, perhaps a system akin to the Rawlsian 'maximin' principle where the income (as a surrogate for welfare) of the least well off individual in society is maximized.

The notions of entitlement are indeed malleable and subject to the unique definitions set by competing ideological schools of thought. As observed by Samuel Brittan,

"Many ordinary citizens would say that income and wealth should be distributed fairly, as if fairness were a natural quality like redness or hardness whose presence or absence was obvious and uncontroversial. Some people would emphasize rewarding skills, some the need to give more to the lower paid, some the entrenchment of differentials, and some rewarding those doing dirty or risky jobs. There is no end to these often conflicting criteria."<sup>7</sup>

The foundations for the chosen definitions of entitlement emerge from the according interpretations of the conceptions of justice,

freedom and desert. In order to gain insight into such interpretations and how they influence the determination of a system of UBI it will be beneficial to consider the philosophical foundations on which the provision of a UBI has been defended.

#### PHILOSOPHICAL JUSTIFICATIONS

Crucial to an understanding of the philosophical foundations of a UBI is the initial assumption that there is 'public wealth' that can be derived from society and the environment that has historically created it (and currently maintains it) to which all individuals have an equal claim. It is argued that as society has progressed through history this 'public wealth' has been privately appropriated (or monopolized) by individuals or groups of individuals, necessarily denying others their due right of use. This view can be found in early Christian communities who accepted that, "Creation is a gift from God to all. Each person and the generations to come have a right to share in this gift."<sup>8</sup> The idea of private appropriation of 'public value' was expressed by St. John Chrysostom, "...the rich are in the possession of the goods of the poor even if they have acquired them honestly or inherited them legally. (Homily on Lazarus)"<sup>9</sup> This point is echoed by Juan Luis Vives (1526) through his memoir presented to the Mayor of Bruges<sup>10</sup>. Vives, in presenting his argument for the extension of morally required charity, proposes that the wealthy individual is obligated to return a portion of his wealth to the

poor and that he who does not "is only a thief condemned by natural law, because he occupies and keeps what nature has not created exclusively for himself"<sup>11</sup>

The notion that there has been an inequitable distribution and misappropriation of 'public wealth' can be directly related to one of the envisioned functions of a UBI, that being, the equalization of individuals' opportunities. Clearly, if there are individuals in possession of a larger proportion of public wealth than others, then the former are of greater advantage and opportunity for the pursuit of their life endeavours than the latter. As a consequence, the equalization of individuals' opportunities would require the repatriation of the underendowed with their due portion of 'public wealth' (or more likely the determined value of that wealth) preferably by way of a taxing of the overendowed for the value of the same portion that has been unjustly appropriated.

Given the acceptance of this framework, a challenging question still remains, that being, what constitutes 'public wealth'? In addressing this question, the first source to be considered is 'land' in that it is perhaps the most historically legitimate claim.

#### **i) Land**

Thomas Paine can be attributed with having designed one of the first proposals for an UBI. His work in this area was influenced by his belief that the administration of private property was both

unjust and directly responsible for the social ills of poverty and starvation. For Paine, to understand this relationship one need only look back and consider the existence of man in the 'state of nature'. For his vehicle of comparison he offered the condition of natives in pre-colonial North America. He argued that in the 'state of nature' a system of private property was non-existent, and while native society did not possess the technologies of modern Europe, nor did any member suffer the hardships of insufficient food or lack of adequate protection from the elements. Members of native society enjoyed full and equal access to land and gathered and hunted what it produced for their sustenance. Paine noted, "the earth, in its natural, uncultivated state was, and ever would have continued to be, the common property of the human race."<sup>12</sup> According to Paine, a system of private property (as found in Europe) necessarily denied some individuals access to what is naturally produced by the earth while allowing others (the land owners) to make use of more than their just share of the earth's gifts. This system of private property had affected society in two ways; "...to make one part of society more affluent, and the other more wretched, than would have been the lot of either in a natural state."<sup>13</sup> While transformation can occur from the natural state to the civilized state, the opposite is not possible in that the 'spontaneously occurring fruits of the earth' could not sustain the densely populated regions that characterize modern European society.

Paine's proposed remedy to the unjust misappropriation of land was one that left the system of private property intact. Paine was of the Physiocratic school in that he believed that all 'value' rested in land with humans only releasing its potential. He felt that the value created as result of human manipulation was open to private appropriation, while the value that the earth spontaneously produced was the common property of all. The former he would call 'improved value' and the latter 'raw value'. A land tax of 10% (representing the estimated proportion of total land value that was 'raw value') was to be levied on all propertied individuals and placed into a fund from which all individuals over the age of 21 would receive equal and regular transfers. This transfer would be representative of the loss of an individual's natural inheritance and would be unconditional and universal.

A UBI transfer based solely on the natural production of land would not only be small (given the level of industrialization in modern society) but would necessarily diminish in a society characterized by a rising population. In order to augment the size of the potential transfer advocates of a UBI have considered additional justifiable sources such as inheritance.

#### **ii) Inheritance**

The justification for the inclusion of inheritance or 'bequest' as a source for a UBI transfer rests in the notion that individuals have a right to benefits accrued by the progress and

innovation attained by previous generations. It is argued that while these benefits are fully transferred to the living, they are not transferred in an equitable manner by reason of the contemporary structuring of inheritance. One individual may be born into a potential inheritance of great wealth while another into one of nothing at all. Neither the former individual nor the latter have performed any service to deserve (or disqualify them from) their potential lot, yet the opportunities open to them for their life pursuits are vastly different. A truly just system, therefore, would be one that appropriates the wealth of individuals upon their demise and redistributes the sum equally as a component of a UBI transfer. A dilemma encountered by those that subscribe to such an argument is that by attempting to 'right' an apparent breach of individual freedom (realized through the inequality of opportunity) they may in fact compromise the said freedom that they wish to defend. Is it not acceptable, just, and in keeping with social convention to dispose with wealth that one has created in any fashion that one sees fit? The views of Hillel Steiner suggest that this is not necessarily so,

"...bequests cannot count as voluntary transactions, because the persons who make them (at the moment they are actually made) are dead. What has been bequeathed, therefore, can be assimilated to natural resources, and its value, too, must be shared equally among all."<sup>14</sup>

Further, Steiner believes that bequests do not represent an act of free will, they are more of a strategic decision made by

individuals that guarantees their maintenance and well being during the latter years of their life,

"...what bequest is, at a minimum, is a form of insurance for the bequeather: it functions to ensure him/her ... against the ingratitude and cupidity of intended beneficiaries upon whom the bequeather is unwilling to rely to provide adequately for him/her up to the moment of death. At a maximum it is a lever by which the bequeather can, during his/her lifetime, strongly influence the behaviour of aspiring heirs."<sup>15</sup>

A UBI transfer (if of sufficient size) that includes appropriated inheritance as a component may eliminate the need for such an 'insurance mechanism' while at the same time lessening the gap that the current bequest system perpetuates.

Advocates of a UBI that subscribe to the argument for appropriating inheritance realize that such a proposal will prove unpopular to many of society's members no matter how philosophically sound the proposal may appear. While increased taxes on inheritance may be favoured, an outright appropriation of bequest is currently not seen as a marketable and/or implementable option.

### **iii) Social Institutions**

The argument for the consideration of social institutions as a factor in the development of a UBI scheme holds similarities to (and overlaps with) the previously discussed argument for inheritance. The major difference is that the latter focuses on benefits and wealth accrued by the individual while the former

focuses on those accrued by society as a unique entity. Clearly there exists a co-dependent or symbiotic relationship between the two and this point should be kept in mind while considering the following discussion.

Social institutions have been created, refined, and maintained by previous generations. There are real advantages and benefits to be realized by the existence of social institutions, yet, according to Charles Clark, these advantages are not shared fairly even though all have an equal claim and contribute accordingly to the maintenance of these institutions;

"the creation of the social product is entirely a social activity[,]. . . the greatest contribution to our affluence cannot be assigned to individuals at all. The stock of communal knowledge and the cultural institutions that have been developed over the centuries are the reasons our society is rich rather than poor. Those that are particularly rich in our society are so because they happen to fill specific positions in the social provisioning process that allows them to take a disproportionate share of social output."<sup>16</sup>

In considering this 'share of output due to society and history', the dilemma faced by institutionalists will be in filtering out the portion of this output that manifests itself in the category of public goods (to which all individuals already share equal access and benefit) from that portion that has been privately appropriated. An example of such privately appropriated output may be 'that which is produced' as a result of advantages realized through membership to elite socio-economic classes. It is this appropriated output that is eligible for equitable redistribution.

#### iv) Jobs and Natural Talents

In consideration of other potential and justifiable components of a UBI transfer, Phillipe Van Parijs suggests 'jobs' as source for limited appropriation. In accordance with the conditions of the appropriations discussed above, the source of the transfer must be a resource to which all individuals hold equal and legitimate rights of access. In Van Parijs' interpretation, the existence of unemployment attests to the scarcity of jobs as a resource, therefore when there exists involuntary unemployment rents should be extracted and re-distributed equally among all individuals;

"These rents are given by the difference between the income (and other advantages) the employed derive from their jobs, and the (lower) income they would need to get if the market were to clear,..."<sup>17</sup>

A related argument concerns the natural talents possessed by individuals that provide them with the opportunity to secure 'premium' jobs of greater potential income. In that individuals are endowed with 'natural talents' at birth (rather than being personally responsible for the creation of these talents) they do not necessarily deserve the talents or the advantages that they may bring. Given that 'natural talents' are not distributed equitably at birth, there will be individuals that have greater opportunities as a result of this genetic endowment than others. Hillel Steiner goes as far as to propose a tax on the genetic information of individuals. To Steiner, "[genetic information] is

a natural resource [that] can be privately owned only so long as due compensation is paid by its owners to its non-owners"<sup>18</sup>.

Other than the obvious logistical obstacles involved (in deciding upon the monetary equivalent of the value of genetic information and then levying a tax accordingly), a criticism can be made that any evaluation of genetic information would be conducted by individuals whose decisions are necessarily biased by the genetic information within which they themselves are trapped.

Further, the introduction of 'natural talents' into discussion brings the stated objective of opportunity equalization exceedingly close to an exercise in welfare equalization, for surely 'talents' such as 'capacity for happiness' must be considered.

Arthur Okun likens a state where opportunity is equalized to "a fair race, where people are even at the starting line...[d]ifferences in natural abilities are generally accepted as relevant characteristics that are being tested in the race rather than as unfair headstarts and handicaps"<sup>19</sup>. Okun then contrasts natural talents with advantages such as bequest; "The inheritance of natural abilities is on one side of the line of unequal opportunity, and the advantages of family opportunity are clearly on the other."<sup>20</sup>

## SECTION II

### SOCIAL WELFARE, EFFICIENCY, AND THE STRUCTURE OF UBI

#### SOCIAL WELFARE AND EFFICIENCY

Since the 1930's the 'welfare state' has come to characterize (at varying degrees of implementation) western democratic regimes.

While seen as a required element in the modern state, social welfare's perceived merit is tempered by the popular assumption that its existence (and extension) carries significant efficiency costs for the economy as a whole.

Arthur Okun's 1975 contribution to the discussion of an 'Equity/Efficiency tradeoff' while inspiring much of the founding assumptions of the following arguments, is more general in its criticism of the negative impact of equity<sup>21</sup> on efficiency. When Okun speaks of the promotion of equalization programs, he is clearly influenced by the political/economic environment that characterized the interaction of regimes in that particular era. He contrasts the command type economies of the socialist world with the open economies of the capitalist world. While acknowledging the perceivable moral and ethical merit inherent in the philosophical approach of socialist command economies, he does emphasize that in terms of economic efficiency, these type regimes carry real and significant costs. Okun suggests that attempts at equalization policies fail both at their stated goal (income equalization) and in terms of their impact on efficiency; "[these]

alternatives threaten efficiency, and they promise a limited increase in equality only at the expense of dangerous and costly bureaucratization"<sup>22</sup> According to Okun, an increased bureaucracy can be expected to carry efficiency costs in that "Even the most consumer-oriented central planner cannot respond to the consumers' will as reliably as a profit oriented executive must respond in a competitive environment"<sup>23</sup>. While these criticisms may be appropriate when considering socialist command economies, the role of government in the contemporary western welfare state is markedly different. Rather than being charged with the coordination and operation of industry as a whole, the role of government in the welfare state is more limited to decisions concerning the protection of the less fortunate, allowing enterprise to act as freely and independently as possible given such constraints. This is not to say that welfare decisions do not impact on the operation of free enterprise (e.g. minimum wage legislation, safety standards), but that it would be erroneous to inflict Okun's criticisms of command economy bureaucracies on welfare state bureaucracies. More relevant to the discussion at hand is Okun's beliefs concerning the effect that any income equalization program generally has on economic efficiency;

"the attempt to enforce equality of income would entail a much larger sacrifice. In pursuing such a goal, society would forgo (sic) any opportunity to use material rewards as incentives to production. And that would lead to inefficiencies that would be harmful to the welfare of the majority. Any insistence on carving the pie into equal slices would shrink the size of the

pie. That fact poses the tradeoff between economic equality and economic efficiency."<sup>24</sup>

Again, while focussing criticism on command economy bureaucracies and their impact on economic efficiency, Okun offers a more general observation, neoclassical in flavour. Okun suggests that the efficiency costs of income equalization programs may be found in the actions and reactions to such programs by industry, and more relevant to our discussion, workers. It is important to qualify Okun's beliefs in that while he views income equalization as having efficiency tradeoffs, his views radically change when the equalisandum in question is 'opportunities' (an issue to be discussed later in the paper). For now, it is sufficient to know that he views outright income equalization as costly, with the focus of these efficiency costs having traditionally fallen on labour and its flexibility, productivity, and levels of participation.

In terms of the level of labour force participation, social welfare policies are seen by neoclassical economists to dampen participation rates by reducing the differentials between expected income at work and expected income out of work. As argued by Edmund Phelps,

"the welfare system undercuts the original purpose of work, which was to make a living. If workers do not have to have a job in order to be eligible for disability benefits if impaired, for foodstamps if their income is low, for medical benefits if ill, and housing if homeless then the motive for working is seriously weakened. The neoclassical effect of this is

a contraction in labour supply, resulting in a reduction in the labour force."<sup>25</sup>

It is reasoned that social welfare inflicts this damage on economic efficiency through its impact on work related incentives.

All things being equal, an increase in expected 'out of work income' reduces the incentive to both search for a job and acquire/update the necessary skills to secure one. Further, it is expected that such an augmentation in 'out of work income' compromises the productivity of labour by reducing the incentive to maintain a high level of effort and discipline in that the consequences of losing one's job are less dire. According to Phelps, the negative effect on worker productivity, as such, is compounded for low wage earners if an escalated welfare policy entails a rise in payroll taxation. An increase in payroll taxation would imply greater non-wage related costs of production causing a drop in 'demand wage' (wage firms can afford to offer without incurring layoffs) and a subsequent fall in employees' net total benefits to working. Again, the consequences for labour productivity are as outlined above, a fall in employee effort and a greater incidence of shirking and absenteeism.

One of the more popular and persuasive arguments offered by Consumer Theory is found in the labour supply response model. This particular model shares some of the basic assumptions found in the preceding arguments, but its primary focus is on the negative impact of an increase in income taxation on labour

supply. Consumer theory dictates that an expansion in welfare policy financed by an increase in income taxation is expected to produce a substitution effect (or compensated wage effect) and an income effect. To summarize the expectations of conventional consumer theory, the substitution effect suggests that a rise in wages will act as an incentive for workers to work more hours given the greater benefit (at the margin) of doing so. The income effect suggests that in assuming leisure is a normal good, an increase in non-work related income will encourage workers to consume more leisure and as a consequence work less.

In applying labour supply response theory to welfare programs in general, it is expected that a welfare proposal which raises the level of unearned income and is financed by an increase in income taxation, will yield a negative substitution effect (in that after tax wages have fallen) and a negative income effect (in that greater unearned income will encourage the consumption of more leisure). Given that both these effects indicate a reduction in labour supply separately, the overall aggregate effect would similarly be an unqualified fall in labour supply.

To a proposed welfare reform such as a UBI, this argument presents one of the more formidable obstacles to its acceptance as an efficient welfare alternative, and similarly impedes its chances of implementation. However, the structure of a UBI proposal limits the extent to which negative labour response theory may be applied. The negative labour supply response model

and its implications for UBI will be considered in the following section on 'Static Efficiency'.

To conclude this introduction to the question of social welfare policy and economic efficiency, it should be noted that compelling arguments have been put forth defending social welfare and how it may serve to promote economic efficiency<sup>26</sup>. Given that one of the primary goals of social welfare is the alleviation of poverty, efficiency benefits can be realized through the achievement of this goal. It is argued that the alleviation of poverty serves to temper the criminal element in society, contributing to the maintenance of property rights. Further, by moving to eradicate the social tragedy of starvation, there is necessarily an augmentation of the potential labour pool. It is also claimed that through the increased separation of labour from income, social welfare will "...reduce the frequency of industrial disputes and strikes by giving less weight to their outcomes - and more to political decisions - in the shaping of the distribution of income"<sup>27</sup>. As well, the labour/income separation alleviates workers' fears of losing their jobs, reducing the potential opposition to cost saving technical innovations. And finally, social policies "prevent minor fluctuations degenerating into full-scale slumps by stabilizing effective demand, both directly through the income guarantee they provide and indirectly by setting a floor to wages"<sup>28</sup>.

This brief summary outlining both the negative and positive expectations regarding social welfare and its implications for economic efficiency provides a reference point from which a more narrow discussion concerning the welfare proposal of a UBI and its implications for efficiency may be conducted. While it is correct to place UBI in the category of 'social welfare policies', the structure of a UBI proposal is unique and can be differentiated from alternative, means tested schemes towards which much of the general criticisms of social welfare has been directed. It is fitting then, to acknowledge the similarities, and to contrast the structural differences between a UBI proposal and these alternative schemes.

#### UBI vs. ALTERNATIVE WELFARE SCHEMES

In comparing UBI with alternative welfare proposals it will prove more appropriate to limit discussion to programs such as the NIT and GAI in that; 1) the UBI, NIT, and GAI, all fit into the category of income maintenance programs and thus share a similar objective, and 2) while to date, there has been no experimentation or empirical work conducted with UBI, the research conducted in the areas of GAI, and NITs has been extensive. In order to develop expectations of the implications of a UBI on economic efficiency, it will be beneficial to consider such empirical results.

As with a NIT or GAI, a UBI proposal also represents an income guarantee by way of the set UBI transfer. However, to equate UBI

with the NIT and GAI would prove inappropriate in that the structural differences of a UBI should influence (and differentiate) the expectations of the plan's impact on economic efficiency. Therefore, it is important to outline the differences between UBI and these alternative schemes. The primary differences concern the unit of assessment for the given transfer, and the administrative conditions for its provision.

**i) Unit of Assessment**

As previously mentioned, with a UBI, the income transfer is directed towards the individual whereas with a NIT or GAI scheme such a transfer is directed towards the household. Drawing from the earlier discussion of the philosophical foundations for a UBI, the decision to make the unit of assessment the individual reflects the theoretical primacy afforded to the individual and the maximization of his/her opportunities. To Tony Walter, such a difference in the unit of assessment is important in that;

"...it is absolutely crucial whether the money is given to the (probably male) head of the household who may, or may not, spread it around equitably; or whether it is given to each individual member-though for children this is through their chief caregiver."<sup>29</sup>

Advocates of a UBI contend that the individuality of the income proposal guarantees that the transfer reaches the intended recipients (all individuals) equally. Such a guarantee is expected to enhance the equalization of individual opportunities to a greater extent than could be possible under a system of NIT

or GAI where any income transfer is guaranteed only to reach the household leaving any further equitable re-distribution in question. The implications of an enhancement and equalization of individuals' opportunities on economic efficiency will be considered in the section on 'Dynamic Efficiency'.

**ii) Administrative Conditions**

To revisit two of its defining characteristics, a UBI transfer is 1) directed to individuals, and 2) provided irrespective of income from other sources. A NIT (or GAI) rarely shares the first characteristic (as outlined above) and never the second. In that the size of the income transfer from a NIT is dependent upon the income received from other sources, the NIT may be categorized as a means-tested welfare scheme. In contrast, the receipt of a UBI transfer is not linked to any such additional requirements over and above simple membership in society. This attribute of a UBI proposal displays structural similarities more akin to the income maintenance option of a demogrant. As defined by Gunderson;

"...a demogrant means an income grant to a specific demographic group, such as female-headed families with children, or all persons aged 60 and over, or all family units irrespective of their wealth."<sup>30</sup>

Clearly, UBI may be differentiated from a demogrant in that the income grant is provided to all rather than a specific demographic group. However, the similarities between the two options will later prove useful when considering the implications that a UBI

proposal has for the substitution and income effects in terms of labour supply.

To return to discussion of means-tested schemes such as NIT or GAI, the required consideration of all income sources by a means-tested income scheme implies a degree of personal intrusion and documentation not found with a UBI scheme. It is argued that this detailed enquiry is necessarily accompanied by a large and complex government bureaucracy. The anticipated size of the government bureaucracy is one feature that differentiates a UBI from all alternative welfare schemes in that given, 1) the absence of any means test (and its need for extensive enquiry), and 2) the formulaic simplicity and the generality of the income transfer, the expectation is of a shrinkage in size and an overall rationalization of the governmental machinery. Advocates of a UBI view this decline in governmental intrusion as an augmentation in personal freedom, divorcing individuals from the need to fulfil (or to *not* fulfil) certain requirements in order to qualify for a given level of income transfer. The notion of personal freedom is linked to, and often used synonymously with, the notion of opportunity, and therefore becomes relevant in the later discussion of UBI and dynamic economic efficiency.

With a means-tested scheme, the welfare system renders itself vulnerable to the possible manipulation and misrepresentation of personal income information on the part of claimants who may strive to capture the maximum level of transfer possible. Such a

situation would imply a compromise in efficiency of the stated policy goal of such a welfare system, that being that the required and appropriate level of compensation reaches only those for whom it is intended. Under a UBI the danger of such a compromise is minimized in that the level of income transfer remains constant, removing the incentive to misrepresent oneself given that the size of the transfer cannot be altered. It should be noted though, that this does not remove the incentive to misrepresent oneself for the purpose of income taxation avoidance, a problem that is shared with means-tested schemes.

It is argued that there are real stigmas attached to means-tested schemes that would not exist under a UBI scheme. With a NIT scheme the transfer is provided *ex-post* whereas with a UBI it would be provided *ex-ante*. An *ex-post* transfer is said to be stigmatizing in that the recipient qualifies for the transfer only after it has been determined that he/she has 'failed' to provide for his/her self. The stigma may be a matter of perception in that the receipt of this transfer may be perceived as a demoralizing acceptance of charity whereas under a UBI the transfer is said to represent 'that to which one is justly entitled'. Additionally, there may be individuals who under a means-tested system fail to claim benefits to which they qualify due to the stigma attached to the process of application and receipt. As noted by the Economic Recovery Commission of

Newfoundland (while conducting research for an income-supplementation proposal);

"...there are many people in this province who manage to somehow get by on very low incomes and, either because of pride or lack of information, do not take advantage of Social Assistance for which they would be eligible if they applied."<sup>31</sup>

As with the incentives to misrepresent one's income information, one of the effects of these stigmas is to compromise the efficiency in attaining social policy objectives in that compensation is again impeded from reaching those to which it is intended. The efficiency in policy goal achievement should not be confused with economic efficiency in general. However, if it is assumed that a UBI achieves its policy objectives 'more perfectly' (than alternative welfare schemes) then expectations of the implications of a UBI on economic efficiency may be argued by its advocates with greater confidence given the knowledge that the structure of the system is sound in its simplicity.

Acknowledging the differences between the UBI system and means-tested systems such as the GAI, there exists sufficient similarities between the two to make the extrapolation of results from GAI experimentation useful in forming expectations of the impact of a UBI scheme on labour supply. Although it is true that GAI represents a transfer exclusively to the fiscally poor while UBI represents a transfer to all, both systems guarantee a definite income floor below which incomes, theoretically at least, will not fall. In consideration of the 'negative labour supply

response' predicted by neo-classical theory, a UBI system entails a definite increase in unemployment income and a possible increase in personal income taxation. Given that these expectations for UBI are also shared by a GAI, the empirical results of experimentation on the latter scheme may, to a certain extent, be applied to expectations for the former scheme. The following section on static efficiency will introduce, examine, and comment upon such empirical results.

### SECTION III

#### UBI AND STATIC ECONOMIC EFFICIENCY

##### EMPIRICAL TESTING OF THE NEGATIVE LABOUR SUPPLY RESPONSE

The previously introduced labour supply response model remains one of the more formidable obstacles to the implementation of social policies such as the GAI and the UBI. If it is expected that such policies will impact negatively on the supply of labour and in turn the overall efficiency of the economy, then the probability of their acceptance and implementation is necessarily hampered. As a consequence, attention has been afforded to income maintenance experiments in order to verify and quantify the anticipated negative results in terms of labour supply response. This section will focus on the static economic efficiency issues of UBI. Static economic efficiency will be used to refer to the short-term expected implications of the said programs, focussing on the direct behavioural response of labour that may be predicted through theory, and subjected to validation through experimentation.

To recapitulate the expected results of the labour supply response model, the implementation of a income maintenance plan (such as GAI) represents an increasing income tax burden coupled with an augmentation in the level of non-work related income. The substitution (or wage) effect describes the desire on the part of

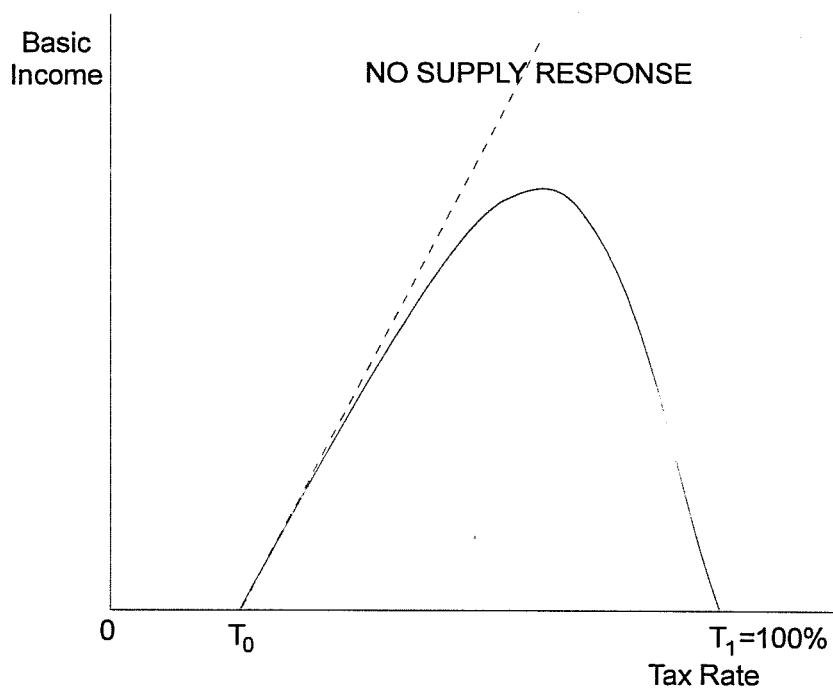
workers to work fewer hours due to the fall in real wages. The income effect describes the desire on the part of workers to consume more leisure (and consequently work less) given the increase in non-work related income and the assumption that leisure is a normal good.

A UBI scheme by definition implies an increase in the level of unearned income. To this end, it is clear that there would be an expected income effect within the framework of neo-classical labour response theory. However, it is questionable whether there would be any according substitution effect with a UBI. If it is assumed that the adoption of a UBI program is fiscally neutral relative to the previous welfare arrangement, then as with a demogrant, there would simply be a shift outward of the income restraint equal to the size of the UBI transfer. This represents a pure income effect with no implications for relative wages as the slope of the income restraint would be identical to that of the previous welfare regime. However, if it is assumed that the adoption of a UBI scheme represents an increased tax burden that is in the form of an income tax (as suggested by Kesenne in her survey research), then it is conceivable that net wages would indeed fall, re-introducing the prospect of a substitution effect.

If the greater tax burden were in the form of a lump-sum or 'head tax', then there would again be an unambiguous reduction in work incentives realized through a pure income effect.

The Laffer curve is depicted in figure (1)<sup>32</sup>. It examines the level of UBI that could be sustained from a given income tax rate. The horizontal intercept ( $T_0$ ) is positive in that a certain level of taxation is required in order to finance other government expenditures before any level of a UBI can be sustained. If there were no negative labour supply response, then the sustainable level of UBI would simply be a linear function of the income tax rate (as designated by the dashed line). However, according to the labour supply model, the substitution and income effects resulting from the introduction of a UBI will carry efficiency costs that in turn impact upon the sustainable level of a UBI transfer (solid line).

FIGURE (1)



As mentioned by Seccareccia and Iacobacci in their examination of the micro and macro issues of guaranteed income in Canada<sup>33</sup>, at the core of the negative labour supply response model are two questionable neo-classical assumptions. Firstly, the model assumes that workers (or potential workers) are unrestricted both in their ability to enter (or leave) the workforce and to determine (and set) their preferred hours of work. In reality, both these decisions are affected by factors exogenous to individuals' preferences, such as the availability of employment and the institutional constraints that restrict an individual's ability to determine how many hours he/she may work. Secondly, the expectation of a fall in desired hours of work due to an increase in non-work related income implies the assumption of a disutility associated with each additional hour of work. Such an assumption suggests that the 'wage' is the sole compensatory attribute of 'work' and that no other pecuniary benefits (such as skill acquirement or job satisfaction) exist. Both of these questions will be further addressed when considering the efficiency issues of labour flexibility and productivity. However, the legitimate challenges that can be made to these neoclassical assumptions should be factored into any consideration of the negative labour response model as an accurate representation of the efficiency costs that accompany income maintenance programs.

Given that the expected negative labour supply response stands as a primary detractor for the implementation of income maintenance schemes, it is not surprising that extensive experimentation has been carried out to evaluate this efficiency aspect of GAI proposals. The most noteworthy U.S. experience with income maintenance experiments came in the late 60's, early 70's as a response to Lyndon Johnson's 1964 'declaration of war on poverty'. The first large scale project was the 'New Jersey Graduated Work Incentive Experiment', soon to be followed by similar experiments in Indiana, Seattle, and Denver. While the environments of the test areas were varied (from rural to inner city), the test subjects were generally chosen from the lower income brackets.

In 1974, the provincial and federal governments of Manitoba and Canada signed on for a similar (but smaller scale) experiment that would be called the 'Manitoba Basic Annual Income Experiment' (MINCOME). Again, the participants were chosen from the lower income brackets with the official cut-off to participation being a maximum income of 150% of the poverty line.

Although the operational stage of the MINCOME experiment was carried out successfully, by 1979 the federal and provincial governments cited 'redirection of experimental objectives' as justification for terminating the project, archiving the accumulated data before any empirical analysis could be conducted. More than ten years later Derek Hum and Wayne Simpson of the

University of Manitoba rescued the archived data in order to develop empirical results for the MINCOME experiment concerning labour supply responses. These results (along with a comparison to the results of the U.S. experiments) were released in their 1993 article, "Economic Response to a Guaranteed Annual Income: Experience from Canada and the United States" and are reproduced in Table (I).

In 1990 S. Kesenne conducted a survey in Antwerp, Belgium to determine the effect of a proposed UBI program on labour supply of married females as secondary income earners. Unlike the North American experiments, Kesenne's survey was not limited to individuals of lower income brackets. The participants were questioned about their actual and desired hours of work given the implementation of a UBI-type scheme and were required to figure the labour earnings of their spouses into the determination of their total unearned income. Kesenne compared the estimated labour supply responses of this survey to the results of similar surveys in the U.K., Netherlands, and France, all of which are reproduced and included in Table (I). Table (I) compares the estimated parameters for the labour supply response (of the preceding experiments and surveys) in terms of their respective substitution elasticities and income elasticities.

**TABLE I**  
**LABOUR SUPPLY RESPONSE ESTIMATES FOR VARIOUS GUARANTEED**  
**AND BASIC INCOME EXPERIMENTS**

| EXPERIMENT LOCATION/GROUP<br>M: Married males<br>MF: Married Females<br>SF: Single Females | SUBSTITUTION<br>ELASTICITY | INCOME<br>ELASTICITY | STATISTICAL<br>SIGNIFICANCE<br>(Y/N) |
|--|----------------------------|----------------------|--------------------------------------|
| New Jersey M   | .09                        | -.02                 | N                                    |
| Rural M  | .09                        | .00                  | N                                    |
| Seattle-Denver M   | .09                        | -.14                 | Y                                    |
| Gary M   | .06                        | -.08                 | N                                    |
| All U.S. M   | .08                        | -.10                 | N                                    |
| Manitoba Mincome M   | -.07                       | -.03                 | N                                    |
| New Jersey MF  | -.08                       | -.28                 | N                                    |
| Rural MF   | .28                        | .01                  | N                                    |
| Seattle-Denver MF  | .14                        | -.12                 | Y                                    |
| Gary MF  | .37                        | .26                  | N                                    |
| All U.S. MF  | .17                        | -.06                 | N                                    |
| Manitoba Mincome MF  | -.08                       | .07                  | N                                    |
| Netherlands MF   | .79                        | (n.a.)               | (n.a.)                               |
| Netherlands MF   | 1.45                       | -.002                | (n.a.)                               |
| France MF  | .30                        | -.20                 | (n.a.)                               |
| United Kingdom MF  | .19                        | -.16                 | (n.a.)                               |
| Antwerp MF   | .229                       | -.394                | Y                                    |
| New Jersey SF  | (n.a.)                     | (n.a.)               | (n.a.)                               |
| Rural SF   | (n.a.)                     | (n.a.)               | (n.a.)                               |
| Seattle-Denver SF  | .12                        | -.15                 | Y                                    |
| Gary SF  | .14                        | -.20                 | N                                    |
| All U.S. SF  | .13                        | -.16                 | N                                    |
| Manitoba Mincome SF  | -.17                       | -.01                 | N                                    |

Again, it is acknowledged that in terms of the GAI experiments, their results cannot be applied directly to expectations for a UBI program. The substitution effect is anticipated with GAI yet is questionable under a UBI scheme. However, the statistical significance (or lack thereof) of the results concerning the income effect are of direct relevance for UBI, and will positively

contribute to the formation of labour response expectations for the proposal.

The results of the U.S. GAI experiments failed to validate the expectations of negative labour supply response theory. The estimated substitution and income elasticities suggest a negligible labour supply response. For males, the estimated aggregate labour supply reduction never exceeds 9%. Further, with the exception of the Seattle-Denver experiment, all of the results prove statistically insignificant.

Similarly, Hum and Simpson's research on the compiled Manitoba MINCOME data yielded results of a labour supply decrease of 1% for males, 3% for married females, and 5% for single females; again with all calculated elasticity coefficients being statistically insignificant.

The larger income and substitution elasticities exhibited by the data for married females suggest a greater labour supply response that is in keeping with theoretical expectations. Assuming that the income of their spouses represent an additional personal supplement, married females experience a greater relative separation of work from income, and thus are afforded an enhanced opportunity to reduce their supply of labour (or drop out of the labour force altogether) in that its proportionate effect on their overall income is less than that for males. Although such an assumption may be becoming less of a factor given the changing gender roles for income provision in Western society, at the

present time (and at the time of the experiments) it continues to be accepted.

Kesenne's survey research in Antwerp appears to lend further support towards a substantial reduction in married female labour supply accompanying the introduction of a UBI scheme. Kesenne's estimated labour supply reduction for married females falls between 20% and 27% when a UBI scheme is financed through a 42% income tax. The elasticity coefficients for the Antwerp survey are both found to be statistically significant. Results from other European surveys lend further support to the expectation that married females are more responsive in terms of their labour supply reduction than are males, although the range of the estimates is found to be very large. According to Kesenne, the results revealed a preference for both shorter work weeks and extended opportunities for part-time and term employment, although a minority of respondents expressed any desire to remove themselves from the labour force altogether. The North American research should be distinguished from Kesenne's work in that the former was comprised of actual community experimentation while the latter research was of simple survey format. With surveys one runs the risk that some participants may take the opportunity to express their dissatisfactions with their occupations or the current welfare structure in general. The expression of this dissatisfaction may bias the results in that when faced with a hypothetical scenario, their stated responses may be quite

different than their actual responses if placed in a real life situation. If such is the case, then the North American experimentation with GAI should stand as the more accurate representation, with the Antwerp survey exaggerating the size (for the respective categories) of the negative labour supply response.

This desire to misrepresent one's true intentions is echoed by A.B. Atkinson who notes, "Nearly all people who are asked grumble about it, but relatively few state that they work fewer hours or exert less than their best efforts to avoid tax"<sup>34</sup>

Atkinson's observation appears to accurately mirror the results of the GAI experiments considered in this section. As intuitively attractive as Negative Labour Response Theory may seem, actual empirical experimentation suggests that any labour supply response to an income maintenance proposal will be both negligible and insignificant. As a consequence, the dire economic efficiency costs that are assumed to accompany such programs are necessarily brought into question.

#### LABOUR FLEXIBILITY AND STATIC ECONOMIC EFFICIENCY

In contrast to the Neo-Classical argument that a UBI scheme would result in a negative labour supply response, advocates of a UBI suggest that such a program would in fact augment the flexibility of the labour market, encouraging labour force participation and providing positive externalities to the economy

in terms of economic efficiency. Towards a concise understanding of labour flexibility, Guy Standing suggests that,

"...the essence of labour flexibility is first, speed of adjustment to changes in production and patterns of labour use and, second, adaptability and availability of workers for the type of production taking place."<sup>35</sup>

#### **i) Wage Levels and Labour Patterns**

The general mechanism by which a UBI would enhance labour flexibility is summarised by S. Kesenne; "...Basic Income should reduce existing rigidities on the labour market, allowing more wage and worktime flexibility."<sup>36</sup> In terms of static efficiency, such a proposition has been embraced by conservative advocates who focus on the elimination of wage controls, which they assume (and require) would be discarded with the adoption of a UBI program. The popular conservative argument follows that,

"By partially separating income from work, the incentive of workers to fight against wage reductions is considerably reduced, thus making labour markets more flexible."<sup>37</sup>

Conservatives view this fall in labour's resistance to wage reductions (given the security of a UBI transfer) as corresponding with an elimination in minimum wage legislation that (according to them) such a UBI program would necessarily imply. Firms would thus be able to operate more competitively by adjusting their wage and labour costs 'more perfectly' to prevailing economic conditions, raising the level of economic efficiency and encouraging a state of full employment and greater economic

growth. In consideration of the worker, British conservative Samuel Brittan sees minimum wage legislation as a 'highly inefficient method of helping the poor', exacerbating their plight by effectively pricing them out of potential jobs. The idea that a UBI would lead to a general fall in wages should be seen as a benefit for workers, regardless of the 'misplaced moral indignation' with which it is viewed;

"This [the fall in wages] is not a criticism but a ground for hope. For one of the ideas is to make it easier for people to price themselves into work without driving them into abject poverty. The introduction of new, simple, low-paid jobs is the most promising quick method of reducing unemployment towards levels which we were used to in the post-war Golden Age."<sup>38</sup>

Even given such a scenario though, a more narrowly accepted argument can be made that the downward pressure on wages could be somewhat offset by the increase in labour's bargaining power that would accompany the greater separation of work from income. In that the consequences of being unemployed are less dire, workers could hypothetically withhold their labour with the intention of securing higher wages. Clearly, in such a state, wage levels would be dependent upon the resultant relative bargaining power arrangement between firms and labour that would follow any structural adjustments to an implemented UBI program. As with conservatives, some liberal advocates and observers anticipate the greater relative bargaining power as being secured by firms, who as history suggests, will be more organized and concerted in their efforts given the absence of government wage protection. For

these liberals, the abolition of minimum wage legislation is a proposition viewed as being unnecessary and dangerous given the negative impact that it would invariably have on worker productivity, and by extension, economic efficiency. Their arguments will be presented in the following section dealing with labour productivity.

Although the basis of much of the optimism that conservatives place in UBI is focused primarily on the elimination of minimum wage legislation (and its positive implications for the firm), the retention of such legislation under a UBI system does not neutralize the favourable labour flexibility impact that may be realized. The predicted separation of work from income still holds, diminishing the expected resistance on the part of workers to any labour re-structuring decisions on the part of firms. Therefore, firms may adjust their labour use and wage patterns with renewed levels of fluidity and expediency, the only restriction being a government-set wage floor.

Rather than focussing solely on the greater flexibility of workers in general, Guy Standing proposes that certain labour force groups that have thus far been constrained will experience augmented opportunities of labour force participation. With current Western systems elderly workers are encouraged to remove themselves from the labour force earlier than they may desire. By remaining in the labour force they necessarily incur costs by way of foregone pension income. The implementation of a UBI program

removes this disincentive to labour force participation and re-introduces into the economy these assets to production that otherwise would be lost.

Standing also envisions a sexual re-division of labour that would allow women (with their increased bargaining power) the opportunity to better align their labour force participation with their desires. As a consequence, there would be greater opportunity for men to contribute to domestic needs. Such a sexual re-division implies a gradual rationalization of an economy's labour resources, making it also a productivity issue. The rationalization of labour and its effect on worker productivity is an issue that will be explored further when considering UBI and dynamic efficiency.

UBI may also be viewed as a means of repatriating the burgeoning underground sector of the economy with the 'real sector'. As explained by Standing;

"...to avoid tax, overhead costs or loss of state benefits, there is an apparent growth of clandestine 'black economy' employment. A social dividend scheme might well help reverse these trends without discouraging productive activity. A BIG [Basic Income Grant] would encourage a more flexible social division of labour to the extent that it led to the legitimisation of clandestine work done to avoid loss of benefits or high marginal tax rates; it would also encourage some to take up petty work activities who are presently deterred by the fear of being caught."<sup>39</sup>

Underlying Standing's argument is the previously visited issue of abandoning a 'means tested' welfare scheme. Again, the unconditionality of the UBI transfer somewhat relieves individuals

of the incentive to misrepresent their incomes in order to secure higher welfare transfers.

**ii) Unemployment and Poverty Traps**

Of the more convincing and tangible arguments that UBI's advocates put forth is the positive effect it is expected to have towards the elimination of both unemployment and poverty traps.

In consideration of the unemployment trap, Charles Clark provides the following definition;

"The unemployment trap occurs when relatively high unemployment benefits combined with high rates of income tax (or rates of lost benefits due to increased earned income) remove the incentive to accept a job because it results in a net loss in income."<sup>40</sup>

It is argued that with a UBI, the unemployment trap should disappear. Whereas before, an individual may realize a greater income by not accepting a low paying job and subsisting solely on a schedule of welfare payments, under a UBI program the UBI transfer acts as a set income base. Any income made over and above this base (as from a low paying job) will not affect the size of the initial transfer and will only add to the individual's total income, hence the incentive to accept a low paying job is stronger. It is conceivable that depending on the chosen tax structure (ie. regressive) there could be a 100% clawback in the lower income brackets thus negating such incentives to accept work, but for a 'flat tax' (as suggested by Atkinson) the above argument should hold.

The poverty trap occurs when workers face a decline in their net income if they were to take higher paying jobs. Again the culprit is loss of welfare benefits and high marginal tax rates. Faced with this decline, workers choose to remain in these lower paying jobs in order to maximize their net income. As with the unemployment trap, under a system of UBI, 'welfare benefits' are represented by the set UBI transfer, implying that no loss of benefits would be incurred with the acceptance of a higher paying job. Iacobacci and Seccareccia, in their consideration of a GAI type program, acknowledge the positive economic gains that can be realized through the elimination of poverty (and unemployment) traps;

"It is important to recognize...that the elimination of poverty traps is closely intertwined with improving the competitiveness of the economy...The reduction of poverty traps constitutes, by definition, an improvement in work incentives."<sup>41</sup>

At present the systems in North America generally provide the options of either income from welfare (or unemployment insurance) or income from work, whereas a supplementation program (such as a UBI) would provide the unique option of a significant level of income supplementation while working. The immediate effect would be renewed incentives for workers (or unemployed welfare recipients) to enter those labour markets of high unemployment. "This can only increase the downward pressure on wages and thus contribute to the competitiveness of the economy."<sup>42</sup>

When given the choice in income supplementation programs between a NIT (or GAI) type scheme and a UBI, it can be contended that the UBI goes a step further in the elimination of poverty traps. In that UBI represents an ex-ante transfer rather than ex-post (as with an NIT), Philippe Van Parijs argues that a UBI scheme would eliminate a specific type of poverty trap known as the 'liquidity gap'. The liquidity gap occurs when a worker is discouraged from quitting their job in order to search for a better one due to the disruption in income flow that such a decision would entail. Although there is an implicit 'promise to compensate' with an ex-post NIT system, Parijs argues that it lacks the tangibility of an ex-ante UBI system with its regular, set, transfer payments. Given the security of a regular income flow while not working, workers would be more inclined to quit their jobs and search for better ones (if they so desire), again, enhancing the flexibility of the labour market.

### **iii) Labour Demand Issues**

In the ongoing debates on labour flexibility, attention has been focused disproportionately on the issue of labour supply. The optimism that UBI's advocates share in terms of labour flexibility may be somewhat tempered when considering labour demand side issues and the short term supply of job opportunities in specific labour sectors and regional locales. Mario Seccareccia, in his critique of the proposed (and since

implemented) two-tiered Canadian unemployment insurance system outlines the labour demand side approach;

"...the overall probability of becoming unemployed does not depend on any particular characteristic of the unemployed person but, rather, *primarily* on the state of the macro-job market."<sup>43</sup>

It has been commonly accepted (at least in the political realm) that structural unemployment, or the incongruity of appropriately skilled workers and job opportunities, has been the primary contributing factor to today's unemployment problem. Seccareccia suggests that while this may have been the case in the 60's and 70's, in the 90's the level of unemployment has remained relatively constant while the duration of time spent between jobs for those unemployed has increased. Unemployment in the 90's is of an involuntary nature, and can be described more as cyclical or 'demand-deficient' unemployment.

What does this imply for UBI as an effective tool for increasing labour flexibility? In a region characterized by a large and dominant seasonal employment sector, a UBI would, in the short-run, have little influence in a worker's efforts to secure better or more permanent employment since the alternative employment opportunities are simply not there. Further, from a 'justice oriented' perspective, the presence of demand deficient unemployment in a region would (in the short run) imply a failure of UBI to achieve one of its more philosophical objectives; that being, the equalization of individuals' opportunities. If

individuals residing in a region characterized by high levels of seasonal unemployment receive the identically set level of UBI transfer (and nothing more) as those living in a region characterized by more diverse and promising employment opportunities, then the former, by nature of their residence, are essentially disadvantaged in that they face a smaller employment opportunity set (relative to the latter) with no possibility of additional welfare compensation. Again, this observation only serves to detriment the *static* economic efficiency with regards to labour flexibility, for as Seccareccia acknowledges; "In the longer term, occupational choice, as well as region and industry and employment, would undoubtedly not remain fixed."<sup>44</sup>

#### LABOUR PRODUCTIVITY AND STATIC ECONOMIC EFFICIENCY

As previously mentioned, the major rallying point for conservative advocates of UBI is the elimination of minimum wage legislation that the implementation of such a program is assumed to entail. Liberal observers fear the prospect of a dissolved wage floor and a fall in wages in general. Their argument is that a UBI scheme would manifest itself as a subsidy for employers, affording them the opportunity and power to lower wages and "...adopt a low pay-low productivity employment policy instead of a high pay-high productivity employment policy."<sup>45</sup> By focussing solely on wages, the widely accepted view is that worker

productivity is positively correlated with the general wage level.

A fall in the minimum wage (and average wage) would imply a similar fall in worker productivity with negative repercussions for the efficiency of the economy as a whole. In that firms would reap the full benefits of the UBI transfers, (by way of diminished worker resistance to wage reductions) the resulting situation would also be characterized by a failure in the stated policy objective of the UBI transfer benefiting 'those justly entitled' for which it is has been designed and directed.

An interesting opposing argument is put forth by Monojit Chatterji and Roger Sparks in their consideration of a rise in unemployment income and its effect on wages, and by extension, worker productivity. While their argument was not tailored for UBI specifically, given that UBI by definition represents a rise in non-work related income it is acceptable to apply their discussion to such a case. As has been accused regarding the productivity implications of a UBI, the majority of shirking models state that a rise in unemployment income has a negative impact on worker productivity in that through the separation of work from income; "...a rise in unemployment benefits lowers the cost to workers of losing their jobs. This causes workers to lower their effort levels, hence reducing productivity."<sup>46</sup>

Chatterji and Sparks take a comparative statics approach to this issue and suggest that 'performance standard' is determined endogenously (whereas it is treated as an exogenous variable in

other shirking models). While they acknowledge the validity of the above negative productivity effect, they suggest that there are influences originating from the optimizing decisions of employers that work in the opposite direction. The method of reasoning of these influences is somewhat related to that of 'efficiency wage theory' which entertains the idea that firms choose to pay a wage above the market clearing level in order to encourage greater worker productivity, and as a consequence secure larger profits. In their competitive model, the negative productivity effect of a lowering in the cost of losing one's job is overcompensated by the decision on the part of employers to raise the level of wages and employment standards. Chatterji and Sparks refer to this as the 'optimal contract offer'. In their model, the result of this exercise in comparative statics is a net rise in the level of worker productivity. As with the 'efficiency wage theory' however, one negative effect from an increase in wages (above market clearing levels) is the expected according rise in the level of involuntary unemployment. Chatterji and Sparks further acknowledge that their model has yet to be validated through subjection to empirical testing.

As far as the expected rise in the level of involuntary unemployment is concerned, an argument can be made that this rise in unemployment could be tempered by a similar augmentation in the level of 'effective demand'. With a rise in wages, workers would realize an increase in their marginal propensity to consume,

creating a greater demand for consumption goods. This greater demand may in turn encourage innovation and steps to increase management efficiency in the interest of satisfying such demand. Given a large enough response to the new demand, it is hoped that the negative effect on employment may (at least to some degree) be cancelled out.<sup>47</sup>

While compelling arguments can be found that lend promise to advocates searching for a method of marrying UBI and higher worker productivity (and hence economic efficiency) in the short run, at present they lack empirical support and often run counter to popular expectations. UBI's advocates are more optimistic in their expectations of how UBI will serve economic efficiency in the dynamic sense, and it is to this end that attention is focussed in the following section.

## SECTION IV

### UBI AND DYNAMIC ECONOMIC EFFICIENCY

While UBI has intrigued observers from all points on the political-economic continuum, much of their interest has been fuelled by the hope that UBI may serve certain aspects of their specific ideological agendas. For conservatives this may be the destruction of minimum wage legislation; for those on the left, the focus may be a general augmentation of the level of relief directed towards the poor. For the more 'philosophically oriented' advocate however, UBI is more an issue of social justice, the attainment of which is secured through the equalization of individuals' opportunities. It is from the equalization of individuals' opportunities that most of the arguments for UBI's positive impact on dynamic efficiency flow. This section outlines the interlocking (and overlapping) arguments and theories that the justice-oriented advocate might turn to in order to fortify their assertion that UBI serves to raise the level of dynamic economic efficiency.

### ENDOGENEITY GROWTH THEORY, UBI, AND DYNAMIC EFFICIENCY

The area of 'normative economics' has seen a increase during the 90's of discussion focussing on the positive influence that equality may have on economic efficiency. Endogeneity Growth theorists have rejected the assumption of an 'equity-efficiency

trade-off' that enjoyed popularity among theorists and policy makers during the 60's and 70's. Such rejection has been partly due to weak econometric results extending from static allocative efficiency experiments concerning labour supply response (as has been presented earlier in this paper). More attune to their approach to the issue, the equity-efficiency trade-off has been rejected in light of the consideration that 'equality' may have a positive impact on "dynamic efficiency in the growth of output over time"<sup>48</sup>.

Lars Osberg outlines some of the arguments of 'New Endogenous Growth Theory' in "The Equity/Efficiency Trade-off in Retrospect" (1995). An argument of particular relevance for UBI is that the current system of bequests serves to perpetuate socio-economic inequalities and inefficiencies over time. While on an aggregate level the size of bequests is quite large, the distribution of these bequests is highly skewed so that relatively few individuals receive significant amounts of wealth through this source. This inequitable distribution is argued to have dire effects on the development and growth of human capital in terms of education and skill acquisition/utilisation;

"In a model of overlapping generations characterized by intergenerational altruism, even if all individuals are of equal ability and identical preferences, the bequest of the parent determines whether the child will be a skilled or unskilled worker, which in turn determines the size of the child's bequest to the grandchild."<sup>49</sup>

The essence of the argument is that the current system of bequests creates a situation whereby some individuals have greater opportunities (by way of larger bequests) than others in terms of attainable levels (and qualities) of education and/or vocational training. In that there is a positive correlation between the size of bequest and the state of an individual's wealth (or impoverishment) one can turn to a compelling illustration of Arthur Okun's. An American panel report in 1973 indicated that among male high school graduates of similar academic performance the proportion of those continuing on to college education was approximately 25% lower for those in the quarter of the lowest socio-economic class than in the highest. Clearly, rather than continued education being a function primarily of academic performance, personal (and familial) wealth is also of significant influence. As far as the 'desire' to continue one's education, it is not unreasonable to assume that it is also related to one's wealth in that the 'desire' may be influenced by what one can realistically attain (given the wealth constraint).

In terms of dynamic efficiency endogeneity theorists argue that an inequitable initial distribution of wealth, perpetuated by a familial system of bequest, leads inevitably to an underdevelopment of human capital. It follows that with a retarded average level of education, work skills and knowledge are compromised, which in turn impacts negatively on worker productivity. The same concern was expressed in 1975 by Okun in

his review of the various negative economic repercussions for a society characterized by unequal opportunities;

"And the most important consequence is the inadequate development of the human resources of the children of poor families-which, I would judge, is one of the most serious inefficiencies of the American economy today."<sup>50</sup>

It is of interest to recall that Okun argued the existence of an equity-efficiency trade-off. However (as previously discussed), his criticisms were directed more towards the efficiency (or lack thereof) of socialist command economies. For Okun, the critical issue is 'what is to be equalized'. When the equalisandum is opportunities rather than outcomes, his expectations in terms of efficiency implications are markedly more optimistic.

The above arguments are particularly pertinent with respect to UBI in that it has been proposed that 'bequests' are one logical source from which a UBI program may be funded. To recapitulate the earlier philosophical argument; in that no individual has earned the bequest he receives, the augmentation of wealth from this source represents an unjust advantage over others. To maintain a level playing field in terms of advantage or opportunity, bequests should be appropriated and redistributed equally to all individuals as a component of the UBI transfer. Endogeneity Growth theorists' arguments for bequests allow UBI advocates the opportunity to marry their philosophy with dynamic efficiency.

Another compelling endogeneity approach concerns the ability of individuals to save, invest, and borrow. Okun considers the unfair disadvantage faced by the poor in terms of their investment options due to their lack of financial assets. Faced with the same investment project, the poor are twice handicapped (relative to the wealthy) in terms of their ability to pursue such projects.

A wealthy individual is more likely to be approved a loan in that their personal assets (partly due to bequests) indicate a 'superior ability to repay' than for a poorer individual. Similarly, when offered a loan, the poor more often than not face significantly higher rates of interest due to the greater risk with which they are associated. The poor clearly face unequal opportunities relative to the rich in that they are effectively 'shut out' from access to capital.

From the perspective of the financial sector, there is an obvious cost involved to extending loans to individuals that have a higher probability of default, and thus, a potential disruption in the efficiency of the sector. However, it is argued that the source of this cost should be traced back to the chronic state of income inequality. If all individuals had the same opportunity to invest, than real gains in efficiency and growth could be realized through an increase in aggregate investment.

Perotti suggests that such an approach is not universal in terms of the economies where it may be applicable. Depending on the state of the wealthy, the positive efficiency effects of the

income re-distribution (through a vehicle such as UBI) may not materialize, or worse, move in the opposite direction;

"If the well off are 'sufficiently wealthy' then even with redistribution they will be capable of investing but at the same time they will allow the less well-off to also invest, something the latter could not have done prior to the redistribution. In this case then, redistribution stimulates growth and per capita income."<sup>51</sup>

In the opposing scenario, if the advantaged were not sufficiently wealthy then an income redistribution may constrain all parties from investing at a significant level; "...thus creating a sort of vicious circle of poverty, triggered by the pursuance of an objective of equity that in fact impoverishes all."<sup>52</sup>

Perotti also calls for a measure of balance to be brought to any income redistribution. To this end he incorporates the previously discussed issue of 'effective demand'. While the redistribution cannot be excessive enough that it cripples investment, it also cannot be too small so that it eliminates the possibility of generating new demand for high tech goods.

If one subscribes to the preceding arguments the main implication for a UBI proposal is that the simple implementation of such a program would not in itself guarantee positive dynamic efficiency spinoffs. To realize such positive efficiency results, UBI would have to be implemented in an economy that is of sufficient wealth, and that has an initially large and robust wealthy class. Further, the size of the UBI transfer could not be arbitrary. If it is excessively large (as outcome egalitarians

would prefer), then investment would be compromised; too small, and new 'effective demand' could fail to be realized. Hence, both the state of the economy and the design of the program are of prime importance if UBI is to positively impact on economic efficiency.

#### RATIONALIZATION OF THE LABOUR FORCE

One of the primary objectives of any welfare scheme is to alleviate the plight of society's poorest. An implicit objective is to allow the poor the opportunity to put forth their best work efforts and contribute to the productivity, efficiency, and growth of the economy. In order to achieve this implicit goal, a welfare scheme must correctly identify the needs and desires of individuals, thus equipping them with the necessary means to maximize their individual levels of productivity. An inherent flaw in means-tested welfare schemes is that they are required to interpret these needs and desires and transform them into appropriate policies. Given that the actual needs and desires (and according weights assigned) vary widely from individual to individual, it is unlikely that policies will serve the interests of each individual either fully or equally. Policy makers are therefore forced to take a somewhat 'paternalistic' approach to policy design, and prospective recipients are encouraged to either misrepresent their qualifications and/or compromise their true needs and ambitions in order to better fit the policy. Such a

situation represents an incongruency between 'the illness and the remedy offered'.

Advocates for UBI suggest that their proposal represents a more efficient welfare alternative in that it essentially transfers the responsibility of policy design from the traditional policy maker to the individual. Samuel Brittan sees this as a preferred arrangement in that; "Individuals should be treated as if they are the best judge of their own interests."<sup>53</sup> The assumption that individuals are the best judge of their own interests is not unreasonable in that they possess an asymmetric information advantage over policy makers with regards to the awareness of their needs and desires. The reasoning follows that with a set and uninterrupted flow of UBI transfers, individuals would be better able to adjust their spending and investment patterns (be it financial or in terms of human capital development) so that they coincide with their interests 'more perfectly'. If individuals' interests are better served, then they are in turn better equipped to offer superior work efforts, raising their level of productivity on an individual level, and economic efficiency at an aggregate level.

Not unrelated to the above argument, it is also hoped that UBI will afford individuals the opportunity to pursue the occupation of their choice. As earlier mentioned, the liquidity gap and poverty trap often discourage workers from leaving their current jobs (even if they so desire) in the short run due to the

disruption in income flow and/or the real income loss that could result. As a consequence, workers often remain in jobs or positions that they find unfulfilling. Such a situation lends support to the Neo-classical assumption that there is a disutility associated with time spent at work.

UBI endeavours to minimize any work-related disutility by affording individuals a better opportunity to engage in the employment of their choice. Given the security of a set and continuous stream of UBI transfers, individuals may choose to remove themselves from the labour force (for short or protracted periods of time) in order to engage in education or skill development that coincides with their preferred career choice. The opportunity to engage in such skill development will in turn increase their chances of attaining their preferred occupation. The security of UBI would allow individuals to be 'more selective', further increasing the probability that their eventual employment is in keeping with their interests. In that UBI facilitates the separation of work from income, wage (or salary) becomes less of a factor in the choice of employment. If there are workers who previously wanted to take a lower paying position but did not because of the proportionate fall in total income they would suffer, then the introduction of a UBI may afford them the luxury to do so. If these arguments hold, then the long term result would be a rationalization of the labour force in that workers would reorganize themselves into occupations that coincide

with their interests, thus diminishing the level of disutility associated with time spent at work. If there is a general increase in the level of job satisfaction, then there should be a similar increase in the level of worker productivity, again with positive implications for the efficiency of the economy as a whole.

There is an underlying assumption upon which the success of the arguments outlined above rely. It is an assumption about human nature. Are individuals naturally motivated to put forth their best efforts (given the opportunity) or are they inherently lazy.

Conservative critics of UBI fear that the unconditional nature of the transfer would encourage individuals to abandon work and engage solely in leisure. The exodus of individuals out of the work force would in turn lead to an economic collapse characterized by falling output and demand. The crisis would come full circle as the size of the UBI transfer would fall along with the tax base. In such a scenario, UBI is viewed as an economically unsustainable and destructive welfare option.

The opposing view is that individuals are more inclined to put forth their best efforts. It can be argued that this perception may be confirmed by observing the competitive nature of the gainfully employed. If the poor are perceived to be lazy, it may be due to the opportunities that they lack. If given the opportunity to compete as an equal, their efforts may then become

evident. It is this issue and its possible implications for efficiency that are discussed in the final part of this section.

#### A MORE COMPETITIVE LABOUR FORCE

One of the primary philosophical objectives of UBI is the equalization of individuals' opportunities. But if such an objective was attained, how would that influence the interaction of individuals in the labour market?

For Okun, the equalization of opportunities is analogous to the establishment of a 'fair race'. If the current socio-economic system is viewed as being unjust (in terms of opportunities) then one can liken it to an 'unfair race'. In terms of their potential, how do two competitors perform when a race is unfair? It may be argued that both the handicapped competitor and the advantaged competitor exert a level of effort that falls short of their respective potentials. The handicapped competitor chooses not to exert him/herself for even his best efforts will not win him the race. For the advantaged competitor, victory is assured hence there is no need to put forth his best efforts. If now, the race is made fair, then both competitors have an equal opportunity to claim the prize. As a consequence they will put forth their best efforts in order to 'win'. If such an example is analogous to the interaction of the labour market, then one can expect that the equalization of opportunities will lead to more intense competition for jobs. It follows that this increased competition

will inspire workers to put forth superior efforts, therefore increasing the average level of worker productivity. The question is whether this is an accurate representation of the nature of the labour market given the equalization of opportunities. Okun notes that there are those that believe that the labour force (and society in general) should be characterized by co-operation rather than competition. In response to these claims, he acknowledges the ethical merit of 'co-operation' and its importance as a social component, but questions its long term sustainability as the sole determinant of labour interaction;

"It [co-operation] may well be desirable to effect some shift in the mixture of competition and co-operation. But a major deemphasis (sic) of competition means forgoing individualistic incentives; and that, in turn, involves either a tremendous sacrifice of efficiency or else the creation of alternative incentive systems."<sup>54</sup>

As an efficient incentive system, it could be argued that competition has been a dominant component of human interaction throughout history. It shapes our environment and influences our behaviour. Given the opportunity, humans may be naturally inclined to engage in competition. If the race is fair, then the maximizing behaviour of the individual is to put forth their best efforts in the knowledge that 'success' is a quite attainable objective. If the race is not fair, and it is assumed that individuals are cognisant of this fact, then the individual may strive to maximize his income through different means. For the disadvantaged individual, a decision to compete for higher income

through employment may be outweighed by the probability that he/she will fail due to such disadvantages. As a consequence, optimizing behaviour for the disadvantaged may include a mix of low income employment (or none at all) and any welfare transfers to which they qualify.

If we assume that a significant portion of the potential work force are 'shut out' from competition for higher income jobs, then it could be argued that there still exists significant levels of competition for these jobs amongst the advantaged. Again, one could respond by arguing that such a situation represents *limited* competition. By equalizing opportunities and introducing the previously disadvantaged into the 'race' you are increasing the level of competition, and as a consequence increasing the level of efficiency.

Even if the above arguments hold true, it still remains questionable whether an implemented UBI would be successful in its objective of equalizing individuals' opportunities. In the short term, there would still exist socio-economic classes, and employment advantages (or disadvantages) to be realized through membership to such classes. Similarly, the occupation and economic status of the parent often influences the occupational decisions of their children, implying the perpetuation of familial income and occupation patterns. A UBI cannot on its own eliminate such inequities of opportunity. Advocates of UBI generally acknowledge this flaw, but argue that over time UBI will serve to

facilitate the mobility between classes and reduce the influence of any presently constraining familial occupational patterns. In the long run, it is argued, the objective of equalized opportunities can be attained. The question then becomes, can UBI prove a sustainable welfare alternative in the short run. If not, then it will be impossible to either validate or refute its advocates' claims.

## CONCLUSION

The decision as to the type of welfare program that a government implements is dependent upon the perceived 'ethical' and 'economic' value of the reform. A reform that possesses one of the above requirements, but not the other, will have little chance of implementation in the 'Western democratic state'. In the case of 'Unconditional Basic Income', some of its more philosophically oriented advocates would argue that even if there were minor economic compromises, that would be no reason to eliminate UBI from consideration as a welfare option given the positive implications it would produce for 'socio-economic justice'. However, the popular view expressed by the electorate suggests an unwillingness to embrace any reform that is assumed to carry heavy economic costs. Therefore, if a reform such as UBI is to have any hope of making the transition from theory to implementation, it must necessarily address the issue of economic efficiency.

This paper considers the popular concerns held about the efficiency implications of welfare reform generally, and applies them to UBI specifically. It further offers a summary of the arguments that can be made supporting the possibility that UBI may positively impact on economic efficiency (both static and dynamic). It is noteworthy to add that this paper did not engage in comprehensive discussion of the *degree* of financing of a UBI program. Along with the method of financing, the degree of

financing is also subject to the specific philosophies and agendas of the varied politico-economic groups that find such a proposal attractive. Welfare egalitarians would obviously favour a large tax burden in order to maximize the UBI transfer while conservative advocates would choose a more modest financing scheme in order to satisfy their objectives. Clearly, the degree of financing has real implications for economic efficiency, and attention to this issue would be more appropriately served by a focussed study. This paper is more devoted to the general theoretical responses of individuals to the commonly accepted administrative *characteristics* of a UBI proposal.

In the debate between those who advocate UBI and those who oppose such a measure, UBI's advocates are burdened with a disadvantage in that they possess little empirical evidence that may be used to validate their ambitious theoretical expectations.

To date, empirical endeavours have been limited to simple surveys, with no participatory experimentation. There is currently an attempt to set up an experimental UBI scheme in the Dutch city of Dordrecht, but any results (favourable or poor) derived from such an experiment must necessarily be held in question due to the *nature* of UBI's expected efficiency implications. Although there are short-term expected efficiency advantages such as the elimination of unemployment and poverty traps (and these may indeed be observed through such an experiment), many of UBI's expected positive results are dynamic

in nature and would take a longer time period to be realized (if at all). If a UBI experiment is restricted in its duration then such dynamic results may be denied the opportunity to evolve. Further, if the participants are cognisant of the limited duration of the experiment, then they may treat the UBI transfers as a 'windfall' rather than as a lifelong stream of income (as it is intended). Such a perception would influence their expenditure and savings patterns, necessarily biasing any empirical results produced.

Interestingly, there are examples of government transfer schemes that share many of the features of a UBI proposal. One such program is the 'Alaska Permanent Fund and Dividend Distribution Program' which was set up in 1977. The Alaska Permanent Fund is a state owned savings account consisting of 20% of all royalty payments collected from land based oil production on state property at Prudhoe Bay. "Since 1982, the interest on this account has been distributed to each Alaska resident in the form of a uniform dividend whose level has oscillated from year to year between \$300 and \$1000 per annum."<sup>55</sup>

While this program represents a reasonable depiction of the *mechanism* of UBI, it would be difficult to use it as a basis for empirical analysis given the small relative size of the transfer.

It would appear that if UBI is to have any chance of implementation, its hopes must rest with a strong and concerted effort to promote the theoretical benefits that it may hold for

economic efficiency. For if the electorate can not be convinced of UBI's merits, the opportunity may never arise to validate its claims.

## Endnotes

- <sup>1</sup>Van Parijs, Philippe, "Justice and Efficiency", in Arguing For Basic Income, 1992, p.217.
- <sup>2</sup>Walter, Tony, and Withorn, Ann "Basic Income: A Radical Reform? Re-Introduction to a Concept", Journal of Progressive Human Services, 1993, p.20.
- <sup>3</sup>Gunderson, M., and Riddel, W., Labour Market Economics (3<sup>rd</sup> Edition), p.43.
- <sup>4</sup>Clark, Charles, and Kavanagh, Catherine, "Basic Income, Inequality, and Unemployment: Rethinking the Linkage between Work and Welfare", Journal of Economic Issues, 1996, p.403.
- <sup>5</sup>Van Parijs, Philippe, "Competing Justifications of a Basic Income", Arguing For Basic Income, 1992, p.4.
- <sup>6</sup>Mill, John Stuart, Principles of Political Economy, 1899, p.210.
- <sup>7</sup>Brittan, Samuel, Capitalism With a Human Face, 1995, p.236.
- <sup>8</sup>Reynolds, Brigid, and Healy, Sean, (edt.), An Adequate Income Guarantee for All, 1995, p.56.
- <sup>9</sup>Reynolds, B., and Healy, S., p.56.
- <sup>10</sup>Vives, Juan Luis, "De Subventionem Pauperum, Sive de Humanis Necessitatibus" (1526), De l'Assistance aux Pauvres, Bruxelles: Valero et Fils, 1943, 290p.
- <sup>11</sup>[http://www.econ.ucl.ac.be/ETES/BIEN/First\\_Guaranteed\\_Income\\_Scheme.html](http://www.econ.ucl.ac.be/ETES/BIEN/First_Guaranteed_Income_Scheme.html)
- <sup>12</sup>Paine, Thomas, Complete Writings, 1945, p.611.
- <sup>13</sup>Paine, T., p.610.
- <sup>14</sup>Van Parijs, Phillippe, "Competing Justifications of a Basic Income", Arguing for Basic Income, p.13. This is a quote of Phillippe Van Parijs, representing his interpretation of Steiner's arguments.
- <sup>15</sup>Steiner, Hillel, "Three Just Taxes", Arguing For Basic Income, 1992, p.83-84.

- <sup>16</sup>Clark, Charles, and Kavanagh, Catherine, "Basic Income, Inequality, and Unemployment: Rethinking the Linkage between Work and Welfare", Journal of Economic Issues, 1996, p.404.
- <sup>17</sup>Van Parijs, Phillipe, "Why Surfers Should be Fed: The Liberal Case for an Unconditional Basic Income", Philosophy and Public Affairs, 1991, p.124.
- <sup>18</sup>Steiner, Hillel, "Three Just Taxes", Arguing For Basic Income, 1992, p.88.
- <sup>19</sup>Okun, Arthur, Equality and Efficiency: The Big Tradeoff, 1975, p.76.
- <sup>20</sup>Okun, A., p.76.
- <sup>21</sup>'Equity' is used to indicate the lessening of income differentials generally through welfare reform.
- <sup>22</sup>Okun, Arthur, Equality and Efficiency: The Big Tradeoff, 1975, p.64.
- <sup>23</sup>Okun, A., p.56.
- <sup>24</sup>Okun, A., p.48.
- <sup>25</sup>Baldassari, M., Paganetto, L., and Phelps, E., Equity, Efficiency and Growth: The Future of the Welfare State, 1996, p.46.
- <sup>26</sup>The summary of these arguments is found in; Van Parijs, Phillipe, "The Second Marriage of Justice and Efficiency", Arguing for Basic Income, 1992, p.222.
- <sup>27</sup>Van Parijs, P., p.222.
- <sup>28</sup>Van Parijs, P., p.222.
- <sup>29</sup>Walter, Tony, and Withorn, Ann, "Basic Income: A Radical Reform? Re-Introduction to a Concept", Journal of Progressive Human Services, 1993, p.21.
- <sup>30</sup>Gunderson, M., and Riddel, W., p.40.

- <sup>31</sup>Economic Recovery Commission, Information Paper on a Proposal for a New Income Security System, Government of Newfoundland and Labrador, 1993, p.8.
- <sup>32</sup>Atkinson, A.B., Public Economics in Action: The Basic Income/Flat Tax Proposal, 1995, p.6.
- <sup>33</sup>Seccareccia, Mario, and Iacobacci, Mario, "Full Employment vs. Income Maintenance: Some Reflections on the Macroeconomic and Structural Implications of a Guaranteed Income Program for Canada", Studies in Political Economy, 1989, p.150.
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- <sup>37</sup>Clark, Charles, and Kavanagh, Catherine, "Basic Income, Inequality, and Unemployment: Rethinking the Linkage between Work and Welfare", Journal of Economic Issues, 1996, p. 401.
- <sup>38</sup>Brittan, Samuel, Capitalism with a Human Face, 1995, p.245.
- <sup>39</sup>Standing, Guy, "Meshing Labour Flexibility with Security: An Answer to British Unemployment?", International Labour Review, 1986, p.102.
- <sup>40</sup>Clark, C., and Kavanagh, C., p.401.
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- <sup>43</sup>Seccareccia, Mario, "The Case Against a Two-Tier Benefits System for Canada's Unemployed", Canadian Business Economics, 1995, p.53.
- <sup>44</sup>Seccareccia, M., p.57.

<sup>45</sup>Clark, C., and Kavanagh, C., p.402.

<sup>46</sup>Chatterji, Monojit, and Sparks, Roger, "Real Wages, Productivity, and the Cycle: An Efficiency Wage Model, Journal of Macroeconomics, 1991, p.496.

<sup>47</sup>This argument for 'effective demand' can be found in; Cheung, Siu-keung, The Impact of Minimum Wage on Productivity in Ontario, 1963-1983, 1990, p.43.

<sup>48</sup>Osberg, Lars, "The Equity/Efficiency Tradeoff in Retrospect", Canadian Business Economics, 1995, p.5.

<sup>49</sup>Osberg, L., p.6.

<sup>50</sup>Okun, A., p.81.

<sup>51</sup>Baldassari, M., Paganetto, L., and Phelps, E., Equity, Efficiency and Growth: The Future of the Welfare State, 1996, p.264.

<sup>52</sup>Baldassari, M., Paganetto, L., and Phelps, E., p.264.

<sup>53</sup>Brittan, S., p.271.

<sup>54</sup>Okun, A., p.86.

<sup>55</sup>[http://www.econ.ucl.ac.be/ETES/BIEN/Alaska\\_Program.html](http://www.econ.ucl.ac.be/ETES/BIEN/Alaska_Program.html)

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