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13

The Second Marriage of Justice and Efficiency

Philippe Van Parijs

The current debate between advocates and opponents of the introduction of a *basic income*, of a grant unconditionally paid to every adult citizen, constitutes, in my view, one of the most important controversies about the future of European welfare states.[1] One intriguing feature of this debate is that the advocates of basic income seem increasingly driven into – some might prefer to say hopelessly stuck in – an ambitious attempt to show that a basic income is required for the sake of both justice and efficiency. Such an attempt is not unprecedented. Several contributors to the prehistory of the contemporary discussion have similarly claimed that concern with output growth and respect for people's rights both demand that a basic income be introduced. To quote just one of the most prominent among them, writing nearly half a century ago:

> I regard the social dividend as an indispensible instrument, under modern conditions of large-scale production . . . for insuring that production shall be pushed to the limits set by the demand for leisure, and not held back by allegations that it pays better to leave productive resources unused when they cannot be so employed as to show a 'profit' over total 'financial costs'. I regard it, too, as a necessary recognition of the essentially social character of production, which depends not only on the current efforts of the individual producers, but also on the accumulated stores of knowledge which are the common birthright of us all.[2]

But as the debate on basic income is gaining momentum throughout Western Europe, the revival of this twofold ambition prompts two questions. First, why do basic income supporters set themselves such an arduous task? Might it be because they have no choice, because the reform they are putting forward would not stand a chance of ever getting through if they could not plausibly argue that it would foster both justice and efficiency? Secondly, assuming that this is indeed the case, is there any prospect that basic income supporters may meet the challenge thus posed? Is there any potential for demonstrating that the introduction of a basic income might marry justice and efficiency?

I do not intend to provide a cogent answer to either of these questions here. More modestly, I shall first spell out the rough conjecture I have just adumbrated as a possible answer to the first question – that the presence of a plausible case on the grounds of both justice and efficiency constitutes a necessary condition for any major reform in the field of social policy. In the process of spelling it out, I shall probe somewhat the plausibility of this conjecture, bearing in mind some stylized facts about the rise of modern welfare states in the postwar period, putatively the first major marriage of justice and efficiency. Secondly, I shall argue that if basic income is to have a chance of meeting the strong twofold condition stipulated in this conjecture – if the answer to the second question is to be positive – some major shifts are required in the way one usually thinks about justice and efficiency in connection with social policy. But once these shifts are made – and the argument for making them is, I believe, compelling – the chance that basic income might be able to meet the challenge is greatly enhanced.

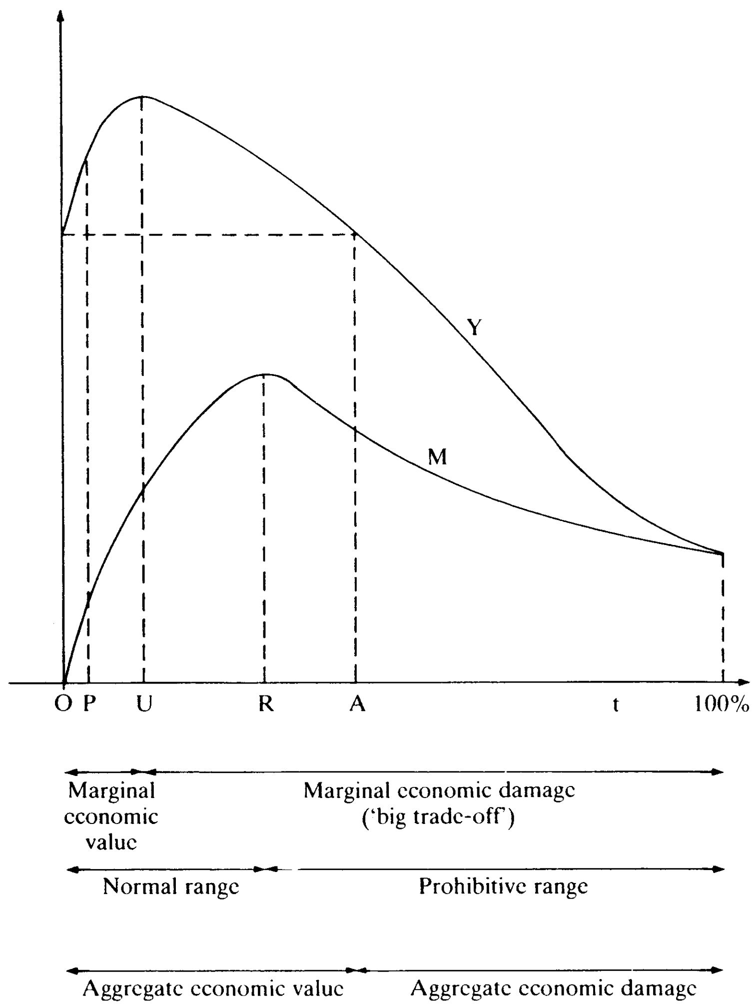
1. Laffer Curves

Which redistributive social reforms are politically feasible under democratic capitalism? Typical answers to this question include median-voter models and analyses of the functional requirements of the capitalist state. Median-voter and related approaches have the disadvantage of yielding no determinate result under a wide variety of assumptions – for example, as soon as non-linear tax schedules are allowed in. They also face the frequent objection that a head count in terms of who gains and who loses cannot be what determines political feasibility, both because of pervasive uncertainty – many individuals and households simply do not know whether they would fare better or worse, as a result of the measure being introduced, beyond the very short term – and because of the massive role of what is often referred to as ideology – the embracing of a cause by political and other organizations, and all the rhetorics generated around this cause to mobilize current members and enlist new ones.[3] Those who wish to invoke the functions of the capitalist state, on the other hand, have a hard time coming up with a plausible mechanism that would underpin even an approximate correspondence between

what is politically feasible and what is optimal for the working of a capitalist economy.[4] The rough conjecture I want to offer as an alternative worth investigating is that *if a deliberate reform*[5] *is to succeed*, it must simultaneously satisfy two conditions: *it must be widely regarded as having both 'ethical value' and 'economic value'*; it must be widely perceived as marrying justice and efficiency. This conjecture would explain why the advocates of a major reform like the introduction of a basic income feel compelled to provide such a twofold case. But it may also, duly refined, account for a number of important facts about the actual development of the welfare state.

I now undertake to clarify this conjecture, by introducing a highly simplified abstract framework that will prove useful in discussing both economic and ethical issues. The following diagram (Figure 13.1) portrays the interaction between social policy and the economy in a two-dimensional space.[6] It aims to give a precise and intuitive interpretation to both the 'ethical value' and the 'economic value' of a reform of social policy, as these expressions have just been used to state the conjecture.

Let us first imagine a society in which (i) all public spending is on social policy, (ii) all public spending is financed by a uniform tax on all incomes, and (iii) social policy consists exclusively in guaranteeing a *conditional* minimum income administered as follows: anyone who is unable to reach this minimum level through her/his own activities is given a transfer payment that makes up the difference.[7] Against the background of these three assumptions, Figure 13.1 can be interpreted as follows. The horizontal axis represents the *uniform rate of taxation* (t), which is also the proportion of GNP which is being allocated to the guaranteed minimum income. On the vertical axis, two variables are represented. One is the per capita *level of the Gross National Product* (Y) which can be expected to obtain for a given rate of tax, assuming that (1) all relevant exogenous factors (technology, foreign demand, etc.) remain unchanged; and (2) enough time has elapsed for the choice of the tax rate to produce all its effects.[8] The second variable represented on the vertical axis is the *expected level of minimum income* (M). Its value can be inferred from the chosen tax rate and the induced *per capita* GNP (which together determine the tax yield) on the basis of the gross income distribution. I shall return later to the determinants of the two curves. Let me just note, at this stage, that the inferred M-curve can safely be conjectured to have both an upward and a downward slope. (This would be the case even if the Y-curve decreased monotonously.) As the rate of taxation reaches a certain point (R), the tax yield starts to fall, and hence also the level of the minimum income financed by it. The M-curve is, of course, a variant of the *Laffer curve* of supply-side economics.[9] Using the latter's terminology, it can be said that the tax



Y: Expected *per capita* GNP (or, more generally, expected average disposable income);
M: Expected minimum income (or, more generally, expected average replacement income);
t: Uniform rate of taxation (or, more generally, share of transfers in disposable income).

Figure 13.1 The simple economics of social policy

rate t lies in the *normal* range as long as increasing it leads to a higher expected level of minimum income – as is the case in Figure 13.1 between O and R. The tax rate t lies in the *prohibitive* range as soon as

increasing it leads to a lower expected level of minimum income – as is the case between R and 100 per cent.

If we want this framework to be useful to the analysis of actual societies, the three variables of our diagram must be given a somewhat more complex interpretation. First, let us lift the assumption that (i) all public spending is on social policy. The general pattern of the diagram can then remain intact, providing that Y is now no longer interpreted as GNP *per capita*, but as the *average individual's disposable income*, the sum of *per capita* post-tax wages and profits and *per capita* transfers while t is no longer the overall tax rate but only the ratio of aggregate transfers to aggregate disposable income – or, for short, the *share of transfers*. In conducting the counterfactual exercise required for the specification of Y, the most sensible simple assumption to make about public spending on other items is probably that it remains invariant in respect of both structure and relative size (in relation to disposable income).

Next, let us lift the assumption that (ii) all public spending is financed by a uniform rate of tax t. Taxation can be regressive or progressive as well as proportional. It can operate at different rates for capital and labour income. It can be applied to expenditure or to value added as well as to personal income. It can take the form of an implicit inflationary tax, and so on. We should interpret t, then, as an average rate, as the ratio of what is collected for the sake of transfers to total disposable income. This average rate no longer matches a uniform marginal rate, as it did before the assumption was lifted. What level of Y, and hence of the tax yield, will be associated with a given average rate of taxation will, of course, depend on how the tax is levied. If the supply of capital is far more elastic than the supply of labour, for example, the expected average disposable income (Y) will be far lower if a given average rate of taxation is implemented through a tax on profits than through a tax on wages. In attempting to determine the shape of the Y-curve (and hence of the M-curve), the most sensible assumption is that the structure of taxation is chosen in such a way that the expected minimum income is maximized, for any given value of the average tax rate t. This will tend to coincide with the structure of marginal tax rates that maximizes – with a given average tax rate – average disposable income or *per capita* GNP.[10]

Finally, one needs to lift the assumption that (iii) social policy exclusively consists in providing an individual minimum income. To start with, given that people's material needs are highly sensitive to their household circumstances – to whether they are single, married, single parents, and so on – one could, rather, view the aim of social policy as providing a minimum income to each household. The M-curve could then be interpreted as the minimum income granted to a given type of household – say, a single person – but also, *when multiplied by a coefficient reflecting these differences in needs*, as the minimum income granted to other types of household. Y should then be analogously interpreted as average household income, using a similar set of coefficients. More significantly, one might want to modify the initial picture by introducing the notion that social policy is concerned more with 'income security' – social insurance through earnings-related benefits – than with 'basic security' – the securing of a minimum income. The M-curve should then be interpreted, rather, as the average expected income after the occurrence of relevant 'accidents' (involuntary unemployment, retirement, disability, sickness, and so on). I shall speak of the *level of replacement income* to refer to some indicator of this average.[11]

These more complex interpretations of the variables that occur in our diagrams are necessary to bring out the latter's relevance to the welfare state as it actually exists, alongside other public expenditures, financed in a variety of ways and aiming at income security no less than at basic security.[12] But they are all consistent with the general pattern of interaction portrayed in Figure 13.1. Whichever interpretation is given to t, Y and M, we are likely to end up – for reasons to be outlined shortly – with Y-curves and M-curves shaped roughly as in these diagrams.

2. The Economic Value of Social Policy

This simple abstract framework provides us with a useful background for clarifying the notions of 'economic value' and 'ethical value', of 'justice' and 'efficiency', as they appear in our initial conjecture. From the 1930s onwards, some people have been arguing forcefully for the 'economic value of social policy'.[13] This claim has been understood in two distinct ways. In what I shall call the *aggregate* sense, the claim is that economic performance (as captured by Y) is better than it would have been if nothing whatsoever had been spent on social policy ($t = 0$). In Figure 13.1, social policy is *economically valuable* in this sense in the range between 0 per cent and A. It is *economically damaging* in this sense in the range between A and 100 per cent. In what I shall call the *marginal* sense, on the other hand, the claim is rather that economic performance (as captured again by Y) is better than it would have been had the share of transfers (t) been marginally smaller. In other words, social policy is *economically valuable* in this sense as long as it generates a 'positive-sum game' or as long as it escapes Okun's (1975) 'big tradeoff' between efficiency (as captured by Y) and equality (as

captured by M/Y). In Figure 13.1, this is the case in the range between 0 per cent and U. On the other hand, social policy is *economically damaging* in this sense when it generates a negative-sum game or does involve a trade-off between efficiency and equality. This happens in the range between U and 100 per cent. Of these two senses, the former is far less relevant than the latter, for hardly anyone ever pretends that one should get rid of social policy altogether, and when someone does, it is more often than not on grounds of principle totally immune to arguments about economic value. Most of the debate – and, in particular, the economic debate – about social policy is not about whether we should have social policy at all, but about how much of it we should have (and what form it should take). This is the issue on which economic value in the marginal sense bears directly. It is in this sense that I shall henceforth use the expression.

Note that in this marginal sense, unlike the aggregate sense, the notion of economic value is analytically related to – albeit distinct from – the notion of normal range. While economic value turns into economic damage as the share of transfers rises beyond the point (U) at which average income (Y) is maximized, this share ceases to be normal and becomes prohibitive as it rises beyond the point (R) at which replacement income (M) is maximized. The maxima of the two curves, and hence the corresponding distinctions, can safely be expected to differ. But Y's maximum is bound to lie to the left of M's maximum (how could replacement incomes increase as they become financed by a smaller proportion t of a smaller total Y?). Hence, if social policy has economic value, we can be sure that t lies within its normal range – but not the other way round – and if t lies within its prohibitive range, we can be sure that social policy is economically damaging – but not, once again, the other way round.[14]

If we are to determine whether the social security system of a particular country has 'economic value' or lies within the 'normal range' in the sense explained above, there are three factual questions we have to answer. One is fairly easy: What is the current level of the share of transfers t? Another is rather trickier, though still manageable: Knowing the shape of the Y-curve, what is the shape of the corresponding M-curve – or, in other words, *knowing* how average income (Y) responds to changes in t, how does the level of replacement income (M) generated by the system vary as a function of t? But the third one seems mind-blowingly difficult: What is the shape of the Y-curve – that is, how is long-run economic performance affected by the scope of social policy? Yet this is precisely the question about which all protagonists of the old or new debates on the 'economic value of social policy' claim to know something.

Those who claim that social policy is economically damaging assert that – at least in the vicinity of the current level of t – the Y-curve slopes downward. To substantiate this assertion, they usually invoke a negative impact on the supply of labour and the supply of capital. Because generous social policies reduce the differential both between income when at work and income when out of work (due to the benefit) and the marginal return to work (due to taxation), they undermine the incentives to look for a job, to acquire new skills in order to find one, or to muster effort and discipline while holding one. At the same time, such policies also undermine the incentive to save and invest, because they reduce the post-tax rate of return on capital, because they involve redistribution to people with a higher propensity to consume, and because they make it superfluous to put money aside in order to secure subsistence for oneself in old age and for one's children. If a rise in t makes people both less willing to get a job and work hard, and less willing to save and invest, how could it possibly generate a rise in average income, especially in the long run?

Others, however, claim that social policy is economically valuable – that, at least in the vicinity of the current level of t, the Y-curve slopes upward. To substantiate this assertion, they point out, for example, that (1) generous social policies reduce the extent of criminal behaviour stemming from sheer need, and thereby make a key contribution to the security of property rights, the foundation of a healthy economy; (2) they boost the stock of employable manpower, by preventing the starvation of unemployed workers and their families in periods of recession; (3) they 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; (4) they foster technical progress by reducing workers' resistance to labour-saving innovations through fear of losing their jobs; (5) they create a general climate of confidence between capitalists and workers, thereby inducing organized workers to moderate their wage claims, and hence favouring accumulation; and (6) they 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.[15]

What the exact balance of these various factors is for each value of t – what the exact shape of the Y-curve looks like – is, of course, anyone's guess. In order to show that the curve slopes upward or downward, for example, it is hardly relevant to come up with a cross-national survey showing clusters of (Y,t) combinations leaning one way or the other[16] – not just because such simple intuitive methods or matching linear regression analyses are unable to capture the sort of shape I conjectured in Figure 13.1, but also because there are many other factors besides t which affect the level of a country's Y – from the availability of raw materials to commitment to a work ethic – and whose influence is therefore likely to blur entirely, at the level of cross-national data, the *ceteris paribus* link between t and Y expressed in Figure 13.1. To test this link, a more subtle, complex – and, no doubt, messy – method is in order, combining econometrics with social and economic history, microeconomics and the analysis of institutions.

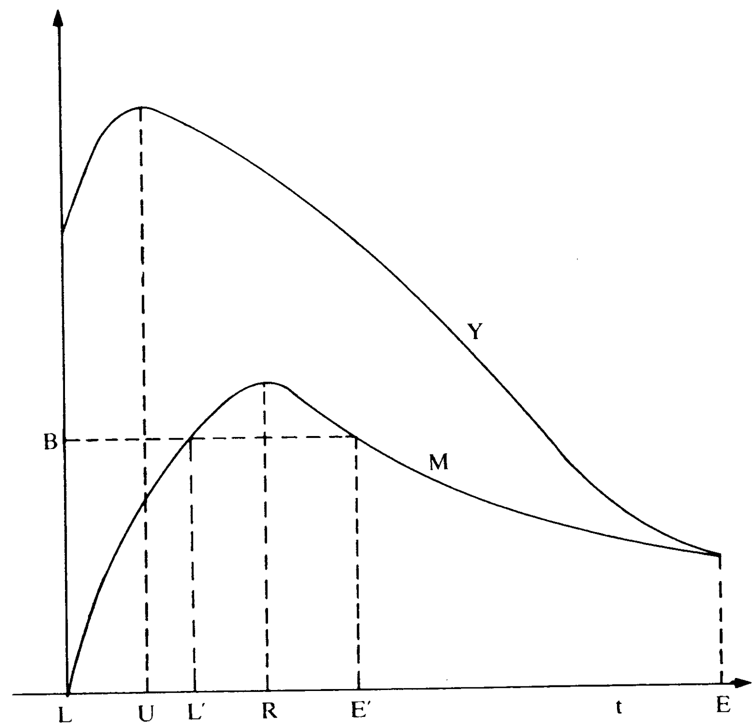
However, in order to know whether an expansion of social policy – that is, a rise in the share of transfers t – would have economic value – that is, would boost average income Y – one does not need to know the shape of the whole Y-curve. All one needs to know is whether such expansion would correspond to a shift of t within a range in which Y slopes upward. In the case of the creation of the modern social security systems in the postwar period, the experience of the Great Depression and the popularization of Keynes's *General Theory* amounted together to a compelling case, along the lines of argument (6) above, to the effect that this was indeed the case. Keynes and the Depression jointly made it plausible that a massive increase in the share of transfers, far from depressing the expected level of GNP or of average disposable income, would actually boost it quite significantly. What was thus made plausible, in the terms of Figure 13.1, is that the current level of t was quite some distance to the left of U, and hence that an ambitious social policy reform would have considerable economic value. The first of our two conditions was met. Before turning to the second, let us briefly ask why economic value, as defined, should matter.

However ethically commendable, one might wish to argue, a social reform is bound to fail if it is expected to depress GNP, for such a reform would harm twice over the interests of those who have to finance it. Not only would a larger *proportion* of the cake go to the beneficiaries of the change; the *size* of the cake itself would shrink as a result. But so what? By attaching importance to this fact, is one not falling prey to a (frequent) confusion between policies that are economically valuable and policies that are in everyone's enlightened self-interest?[17] The fact that aggregate outcome expands as a result of an increase in the level of t – i.e. that 'the sum is positive' – does mean, in some abstract sense, that everyone 'could' be made better off. But precisely because such expansion is the result of a change in t, not everyone will be. Or, more exactly, everyone will be only under the further – very restrictive – condition that Y does not only grow, but grows at a faster rate than t does – i.e. between 0 per cent and what might be called the 'Paretian' point P in Figure 13.1.[18] If Y displays only a moderate increase in response to a rise in t, the social policy considered harms even the long-term enlightened self-interest of those who have to finance it. Now, there may well be sound theoretical grounds for believing that, in the long run, any policy which serves everyone's self-interest (the range below P in Figure 13.1) will be adopted, while any policy which harms everyone's self-interest (the range beyond R in Figure 13.1) will be abandoned. But why should the divide between economic value and economic damage, the boundary between swelling and shrinking average income (U in Figure 13.1), be given any special role? The answer – if there is one – must be something like this: Only sufficient confidence that the cake will grow (more exactly, that it will be larger than it would be without the reform) can give political leaders the guts seriously to propose such a step, and societies the guts to take it.[19] But the step will not be taken unless there is pressure for it, fed by a sense of injustice. This takes us to the second aspect of our conjecture.

3. The Ethical Value of Social Policy

On the question of which reform would have 'ethical value', or foster distributive justice, there are, of course, wide disagreements stemming from different conceptions of the nature of justice. Some of these differences are represented in Figure 13.2. *Strict libertarians* and *strict egalitarians*, for example, may be understood as asserting that the share of transfers must be 0 per cent and 100 per cent respectively, even if this were to mean that many – indeed, everyone – must starve. To the strict libertarian (L in Figure 13.2) any positive level of social policy constitutes an unacceptable transgression of people's full right to the income they generate.[20] To the strict egalitarian (E in Figure 13.2) any gap between average replacement income and average income constitutes an unacceptable departure from the ideal of equality.[21] More sensible versions of these two positions subject the pursuit of minimum taxation and maximum equality, respectively, to the constraint that no one must starve. In other words, *qualified libertarianism* (L′ in Figure 13.2) requires that t be minimized, subject to average replacement income (M) being at least equal to what is required to cover 'basic needs' (B), bearing in mind that other types of public expenditure are assumed to be given. Symmetrically, *qualified egalitarianism* (E′ in Figure 13.2) requires that t be maximized, subject again to average replacement income being adequate to cover 'basic needs'.[22]

There are two more positions of obvious ethical interest. The '*Rawlsian*' position (R in Figure 13.2) may be defined as the level of t which maximizes replacement income (M). It necessarily lies between qualified libertarianism (L′) and qualified egalitarianism (E′), providing these two positions exist – that is, providing there is some value of t such



Y, M, t: As in Figure 13.1;
B: subsistence level of income;
L: Strict libertarian position;
L′: Qualified libertarian position;
E: Strict egalitarian position;
E′: Qualified egalitarian position;
U: 'Utilitarian' position;
R: 'Rawlsian' position.

Figure 13.2 The simple ethics of social policy

that replacement income sustainably covers basic needs. The '*utilitarian*' position (U in Figure 13.2) may be defined as the level of t which maximizes expected *per capita* income (Y). Given our assumptions, it necessarily lies to the left of the 'Rawlsian' position (and hence of both egalitarian positions E′ and E). But depending on the exact shape of Y and the level of B, it may lie to either the left or the right of the qualified libertarian position (L′).

When calling R a 'Rawlsian' position, quote marks are essential – not only because Rawls's (1971) maximin criterion appears as just one component in an ordered set of principles, but also because the maximization of average replacement income maximins income only in the special case in which replacement income takes the form of a minimum income, and above all because Rawls's maximin criterion is not meant to apply to income alone – a point which will prove of crucial importance later. Quote marks are equally essential when calling U a 'utilitarian' position, for it is not average income but average welfare that utilitarians care about and, assuming diminishing marginal utility, the genuine utilitarian position should therefore be located somewhere between U and R.[23] These qualifications must be borne in mind, but the labels are none the less useful for referring to what turns out to be the boundary between economically valuable and economically damaging social policy (U) and the boundary between the normal and the prohibitive range of t (R).

Here I shall adopt R as the most suitable interpretation of justice for the sake of formulating the second condition for major social reforms. The conjecture is then that deliberate changes in the field of social policy can occur only if they bring us nearer to a situation in which all inequalities which do not benefit their victims, and only those, have been abolished. One consequence of this choice is that whereas the trade-off between efficiency (output expansion) and *equality* (decreasing gap between Y and M) covers the whole range beyond U in Figure 13.2,[24] the trade-off between efficiency (output expansion) and *justice* (increasing M) is restricted to the range between U and R. Below U, therefore, an expansionary ('social democratic') reform – a deliberate increase in t – is conjectured to be feasible. Symmetrically, beyond R, a contractionary ('neo-liberal') reform – a deliberate reduction in t – is conjectured to be feasible. But when the current t is perceived to lie between U and R, lack of confidence – the fear of shrinking cake – will prevent any expansionary reform, while lack of pressure – the inability to draw on indignation at the unfair sharing of the cake – will prevent any contractionary reform. It does not follow that no change can occur inside this area, or indeed that t is stuck for ever within the latter's boundaries. But if a change occurs, it will have to be as a result not of deliberate reform but of unwitting 'drifting' – tax rates may rise, for example, as unchanged pension rights make ever greedier claims on public funds in an ageing society.

4. Is a Second Marriage in Sight?

Let us now suppose that this conjecture about the preconditions of social policy reform is – if only approximately – correct.[25] There is then ample room for pessimism about making any further progress towards a just society – at least in Western Europe.[26] For even if it can convincingly be argued that a further narrowing of the gap between average income and replacement income would not diminish the absolute level at which the latter can be sustained (one is still to the left of R), one would have a hard time convincing people that such expansionary reform would actually boost the level of output (one is also to the left of U). All the advocates of social policy can hope for, it seems, is to defeat the supply-sider's plea for a contractionary policy by rebutting their more vulnerable premiss: the claim that by redistributing a lesser proportion of the total product, one will boost not only the total product (due to one's being to the right of U) but also the amount to be redistributed (due to one's being to the right of R).

Are we, therefore, hopelessly stuck? Are we really forced to recognize that no further major progress is in sight in matters of social policy, because no conceivable reform could make a plausible appeal to both justice and efficiency? The most powerful defence of the basic income proposal consists in maintaining that we are by no means condemned to such a defeatist position, that a new marriage between justice and efficiency is firmly on the books. For the introduction of a basic income would both boost the national product and distribute resources in a more equitable way. On a first hearing, this sounds like a ludicrous statement, for a basic income scheme would pay an income to all, not just to the 'needy' or to the involuntarily unemployed, as current schemes do. Consequently, we seem stuck in the following dilemma. *Either* one does not raise the level of taxation. The level of income paid to the needy or the involuntarily unemployed then drops dramatically, since the tax yield is spread more thinly over a far larger number of beneficiaries. Who could possibly defend such a move on grounds of justice? *Or* one does raise the level of taxation in order to reach a level of basic income equal to that of current means-tested benefits. But given what has just been said about the probable location of (West European) shares of transfers, who could possibly claim that such a move would have a favourable impact on the national product?

This dilemma seems compelling. I shall now argue that it is not, and hence that the statement made above – that the introduction of a basic income would foster both justice and efficiency – is not ludicrous at all. Far from being obviously false, it may even be true, and if something along the lines of the conjecture discussed above is correct, such truth would be of momentous importance for the future of the welfare state. I shall not provide a full argument for the statement, only indicate the form it will have to take – and has already, to some extent, taken – if it is to meet the tough challenge posed by our conjecture. I shall emphasize, in particular, how the terms of conventional thinking about justice and efficiency in this area need to be modified if such an argument is to succeed. Part of the heat in current controversies about basic income is due to the failure to appreciate the extent of this modification and the reasons behind it.

5. Basic Income and Justice

Take the justice side of the argument first. There is not, in my view, the slightest hope of giving it a plausible formulation unless one questions one central assumption of the whole reasoning so far – and of most of what is written in connection with the justice/efficiency issue: namely, that fairness is a matter of income alone; for example (as in the above discussion) a matter of maximizing the minimum income or the average replacement income. That this feature of conventional thinking about fairness or justice is inadequate can be shown in two apparently opposed but actually complementary ways.

First, consider a difficulty often mentioned by those involved in the fight against poverty. On the one hand, they stress the importance of access to a job if one is to break the vicious circle of poverty. On the other, they argue forcefully that the income level currently enjoyed by the jobless poor is seriously inadequate and should be significantly increased. For reasons of both justice and efficiency, however, the lowest net wages should noticeably exceed the replacement income paid to the jobless. But the higher these wages, the harder it is for poorly skilled people to find a job. It follows, it seems, that there is a fundamental conflict between the two objectives of an effective strategy against poverty. The better it does on the income side, the worse it seems bound to do on the job side. By trying to encapsulate justice into a criterion of maximin income or maximum replacement income, we have focused all our attention on the first objective and ignored the second. Should not the *right to work* matter to justice on a par with the right to an income?

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

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

Hence the following suggestion. Although it does make sense to formulate justice in terms of a maximin criterion, what is to be maximinned cannot be income alone. It must, rather, be something like the real freedom (as opposed to the sheer right) to do whatever one might like to do with one's life, including consume, get a job and perform enjoyable activities. Introducing a basic income and pitching it at the highest feasible absolute level (R* in Figure 13.3) would precisely maximin such real freedom, and hence provide what justice demands. Moves in that direction – for example, the replacement of the current minimum income by a basic income at the same level or, more realistically, the introduction of a 'partial' basic income combined with the reduction of all replacement incomes by a corresponding amount (and no more) – would unambiguously enhance justice.[27] I am not trying here to present a full argument, only to convey the underlying intuition, but I have said enough to indicate the direction in which I believe the argument needs to go.[28]

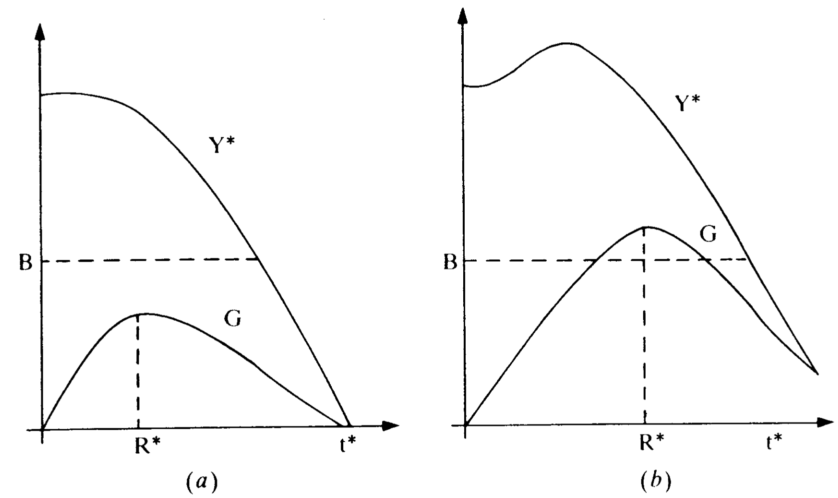
6. Basic Income and Efficiency

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

First, such measures will involve granting a transfer to many people who currently get nothing. It follows that a greater tax yield will be required to maintain the minimum income level, and hence that marginal tax rates cannot but go up for significant categories of earners, thus generating a downward pressure on the national product. True, this implication must not be overstated. As long as we are speaking of a low basic income, much of it can be financed simply by a relabelling of the corresponding part of existing transfers (pensions, unemployment benefits, etc.) and by the abolition of a number of tax exemptions (e.g. on the first slice of earned income) or tax rebates (e.g. for dependent spouses) that no longer serve a purpose.[29] Moreover, the increase in the tax yield required for the transfers themselves will be partly offset by a decrease in the administrative cost of the transfer system. In an era of computerized payments, the bulk of this cost is the cost of checking entitlements. Obviously, the less conditional the system, the lower the latter cost.[30] Finally, any net increase in the tax yield that might be required could be distributed in such a way as to minimize the effect on factor supply – for example, by leaving reinvested profits untouched, or by taxing the *lowest* slice of all earned incomes at a higher rate.[31] There is no doubt, however, that the introduction of a significant basic income would involve some increase in marginal tax rates, and that this increase could be expected to exert a downward pressure on (declared, domestic) factor supply and hence on the (taxable) national product.

Things look even worse as soon as one reflects on the specific nature of the use that would be made of this increased taxation. What a basic income does is increase the feasibility or the attractiveness of escaping from the wage relation in order to become self-employed, form a partnership, join a co-operative or simply stay at home. This increased bargaining power, this greater autonomy, may be most desirable in itself. Indeed, it is closely linked to the ethical case for basic income sketched in the previous section. But – at least in a capitalist economy – it may have disastrous economic consequences. For even if capital income were not taxed at all in order to finance the basic income, the improvement of every worker's bargaining power would exert an upward pressure on wages and working conditions. The resulting negative effect on the rate of return to capital would foster capital flight, the substitution of consumption for saving – perhaps even organized investment strikes.[32]

The conclusion, it seems, is that introducing a basic income, even at a low level (while keeping residual transfers in the way sketched above), would lead to a significant fall in the expected national income. Indeed, this fall might be so significant that introducing a basic income at a level equal to the current level of means-tested benefits could simply constitute an unsustainable option. This pessimistic view is expressed in Figure 13.3(*a*). It is supposed that there is a means-tested benefit that guarantees a minimum income at level B, and that a basic income is introduced in this context, with the level of the means-tested benefit being cut by an amount equal to the basic income. Now t* represents the share of basic income in expected disposable income, Y* the corresponding expected level of average disposable income, and G the corresponding expected level of basic income (G = t*.Y*). At low levels of t*, Y* is hardly affected, if at all, since the basic income is largely financed out of a reduction of existing benefits and tax allowances,[33] while giving no one a genuine opportunity not to work. As t* grows, however, the expected average income starts to be badly affected – both because of rising tax rates and because the basic income reaches levels at



t*: Share of basic income in average disposable income;
Y*: Expected average disposable income;
G: Expected level of basic income;
B: Subsistence level of income;
R*: Value of t* at which the expected level of basic income is maximized ('Rawlsian' position).

Figure 13.3 The economic value of basic income: two conjectures (a) pessimistic; (b) optimistic which it is no longer negligible as a source of bargaining power, and hence of downward pressure on profits. The outcome is that even the highest feasible level of basic income (at $t^* = R^*$) falls short of basic needs (B).[34]

If this were the end of the story, the second marriage would have had it, for there would be no prospect whatsoever of the second partner ever turning up. Faced with arguments about the deadweight losses associated with higher marginal tax rates, however, economic advocates of basic income might quietly concede the point – just as Schumpeter could have agreed with all that has been said about the static inefficiency of monopoly capitalism. But just as Schumpeter argued that this was no more than petty accountancy, relative to the massive dynamic efficiency of the creative destruction associated with monopolistic firms, contemporary economic advocates of basic income argue similarly that quibbling about marginal tax rates is of little significance in the face of basic income's massive contribution to making our economy more dynamic, less cripplingly rigid, less stiflingly conflictual than it would otherwise be. This argument has two main components.

The first and most developed component stresses the crucial role basic income would play, directly and indirectly, in fostering the flexibility of our economies. With a basic income, individuals could go through repeated and protracted periods in which their activities earned them less than a subsistence wage – for example, as they retrained between two jobs, as they learnt new skills on the job, as they kept old skills alive in a period of reduced professional activity, as they launched new businesses, and so on. As a result and without the (often opaque and costly) aid of special schemes, adjustments of all sorts would be easier and an entrepreneurial spirit would be encouraged throughout society. This direct and individual impact on the flexibility of the economy would be further reinforced by an indirect, collective impact. If each individual worker was protected by the availability of a significant unconditional income and the possibilities this opened up, there would be less justification for a number of regulations which currently constrain the labour market, such as restrictions on patterns of working time or even minimum wage legislation. The sort of flexibility which modern technology increasingly requires could therefore acceptably be traded by the labour movement against the income security provided by a basic income.[35]

The second, more speculative component of the argument emphasizes the costly conflicts increasingly generated in our economies, as a result of two major trends. The spread of significant environmental externalities and the increase in the share of wealth held in the form of information, rather than material goods, differ greatly in both substance and origin. But they have one feature in common: they greatly enhance the importance of property rights which are extremely difficult to define and enforce. Using Ouchi's (1980) typology, one can distinguish three types of social co-ordination. *Bureaucracies* are optimal when there are neither sharp conflicts of interests nor significant uncertainties about who is entitled to what. *Clans* are optimal when there are no conflicts but high uncertainties. *Markets* are optimal when there are conflicts but no uncertainties. When there are both sharp conflicts and high uncertainties, co-ordination breaks down and chaos sets in. This is what is increasingly threatening to happen in a market economy pervaded by the two trends mentioned above. Now, it seems safe to predict that these trends will persist, and hence that it will become increasingly difficult to make sure that whoever is responsible for wealth destruction/creation actually pays/is paid for the damage/benefit caused. Assuming that sharp conflicts of interests are with us for ever, the only option open to forestall economically damaging chaos consists in reducing what is at stake in the market game – that is, in making an increasing part of people's material welfare depend on society's overall productivity, rather than on their individual contribution.[36] A basic income is the most natural way of institutionalizing this solution.

For an economic advocate of basic income, it is wrong to be mesmerized – as are many economists who have paid only superficial attention to the basic income issue – by the threat of rising gross tax rates. For the tax elasticity of factor supply, whether cheaply invoked or laboriously studied, is completely overshadowed by the considerations just outlined. If such an advocate is right, the effect of higher tax rates would be negligible in comparison. Indeed, the shift from the current system to a basic income system might involve no rise in overall tax rates at all, as the favourable impact on output growth would generate the required increase in the tax yield with unchanged rates. (One possible optimistic conjecture of this sort is represented in Figure 13.3(*b*): even though the national product ends up falling with very high levels of basic income, it rises substantially as the level of basic income is lifted towards the level of current means-tested benefits.) But what about the second argument brought up by the economic critics of basic income – the argument that, whatever happens to tax rates, every worker's increasing freedom not to work (under any conditions) brought about by a growing basic income is bound to affect negatively the rate of return on capital, and hence the growth of output? An economic advocate of basic income is bound to give the same sort of answer as to the first argument: the advantages of a more flexible, less conflict-ridden economy will more than offset the disadvantages – in terms of profitability – of the workers' improved bargaining position. But the confidence with which this answer will be uttered is bound to be more fragile than in connection with the first argument. After all, we have tinkered with tax rates on a massive scale during the past century, but in no society have more than a small minority of citizens ever been given the real option not to work.

My aim, in any case, has not been to establish that the introduction of a basic income would have 'economic value' (that is, would boost average income), nor indeed that it would have 'ethical value' (that is, would bring us closer to a just society). My aim has been only to indicate what form this twofold case for basic income needs to take if it is to be successful. My own conviction is that in advanced industrial societies a strong claim of justice can be made, along the lines sketched above, for a sizeable basic income, and that sufficient confidence can be gained on the economic side for the proposal also to meet the second of our conditions in the near future. This confidence, however, is not independent of the first condition being met. For whether a basic income can boost flexibility (at least along the indirect, collective path delineated above), and whether it can significantly reduce the overall level of conflict, is very sensitive to whether a basic income is perceived as a fair way of distributing part of the social product. If organized workers, for example, see basic income as an outrageous racket on the fruits of their labour, the net effect on rigidity and conflict may well end up being negative.

This prompts a final methodological comment. If something like the initial conjecture of this chapter is correct, it is pointless to try to assess the political feasibility of a proposal such as this one through some direct head-counting, without looking first at the economic and ethical issues involved. But if the remarks of the previous paragraph are correct, it is also impossible to assess the key economic claims made about basic income independently of the ethical claims that are being made on its behalf. To put the matter more provocatively: the debate on basic income is one area in which there is nothing illegitimate about – duly circumscribed – wishful thinking. It is right that the conviction that a basic income is demonstrably just should influence the belief that introducing it would be efficient and, partly for this reason, the belief that it is politically feasible.

Notes

This is a slightly revised version of an article originally published in the *Journal of Social Policy* (January 1990), itself a thoroughly revised version of a conference paper published (in German) in *Der Wirtschaftliche Wert der Sozialpolitik* (ed. Georg Vobruba), Berlin: Duncker & Humblot, 1989.

1. Basic income differs from current minimum income systems in being unconditional with respect to (1) income from other sources, (2) willingness to

work, and (3) household situation. Whether the grant should be strictly restricted to citizens or extended to all permanent residents, whether its level should be affected by age, by differences in housing costs, etc., are important questions, but the way they are answered does not affect the classification of a scheme as a basic income scheme.

2. G.D.H. Cole (1944: 306). Cole (1935) coined the term 'social dividend', under which the idea of basic income gained currency in the English-speaking world, and advocated the idea in several books. Van Trier (1989: section 6) reviews Cole's contribution to the basic income discussion and traces its relations with those of his predecessors and successors in the British socialist/Keynesian tradition.

3. See Purdy (1990) for a critique of the 'head-counting' approach in the context of the basic income discussion.

4. Or for the reproduction of capitalism, or for the interests of the capitalist class, etc. I discuss the methodological difficulties of Marxist theories of the state in Van Parijs (1981: sections 59–63).

5. As opposed to changes which are just unwitting drifts: I return to this point at the end of Section 3.

6. Similar curves are used by Van der Veen and Van Parijs (1986) to discuss the transition from a situation in which incomes are distributed according to contributions to one in which they are distributed according to needs.

7. This amounts to a negative income tax, restricted to those who make themselves available for work (unless they are too old, too young or disabled) and characterized by an effective rate of tax of 100 per cent on low earnings.

8. This makes the Y-curve akin to – though distinct from – the outcome of a (rather speculative) exercise in comparative statics. Unlike the latter, it does not plot the equilibrium values of Y corresponding to each value of t on the background of invariant parameters. It does not even presuppose that such values exist. The choice of some value of t may generate sizeable and endless fluctuations, the size and frequency of which are reflected in Y, the *expected* value of average GNP.

9. Only a variant, because demand-side effects are here also assumed to be incorporated in the curves; and also because the canonic formulation assumes that the tax yield is used to finance a uniform lump-sum subsidy, i.e. a basic income as discussed below. (See, e.g., Canto, Joines and Laffer [1983] or Laffer [1984].) In this canonic case, $M = t.Y$, and the M-curve can therefore be directly inferred from the Y-curve, without needing to know anything about the distribution of gross income.

10. Why only 'tend to'? By maximizing *per capita* GNP (with a given average rate of taxation), one maximizes the tax yield available for transfers. But with a larger yield, one might be unable to achieve a higher minimum income, if the chosen tax scheme is such that the lowest post-tax incomes are lower than they would be under alternative schemes (e.g. because of a 100 per cent taxation of low earnings) and therefore require more transfers to be lifted to a given level.

11. Or perhaps as the minimum income of someone with no previous income and simultaneously the minimum income of someone with some previous income, divided by some coefficient (of more than unity) increasing (at a decreasing rate) with past income.

12. Further complications could be introduced – for example, by taking adequate account of the fact that the welfare state often proceeds through service provision rather than cash payments, or by emphasizing the distinction between