

BASIC INCOME AND ITS COGNATES

Partial basic income versus
earned income tax credit and reductions of social security contributions
as alternative ways of addressing the “new social question”

Philippe Van Parijs, Laurence Jacquet and Claudio César Salinas*

Basic Income on the Agenda. Policies and Politics
(Robert J. van der Veen & Loek Groot eds.),
Amsterdam : Amsterdam University Press, 2000.

ABSTRACT

At least three types of transfer policies have been advocated as ways of fighting unemployment without worsening poverty: reductions of social security contributions, the earned income tax credit, and an unconditional basic income (possibly in the form of a negative income tax). Many proponents of some of these are passionate opponents of some of the others. Yet, in the institutional context of much of today's Western Europe and within some broad limits, each of them can in principle be so calibrated as to generate exactly the same profile of tax rates and the same pattern of disposable incomes as the corresponding variant of each of the other two. So, despite all the heat, is there nothing to choose between?

Not quite. For beyond the prima facie equivalence, a closer look reveals important, sometimes unexpected differences between the three policies. These differences concern, for example, the impact of the policies on the unemployment trap, on the development of self-employment and informal work, on the accumulation of human capital, on workers' bargaining power, on Trade Union attitude and on political

* Université catholique de Louvain, Chaire Hoover d'éthique économique et sociale and Institut de recherches économiques et sociales (3 Place Montesquieu, 1348 Louvain-la-Neuve, vanparijs@etes.ucl.ac.be). This paper has been written within the framework of project PAI P4/32 "The new social question" (Belgian Federal Government, Prime Minister's Office, Federal Office for Scientific, Technical and Cultural Affairs). Earlier versions have been presented at the Harvard Centre for European Studies (29 April 1998) the Oxford Centre for the Environment, Ethics and Society (14 May 1998) and the VIIth Congress of the Basic Income European Network (Amsterdam, September 1999). Useful comments by Anne Alstott, the editors of this volume and all members of the PAI project are gratefully acknowledged.

feasibility. Using a battery of simple graphs, the article spells out these differences and explores their significance.

INTRODUCTION: FULL EMPLOYMENT WITHOUT POVERTY

Europe's "new social question" can be said to consist in an emerging dilemma between high unemployment and worsening poverty. This new social question arguably stems from the very solution that had been gradually developed, over the last century, for the "old social question", the unsustainable inequality between capitalists and proletarians generated by the industrialisation process. Along with public involvement in the accumulation of physical and human capital, the furthering of workers' rights — most prominently in the form of collective bargaining, labour legislation and social insurance schemes — gradually turned full jobs from unavoidable toil into valuable assets. The resulting pattern of distribution looked on the right track as long as access to a job and the entitlements associated with it — including, for example, extra child benefits in periods of involuntary unemployment or the right to a decent pension for a worker's widow without any employment record — were secured to the overwhelming majority of households. For a variety of interacting reasons — including technical change, European economic integration, so-called globalisation, privatisations, marital instability, educational homogamy, etc. —, such a broad coverage can no longer be taken for granted.¹ This is why a "new social question" arises. It consists in a growing proportion of households proving unable to secure access to adequate "job assets", with cumulative consequences for both the monetary and non-monetary aspects of the welfare of all their members. This new social question may therefore be said to generate a new class divide, based on job endowments, characteristic of welfare-state capitalism and crucially different from the old class divide, itself based on the ownership of material means of production and rooted in industrial capitalism's old social question.²

To investigate how the new social question might be solved, one first needs to further specify the underlying diagnosis. Under developed welfare-state capitalism, income redistribution within the population of working age operates mainly through the taxation of labour income (personal income tax, employers' and workers' social security

¹ On the shape and causes of the growing dispersion of (potential) earnings in OECD countries, see e.g. Atkinson (1993a), Gottschalk & Joyce (1993), Wood (1994), Atkinson (1998), etc.

² See Van Parijs (1987). One can conceive of other characterisations of the new social question and the corresponding new class divide, for example by emphasising the unprecedented importance of one's generational location, as a result again of a set of interacting factors such as rising life expectancy, rising potential cost of health care, development of the old age pension system and increasing ability to knowingly cause (and avoid) long-term environmental damage.

contributions) and the distribution of the proceeds to people who are involuntarily unemployed (unemployment compensation, means-tested minimum income guarantee, disability allowances). However effective at reducing income poverty, this pattern of redistribution, if sufficiently developed, displays a strong tendency to generate persistently high levels of unemployment, as a growing number of households becomes unable, for the reasons listed above, to durably achieve through their labour a net income that exceeds the level of social protection. To reduce unemployment without worsening poverty — and to thereby tackle the dilemma in which the new social question expresses itself —, one therefore needs to challenge the (near) exclusive focus of redistribution on the involuntarily unemployed. In other words, one needs to channel more of the explicit or implicit transfers

(1) towards low-paid workers (in-work benefits), and/or

(2) towards people who choose to stop working or to work less (chosen-time subsidies).

This distinction can help us map the landscape of policy proposals currently under discussion, and thereby structure the key socio-economic debate among people with both a sense of justice and a sense of reality.³

The introduction or expansion of in-work benefits aims to increase the total volume of employment by boosting, sometimes indistinguishably, either the demand for labour (the number of low-paid jobs that are profitable for potential employers) or the supply of labour (the number of low-paid jobs that are acceptable for potential employees). They can take the form of (a) reductions of employers' social security contributions; (b) reductions of workers' social security contributions; (c) direct employment subsidies or tax credits (or job voucher reimbursements) to firms on account of the number of workers they employ; (d) direct earnings subsidies or refundable tax credits restricted to workers; or (e) employment-motivated subsidies to public sector jobs. These reductions or transfers may be allocated either (1°) only to low-paid jobs, or (2°) indiscriminately to all jobs (but with a net benefit to low-paid jobs only, owing to the way the scheme is funded), or (3°) only to jobs with a

³ This belief is consistent with our awareness that several relevant policy proposals are being left out of the picture, in particular (1) policies which are ethically unacceptable (for example, lowering the general level of income protection or sending working women back home); (2) policies which, however well intended, would be counterproductive (for example, protectionism or across-the-board reduction in the maximum working time); (3) policies which do not constitute substitutes but (arguably) complements to the sort of socio-economic reform we want to focus on (for example, macroeconomic co-ordination or continued education).

characteristic correlated with low pay (such as having an incumbent with a low level of education or a long period of unemployment).

Unlike in-work benefits, chosen-time subsidies do not purport to boost the total volume of (profitable and acceptable) employment, but to distribute it differently. They include (a) compensation for voluntary early retirement (whether part-time or full-time), (b) compensation for voluntary career interruption (whether part-time or full-time, short-term or long-term, restricted to specific reasons, such as parental or educational leave, or unrestricted) and (c) reductions of income tax or (employers' or workers') social security contributions for those who choose, individually or collectively, to reduce their working time.

These two types of policies seem to work in opposite directions. In-work benefits can be viewed as addressing the unemployment trap: they try to make it easier, more attractive, less costly, at least for those with a low earning power, to increase their paid working time by accepting low-productivity jobs. And by making them acceptable, they aim to bring them into existence: the unemployment trap is also relevant to the demand side. Instead, chosen-time subsidies can be viewed as addressing the employment trap: they try to make it easier, more attractive, less costly, at least for those with a low earning power, to decrease their paid working time.

Nonetheless some policy proposals belong to both types. This is the case for any form of general lump-sum transfer or basic income scheme (henceforth BI), which provides transfers to all adults, whether or not in paid employment, either unconditionally ("citizen's income") or subject to their making some "contribution" in a sense that extends significantly beyond full-time waged employment ("participation income"): the narrower the interpretation of the contribution condition, the weaker the chosen-time-subsidy character of such proposals and the greater their in-work-benefit nature. Basic income schemes in this sense may or may not be integrated with a universal child benefit system. They may be sufficient to cover basic needs (full basic income) or they may not (partial basic income). They may take the form of ex ante payments to all (in the social dividend version) or rather of refundable income tax credits (in the negative income tax version, or NIT, whether of the linear or non-linear

variety). Finally, the per capita level of the payment may be affected or not by the composition of the household.⁴

In-work-benefit policies tell the unemployed that they can keep some transfer if they work. Chosen-time-subsidy policies tell the employed that they can have some transfer if they work less. BI policies tell both the unemployed and the employed that they can have an (explicit or implicit) transfer whatever they do.

1. A PUZZLING EQUIVALENCE

In this light, the introduction of an unconditional BI can be viewed as the simplest and most radical among a whole range of proposals that attempt to tackle unemployment without worsening poverty, through changing the pattern of income redistribution under welfare-state capitalism.⁵ The purpose of this chapter is to contribute to the identification of the main differences between the consequences one can expect from the introduction of an unconditional BI⁶ and from its two most serious contenders, qua strategies for tackling the core of the new social question, namely the earned income tax credit, currently most popular in the US and the UK, and reductions in the social security contributions on low-paid work, currently most popular in continental countries. Identifying these differences with the help of the most appropriate analytical tools and on the basis of the most relevant available evidence is essential to

⁴ The notion of basic income, as used here, is therefore broader than the definition standardly used by BIEN in three important respects: it is not necessarily paid to all “on an individual basis” (even if the entitlement is individual, its level may depend on household composition), nor quite “without means test” (in the sense in which even a uniform refundable tax credit is means-tested), nor quite “without work requirement” (in the sense in which even a broadly characterised participation condition can be construed as a “work requirement”).

⁵ See e.g. Atkinson (1995), Van Parijs (1996), Schokkaert, Van der Linden & Van Parijs (1997), Van der Linden (1996, 1999) and Standing (1999) for a set of arguments in favour of basic income as an attempt to tackle (what is here described as) the new social question. See also Fitzpatrick (1999) for a recent overview of arguments for and against. And see the web site of the Basic Income European Network (BIEN) for a comprehensive, regularly updated, annotated bibliography (<http://www.econ.ucl.ac.be/etes/bien/bien.html>).

⁶ In this chapter, we shall focus on the social-dividend version. But much of what will be said about it also applies to the NIT version, with the level of the lump-sum refundable tax credit pitched at the same level as the social dividend. However, there are important differences (see Van Parijs 1995: 35-37), some of which will be pointed out as we go along but which are not the focus of this essay.

feed a well-informed and dispassionate debate on these issues.⁷ But it is, as we shall see, no straightforward matter, for much of the standard modelling of a BI and its alternatives is simply blind to the crucial differences between them.

A stylised picture

In order to bring these differences into focus, we shall start by comparing, on the background of a highly simplified picture of the present situation in continental Europe, the impacts of the three policies on disposable income and material work incentives. To represent in the simplest possible way the (purely arithmetic) relationship between net and gross income under the present tax and benefit system, we initially assume that all gross income is waged income earned in the formal sector and that each household consists of a single adult. Graph G1 offers a stylised picture of the lower range of the income distribution under this assumption. The 45° line represents what the situation would be in case there were no taxation and households would therefore receive the full amount of their gross earnings. Social security contributions are assumed to be paid at source at a proportional rate (t), starting from the very first Euro earned (O). Income taxation proper is also proportional (at rate t'), but only kicks in at a higher level (C): any gross income lower than OC is tax-exempt. Moreover, there exists a means-tested guaranteed minimum income scheme (henceforth GMI), in the form of transfers making up the difference between the net earnings of any household and some chosen minimum level (OM).

Graph G1: Current situation

In graph G1, the lightly shaded area represents the social security contributions. The darker area represents the linear income tax. Triangle MEO corresponds to the means-tested GMI payments to households with pre-transfer incomes comprised

⁷ With a number of specific features to be presented shortly, our inquiry fits therefore into a long sequence of attempts to assess the merits of alternative transfer schemes on the basis of a careful comparison of their differential consequences, from Zeckhauser (1971) and Garfinkel (1973) to Phelps (1994) and Besley & Coate (1995), for example.

between 0 and AB. Finally, the thicker line shows the resulting relation between net (post-tax-and-transfer) and gross (pre-tax-and-transfer) income. In graph G2, the solid line shows the corresponding profile of the net average tax rate, defined as the ratio of net taxation (tax plus social security contributions minus benefits) to gross income. In graph G3, the solid line shows the corresponding profile of the effective marginal tax rate, defined as the ratio of the increase in net taxation (increase in tax and/or social security payments plus decrease in benefits) to the increase in gross income which prompts it. Graphs G1 and G3 highlight the crucial fact that households with (potential) gross incomes lower than OB are stuck in the “unemployment trap”. The profile of net income is horizontal in this range, and the effective rate of taxation is 100%. If they are unable to earn a gross income higher than OB, households have no financial incentive whatever to earn anything through declared work and are in this sense "trapped" in a no-work situation. Nor do firms have any incentive to create any such job, even when they are not legally prevented from doing so, as they would find it hard attracting and retaining suitably motivated workers. As characterised above, the “new social question” can be very simply portrayed in our stylised graph: it consists in a steady increase in the proportion of households whose earning power falls in the OB range, as a result of the interaction of technological, economic and social factors.

Graph G2 Net average rates of taxation

Graph G3 Marginal effective rates of taxation

It is not obvious that such a 100% effective rate of taxation on the lowest earnings should be regarded as unfair and urgently abolished. To start with, this highly "regressive" profile of marginal rates (G3) is fully consistent with an even more highly "progressive" profile of average rates (G2): those who lose most marginally are also those who gain most overall.⁸ Moreover, under assumptions commonly made in the optimal taxation literature, the sustainable maximisation of the lowest incomes requires

⁸ In the OA range, people lose everything they earn, since each Euro earned is cancelled by an equal reduction in the benefit. But it is precisely people whose income is in the OA range who are the net beneficiaries of the scheme.

the highest marginal rates to affect the lower layers of earned income.⁹ However, the observation of a steady upward trend in the numbers of the long-term unemployed or of the beneficiaries of GMI schemes has fed a strong suspicion that the lower (OB) range of potential earnings is getting more crowded. And this is a source of concern — precisely the very concern which defines the “new social question” —, in part because of the direct and indirect impact of this phenomenon on the sustainable maximisation of the lowest incomes, but also because exclusion from paid work arguably matters as such, not only as a cause of low income.¹⁰ To deal with the problem, our stylised graphs provide unambiguous guidance: one must find a way of reducing the unemployment trap, i.e. of lengthening left-ward the lower part of the U-shaped curve of marginal rates (G3), so that it encompasses a larger share of the active population.

Reduction of social security contributions (RSSC)

One striking feature of the situation depicted in G1 is that some households with gross earnings higher than the income guarantee (OM) nonetheless fall into the trap because of social security contributions pushing their net earnings below OM.¹¹ One

⁹ The intuitive ideas behind these results are lucidly explained, for example, in Piketty (1997). If the aim is to maximise the tax yield, raising the rate of tax on a particular slice of income has both a positive effect because it increases what is collected from anyone with an income at least as high as the income levels concerned, and a negative effect because it reduces the incentive to generate income (through work, saving, effort, etc.) for anyone whose income level falls within the range concerned. Obviously, the positive (or distribution) effect is the higher, the lower the income slice concerned: when taxing a low slice, one taxes the income of nearly everyone, when taxing a high slice, one collects income from only a few. The negative (or incentive) effect, on the other hand, will depend both on the number of people whose income level happens to fall within the slice considered and on how responsive they are to lowering of what they can gain from an increase of their working time, effort level, etc. If there are relatively few people with very low (potential) earnings, one would therefore need them to have an extremely high level of responsiveness (or tax elasticity), compared to people with a higher income, to justify a lower, or even an equal rate of taxation on the lowest slice of income.

¹⁰ See Van Parijs (1995: chapters 2 and 4) and, more briefly, the discussion between Scharpf (2000) and Van Parijs (2000) in this volume.

¹¹ To make the comparison more straightforward, we shall generally write as if we were talking exclusively about workers' social security contributions. Under the received wisdom among economists, however, it does not make much of a difference whether the social security contributions are levied on the workers' or on the firm's side. Whether under perfect competition or under reasonable non-competitive assumptions, whatever balance of forces leads the workers' net compensation (and hence their share in the burden of the levy) to settle at a certain level under one administrative arrangement will lead it to settle at the same level under the other. See, however, Rasmussen (1994) and Muysken & van Veen (1996) for attempts to come up with a significant discrepancy.

obvious suggestion, depicted in G4, is to scrap social security contributions on all earnings below the minimum income ($OA = OM$), while lowering them to a decreasing degree in the next range (say, between A and C, the point from which income tax starts being paid) and collecting whatever is needed to achieve budget neutrality — in a purely arithmetic sense, i.e. abstracting for the moment from any behavioural effect — by raising the rate of taxation (from t' to t'') in the upper range (beyond C). The size of this adjustment will (arithmetically) depend on the number (and distribution) of households in range OC. Because of the "unemployment trap" mechanism, one has every reason to expect that the range OB will be practically empty. The required net funding should therefore reduce to what is needed to finance the relatively small discount on the social security contributions of households in the BC range.

Graph G4 Reduction of social security contributions

In graph G4, the lightly shaded areas represent the amount by which social security contributions are being reduced and the matching increase in income taxation. The triangle ODF represents the part of the social security contributions that has been scrapped. The darkly shaded area shows the amounts still payable as contributions. People with a gross income higher than C will pay exactly the same amount as before in social security contributions, even though the lower part of their earnings (OA) has also been exonerated. The reason is that the gradual phasing out of the reduction in the AC range amounts to imposing, compared to the initial situation, a far higher rate of social security contribution on each Euro earned in this range. This is reflected in the flattening of the slope of DF, relative to that of EF ($45^\circ - t$), which has been calibrated to make the reform exactly neutral for someone earning gross income OC.

The thick line in G4 shows the resulting relation between net and gross income. The dotted line in G2 shows the corresponding profile of the net average rate of taxation (inclusive of social security contributions and benefits). The dotted line in G3 shows the corresponding profile of the effective marginal tax rate. When compared to the thick lines in G1 and G3, which represent the current situation, this highlights the crucial fact that the “unemployment trap”, though far from abolished, has been reduced from OB to OA. Barring a reduction in the GMI level M, this reduction could only be achieved at the expense of a significantly increased marginal rate in the BC range and a milder

increase in the marginal rate on higher incomes (see G3). In other words, if reductions of social security contributions are to significantly alleviate the unemployment trap without worsening poverty, it is (nearly) an arithmetic necessity that each Euro earned by some of the less well paid among the current workers will be effectively taxed (inclusive of social security contributions) at a significantly higher rate than before.¹² Yet, by no means does it follow that they can be regarded as the victims of the operation. Quite to the contrary, as graph G2 shows, they are the main net beneficiaries of the reform in terms of net average tax rates, and hence disposable incomes.

Earned income tax credit (EITC)

Let us now turn to something (apparently) altogether different. First introduced under the Ford administration, massively expanded under the first Clinton administration, the so-called "Earned Income Tax Credit" (EITC) has now displaced "Aid to Families with Dependent Children (AFDC) as the USA's main federal transfer programme.¹³ The central idea of the programme is quite simple. In order to alleviate the poverty of poor workers without damaging their work incentives, let us supplement their earnings with a refundable tax credit the level of which grows proportionally with the level of earnings up to a point at which it stabilises, before being gradually phased out. EITC itself does not give anything to households who do not work at all. In Europe at any rate, it could therefore not be considered as a complete alternative to the existing income support system. But EITC makes sense as a way of improving work incentives and reducing the unemployment trap even if the existing GMI is maintained.¹⁴

¹² This necessity holds under the assumption that the income of the better-paid workers is not to be taxed at a rate approaching 100% either. Only "nearly", because it is imaginable, if there are sufficiently few workers, not only in AB, but in the AC range as a whole (in graph G4), that the lifting of DE to DG and the upward shift of EF (henceforth starting from G, while keeping the slope unchanged) will cost so little that the marginal tax rate on gross income above C, while unavoidably much higher than before, will still fall short of 100%.

¹³ In 1998, the federal share in the cost of TANF ("Temporary Assistance to Needy Families"), the programme that replaced AFDC in 1996, was a shrinking US\$ 20 billion, compared to a growing US\$ 22 billion for EITC (Figures from the Budget of the US Government kindly provided by Anne Alstott) For illuminating critical discussions of EITC, see Alstott (1995) and Shaviro (1997).

¹⁴ Keeping this GMI in the background is essential to the arguments below. These, therefore, hardly apply (even in highly stylised fashion) to the U.S., since (1) the main assistance programme for able-bodied working-age people (earlier AFDC, now TANF) provides aid only to poor single mothers

To understand this, let us take again as our point of departure a stylised picture of the current situation (graph G1). On this background (with social security contributions collected at source), we assume EITC to come into operation by giving all working households with gross incomes not exceeding OA (if there are any) a refundable tax credit that rises proportionally to their earnings. We want the chosen variant of EITC to be as comparable as possible to the RSSC scheme explored above, and therefore calibrate it in such a way that this rise occurs at a (constant) rate exactly equal to the rate (t) at which social security contributions are levied (graph G5). Beyond level OA of gross earnings, the tax credit is gradually phased out until it disappears altogether for gross earnings in excess of OC. Beyond C, income tax is paid at a somewhat higher rate in order to finance the cost of the reform. This cost is the sum of all the tax credits conceded to earners in the OC range (triangle DOF). But it essentially reduces (arithmetically speaking) to the set of (shrinking) tax credits in the BC range (triangle DEF). For prior to the reform, there was no financial incentive to earn anything in the OB range, and the latter can therefore be expected to be practically empty. One may wonder how EITC's positive effect on work incentives can survive its being combined with a GMI scheme. For in the range in which the tax credit grows with each Euro of earning (OA), the effective marginal rate remains 100%. The whole point, it would seem, is lost. But this inference is incorrect. For the tax credit on the lower layers of income does not only affect the pre-GMI incomes of those whose gross incomes entirely lie in range OA. Its key effect is that it makes it easier to reach a level of gross income (now lowered from OB to OA) above which working starts making financial sense.

Graph G5 Earned Income Tax Credit

This can again be clearly seen by examining, on graph G5, the profile of the thick line that depicts the relationship between gross and net income after the reform. This profile, it turns out, is exactly the same as in the case of RSSC (graph G4), and so are the profiles of both average and marginal tax rates (graphs 2 and 3). Because of the specific rates deliberately chosen for the tax credit and its phasing out, the effects of EITC and RSSC coincide exactly in the OC. And the identity also holds in the range

with children and a very small number of poor married couples with children, while all others have to rely on local and state "general assistance" programmes which provide very little cash aid, if any; (2) even for those covered by TANF there is now a time limit of five years.

above C, since the net cost of modifying the profile of disposable income in the OC range is obviously the same in both cases and must therefore be reflected in an identical increase in the linear tax rate on the highest incomes. In both cases, therefore, the unemployment trap is reduced by the distance AB, the net (arithmetic) beneficiaries are in the AC range, and marginal rates increase on all gross incomes in excess of OB.

Partial basic income (PBI)

In order to get a large number of households out of the unemployment trap, another, again apparently quite different, idea is to give each of them a basic income (BI), or tax-free income floor, which they can keep whatever they earn. We might think of introducing this BI at level OM, which would enable us to get rid of the current GMI and the associated trap altogether. But let us suppose, for the time being, that we want to proceed cautiously and decide to start with a partial basic income (or PBI) at some lower level OP. In order to make comparison with the previous schemes as convenient as possible, let us simply choose P as the intersection of the DF line and the vertical axis.¹⁵ Handing out an income to all, instead of only to the poor, is of course a hugely expensive operation, which we assume to be funded by a massive linear increase (by t^*) in the income tax as from the first Euro earned. Existing social security contributions are untouched, and the GMI is kept at the same level OM, with means-tested payments reduced by OP as a result of every household's "means" being increased by the amount of the PBI.

Graph G6 Partial Basic Income

This reform is depicted in graph G6. A PBI is given to each household at level OP. This has the immediate consequence of shifting the 45° line upwards, as every household's pre-tax income rises by amount OP. The lightly shaded area below the new

¹⁵ At this stage, the PBI can be interpreted either as a citizen's income (if it is granted without any activity condition) or a participation income (if it is subjected to a broad condition of "participation"). It can also be interpreted as either a social dividend or a negative income tax.

45° line represents the proportional social security contributions, the rate of which remains unchanged (t). Taxation proper, by contrast, needs to be massively expanded to fund the huge new outlays on the PBI. To secure this funding, a proportional tax is now raised from the first Euro earned, at a rate t^* chosen in such a way that someone with a pre-tax-pre-transfer-income of OC ends up, as in the initial situation, with a net income of CF. In G6, the effect of this additional tax on net income is depicted by a straight line PF passing exactly through D because of the specific choice made for the level of OP. Whatever outlay is not paid for in this way has to be funded by an adjustment in the tax rate that applies beyond C. By how much taxation needs to rise in this range is given by the total cost of the PBI minus the taxes now raised in the OC range and the means-tested payments now no longer made in the AB range.¹⁶ The total cost of the new tax required to finance the PBI (minus the savings from the reduced cost of the means-tested GMI) is then represented by the massive expansion of the darkly shaded area, relative to what it was in the initial situation (graph G1).¹⁷

Once again, we can bring out the consequences of the reform by focusing on the resulting profiles of disposable incomes, average and marginal tax rates. Despite the very different intellectual gymnastics we have just gone through, we end up with the very same three after-reform profiles as in graphs G2 to G4. First, the level of OP and the implied linear tax rate were chosen in such a way as to achieve the same profile of disposable income in the OC range as with the previous two policies. Second, precisely because of these identical profiles in the OC range, the net cost to be picked up by increased taxation beyond C — the complex net result of the introduction of PBI payments, the increase of taxation and the decrease of means-tested payments in the OC range — is also necessarily identical to what it is under the other two policies. Hence, despite the massively larger tax revenues required under this third policy, the economically relevant marginal rates and the politically sensitive disposable incomes are exactly equal, at every level of gross income, under all three schemes.

¹⁶ Because of the PBI's effect on lower incomes prior to the means test, less households qualify for means-tested payments (only those in the OA range, no longer all those in the OB range), and those who qualify are entitled to lower payments (a maximum of PM, instead of a maximum of OM).

¹⁷ In some proposals, for example Helmut Pelzer's (1996, 1999) "Ulm Modell", the BI is supposed to be funded by a specific proportional "Bürgergeldabgabe" (citizen's income levy) with a broader income base than both social security contributions and the ordinary personal income tax (no exemptions allowed).

The challenge

This simple exercise in graph-assisted elementary arithmetic yields the challenge that constitutes our point of departure. We have explored three tools for alleviating the unemployment trap which are commonly associated with very different approaches and certainly sound extremely different: scrapping social security contributions on low wages by exonerating the lower layer of everyone's earnings, introducing a refundable tax credit reserved for the working poor, and paying all households, rich and poor, a uniform grant. Yet, in each case, we ended up with an identical net impact. All three tools reduced the unemployment trap to exactly the same extent. All three tools modified the distribution of disposable incomes in exactly the same way. All three tools generated an identical pattern of marginal taxation.

Of course, this arithmetic exercise was rough and simplistic. It started from an oversimplified picture of the existing complex system of social insurance and assistance. It did not use any precise estimate of the distribution of households across the various ranges of earnings. And it did not incorporate any conjecture about the way in which economic agents would react to the new incentive structure. Bringing in each of these important considerations would of course affect the outcomes. But for the purpose of formulating our challenge, this does not matter in the least. For the changes brought about by using the three tools, as depicted in our graphs, are strictly equivalent, and can therefore be expected to be affected symmetrically by the introduction of each of the considerations just mentioned. In particular, it can no doubt be pointed out that it is only when the behavioural effects of the various reforms are taken into account — as households and firms adjust to the new pay-off structure — that the differences between the various policies can come to light. But how could any such difference emerge if the new payoff structures are identical in all three cases? Indeed, when scrutinised closely, most, if not all, existing attempts to formally model the behavioural impact of any of the three policies (in a context in which a GMI is and remains in place) would apply just as much to the corresponding variant of either of the other two policies.

Such a formal equivalence constitutes at least *prima facie* a disturbing challenge for anyone who embraces (sometimes passionately) any one of the three policy proposals, while rejecting (sometimes no less passionately) some of the others. It might be tempting to object that the whole exercise from which the challenge emerged was

rigged, since in each case levels and rates were selected so as to generate the equivalence. Some actual proposals of each type are quite remote to the particular one we have considered, and they may therefore generate very different effects. Actual RSSC proposals, for example, tend to recommend that one should scale down contributions on the lower layers of earnings without scrapping them altogether. EITC, as implemented in the United States, differs from the variant selected above because the level of the tax credit, after growing proportionally earnings as these increase from zero, and before being gradually phased out, remains constant over some range. Some PBI proposals rely at least in part on the taxation of land, energy or consumption, rather than exclusively on an adjustment of the income tax. EITC as it exists and most NIT proposals make the amount of the benefit crucially dependent on the composition of the household. Countless more variations of this kind could be mentioned, sometimes implying massive departures from the profiles of marginal and average tax rates depicted in graphs G2 and G3. Such variations matter a great deal if the effects of specific proposals are to be assessed. But they are irrelevant to the challenge itself, at least within the broad limits within which the parameters of each of the three proposals can be adjusted to preserve the equivalence.

What about a full basic income ?

It must, however, be acknowledged that there are such limits. In particular, the equivalence claim becomes rather far-fetched as one moves from the sort of substantial but partial BI depicted in G6 to a full BI (at level OM), one that could entirely replace the existing GMI without increasing poverty and would enable households to increase their net income as from the first Euro of gross earnings. True, the same net relation between gross and net income could still be achieved through a RSSC that would allow for negative social security contributions, i.e. net employment subsidies, in the OA range. And it could also be achieved through an EITC with refundable tax credits making net income jumping all the way to OM as from the first Euro of earning. But these would hardly be natural ways of expanding either RSSC or EITC.¹⁸ Advocates of

¹⁸ The equivalence of PBI and EITC with RSSC become far-fetched as soon as they enable (irrespective of the GMI) households with gross earnings of less than OA (=OM) to reach a net income of OM or more. Even if regressive tax schedules are ruled out (if explicit marginal taxation in the OA range

a full BI may therefore feel immune from the threat of the equivalence result. Except in a strained, administratively cumbersome way, what they propose and want cannot be achieved through some version of RSSC or EITC.

This is true, but does not make the equivalence irrelevant, even to them. For as a measure designed for immediate implementation, there are two strong reasons for focusing on a partial rather than a full BI. One is that the sudden introduction of an individual BI at the current level of GMI for single people (inclusive of housing allowances, if such exist) would unavoidably create a massive upheaval in the distribution of disposable income between various types of households, in particular at the expense of one-adult households and in favour of two- or more-adult households. The infliction of serious and sudden losses on a broad set of households is not desirable, not only for reasons of political feasibility, but also for reasons of intrinsic fairness which this is not the place to spell out.¹⁹ While decisive for short-term proposals of a strictly individual full BI, this objection is much weaker in the case of household-based variants of BI, which are able to mimic the current dependence of GMI levels on household composition and thereby to avoid these massive shifts.²⁰ Compared with this strategy, however, a strictly individual but partial BI, combined with a residual household-based and means-tested GMI, has the symbolic advantage of asserting more clearly that this is not merely improved social assistance but the expression of equal citizenship, and it has above all the crucial practical advantage of making entitlements independent of living arrangements for the bulk of the population, which makes it both administratively cheaper and less intrusive of people's privacy.

Secondly, both an individual and a household-based full BI would naturally be designed to enable households to improve their net incomes as from the first Euro of gross earnings. However, compared to a PBI strategy, this would have the unavoidable

is not higher than beyond A), these limits should encompass, in the West European context, quite substantial PBI levels.

¹⁹ See Van Parijs (1995: section 4.6) on the importance of predictable taxation to avoid negative employment rents. Even the introduction of a partial BI could not avoid significant shifts, however astutely the various available tax instruments are used to minimise sudden downward shocks on some categories of (not very well off) households. (See Gilain & Van Parijs (1995) and Terraz & Joyeux (1998) for micro-simulations of various scenarios in the case of Belgium.)

²⁰ See, for example, the versions of NIT advocated by Mitschke (1985, 1995), Haveman (1988), Brittan & Webb (1991), Bourguignon & Chiappori (1997), Godino (1999) endorsed by Castel (1999), etc.

consequence of increasing marginal rates of taxation higher up, in the much more crowded middle range of the distribution of potential gross earnings, and therefore of having an impact on economic activity (via weaker incentives to train, seek promotion, etc.) that is likely to be more negative than maintaining an unemployment trap for the least productive, at the very bottom of the distribution of earnings.²¹ This is no decisive argument at all against moving towards a full BI, especially as both the average and the dispersion of gross earnings can be expected to keep growing. But it is definitely an argument for adopting a cautious approach, one which reduces significantly the depth of the trap without getting rid of it in one swoop. Combined with a residual GMI, an individual and universal PBI would do precisely that.²²

In this light, the equivalence issue gains a different significance. For supporters of an (eventually) full BI, it offers a potential for converting to a PBI — the first stage of what they want — policy makers who have already travelled so far as to advocate RSSC or EITC. This potential is strengthened if a closer look at the equivalence comes up with some hidden advantages for PBI. It is weakened if closer scrutiny reveals instead some significant benefits of RSSC or EITC, to which the equivalence claim was blind. Of course, a supporter of a full BI is unlikely to regard these benefits as decisive. It is nonetheless in her interest to understand their nature. The most powerful plea is one that grasps the full strength of the opponents' case. Even for those whom the equivalence claim leaves undisturbed, a close look at it is most likely to repay the trouble.

2. UNHEEDED DIFFERENCES

Perhaps the most obvious challenge to the validity of the equivalence claim is that its formulation completely overlooks the crucial distinction between social insurance contributions and redistributive taxation. Once this distinction is made, policies which

²¹ In Graph G6, net earnings would no longer fall on the PF line, but, for example, on a straight line MF, with a bigger tax adjustment beyond C. Just as a flattening of the net gains in the BC range was a price to pay for getting the AB range out of the trap, a flattening of the gains in the BC range is a price to pay for getting everyone out of the trap.

²² In principle, a full BI could do it too, simply by imposing, somewhat oddly, a 100% tax rate on the lower layer of income (as in a variant studied e.g. by Salverda 1984). But given that a full BI is not needed to do achieve such a profile — whereas it would be to abolish the trap —, the first argument in favour of a PBI becomes decisive.

scrap or reduce the contributions of the low-paid can no longer be viewed as equivalent to policies which provide tax credits or cash benefits without reducing these contributions. For in the latter case (EITC and PBI), the entitlements coupled to the insurance contributions remain intact, whereas they are curtailed in the former (RSSC). This asymmetry would stick if the insurance principle were seriously upheld by the advocates of RSSC. But it seldom is, if ever, and rightly so. If the aim is to fight unemployment without increasing poverty, it does not make sense to reduce the old-age pensions, unemployment benefits, health care entitlements or sick pay of people with low earnings, as a quid pro quo for an increase in their take home pay. The versions of RSSC which are relevant in the present context — and which are actually put forward — are therefore versions which do not affect social insurance entitlements any more than EITC or PBI. The putative equivalence still sticks. Yet, there are important differences that derive from the nature of the three reform schemes, rather than from the particular variants adopted.

2.1. UNEARNED INCOME, SELF EMPLOYMENT AND THE INFORMAL SECTOR

Actual proposals do not only vary in terms of the profiles they imply. They can also be more or less selective. For example, RSSC proposals are sometimes restricted to specific industrial sectors, or to newly created jobs, or to workers with a low level of education or a long record of unemployment. EITC was initially confined to families with children. In the form of a non-contributory and non-means-tested pension, a BI restricted to the over 65s already exists in some countries. Many of these features can be readily disqualified as potential responses to the equivalence claim, as they can easily be mimicked within the framework of the other two policies. But some of them — for example, a restriction to waged workers of the formal sector — cannot be so easily dismissed because of their link with intrinsic differences between the three schemes. This difference can only appear as one relaxes the simplifying assumption made so far that household incomes consist entirely of formal sector wages. Indeed, because of their constitutive features, RSSC, EITC and PBI do not relate in symmetric fashion to the distinctions between earned (or labour) and unearned (or non-labour) income, between waged employment and self employment, and between formal and informal income. This can be brought to light, in the simplest possible way, as follows.

PBI better for poor rentiers, pensioners and divorcees?

Let us define unearned (or non-labour) income as any form of income that does not consist in direct compensation for the performance of labour, for example interest on savings, capital gains, contributory pensions, invalidity allowances, or alimonies received from divorced partners. As a simplifying, but not too unrealistic, assumption, suppose that unearned income is not subjected to anything analogous to social security contributions, and hence is only taxed, in the initial situation, from level C, with net unearned income rising along the 45° line OK.

Obviously, for someone with nothing but unearned income, RSSC and EITC leave the profile of disposable income unchanged (along MDK), except for the usual tax adjustment for gross incomes exceeding C. But PBI stands out. The new levy introduced to fund the PBI applies at the same rate (t^*) and from the first Euro to both unearned and earned income. Hence, GMI aside, the net income of a household with nothing but unearned income will move along PK in Graph G6.²³ There will therefore be a net gain for households with an unearned income in the UA range, who can now combine the latter with the PBI in such a way that they reach a net income in excess of the GMI and hence escape the range in which they would qualify for means-tested payments. There will also a net gain — represented by the distance between the old OK line and the new PK line — for households whose unearned income falls between OA and OC. Somewhat paradoxically, the PBI scheme is the only one that imposes a tax on low unearned income — at a sizeable rate and from the first Euro —, and yet it makes some of the more modest recipients of this unearned income better off than they would be under the other two proposals and under the status quo.

If unearned income were, for some reason, exempted from the new levy or subjected to a much lower rate, the profile of net unearned income (inclusive of PBI) would not be lifted from OK to PK, but from OK to PY, with the necessary consequence that even recipients of unearned incomes far in excess of OC would benefit. Since all are entitled to the PBI, there is of course no principled reason to exempt any income recipient from contributing to it. But there may be pragmatic reasons, for example when the cost of detection of major categories of unearned income

²³ The measure is therefore neutral for someone with an unearned income of OC. The difference FK between the net income of a household with unearned income OC and that of a household with earned income OC corresponds to the amount of social security contributions to be paid by the latter at rate t .

is prohibitive or their responsiveness to taxation very high. Under such conditions — which quite plausibly apply to capital income, a PBI would seem to necessarily involve, relative to both the status quo and the other two policies, a large transfer towards the recipients of unearned income, including very affluent ones. This would count as a serious, indeed conceivably as a fatal objection to PBI (and, even more, to a full BI) if one could not rely on the existence of a strong positive correlation between capital income and other income. Most people with a sizeable capital income can be expected to also have either a more detectable form of unearned income (typically, retirement pensions) or labour income on which a levy can reliably be raised. In the terms of Graph G6, few households with a total income above OC, if any, will therefore be net beneficiaries of the proposal, as the additional levy on their labour or pension income will completely recapture their PBI, or nearly so, and increased taxation beyond C is likely to erase any remaining gain.

Nonetheless, it is true that, compared to the status quo, EITC and RSSC, PBI is more favourable to modest rentiers, pensioners, recipients of alimonies and other forms of unearned income, even if the new levy applies equally to unearned and earned income. Not only does PBI shrink (from OA to OU) the savers' poverty trap, i.e. the range in which there is no incentive to accumulate entitlements to such income at the lower end of the income distribution. In addition, it improves the net incomes of unearned and earned income recipients alike in the AC range, whereas EITC and RSSC restrict this improvement to earned income. Because of this difference, the net cost to be made up by higher taxation (on all incomes) above C is unavoidably higher under the PBI. How much higher depends on how much unearned income is being received by comparatively poor households.

EITC and PBI better for small shopkeepers and freelance artists?

Let us now leave unearned income aside and consider the asymmetry between waged and self-employed labour. If these are subjected to the same level of social security contributions, RSSC, EITC and PBI have strictly symmetric effects, assuming of course (as is reasonable under the stated condition) that RSSC is not restricted to waged labour. But take the other extreme case, in which self-employed labour is

contribution-free.²⁴ RSSC then applies exclusively to waged labour and achieves two things. It brings the marginal rewards of self-employed and waged labour in line with one another up to level A (in graph G4), thus bringing down the unemployment trap for waged employment (OB) to the same level as for self-employment (OA). At the same time, it steeply increases the gap between the marginal rewards for the two types of work in the AC range, with the self-employed moving from D to K, and the waged workers from D to F, as their gross earnings increase (see graph G4).

EITC, under these conditions, has a very different impact, even if its level is determined (as assumed throughout) by a person's post-contribution (as opposed to gross) income (see graph G5). While treating waged employment in the same way as RSSC, it lifts the net rewards for self-employment above the 45° line (to OSQ) over a range of gross (and hence net) income from self-employment OW, itself equal to CF, the net wage at which the tax credit for waged employment is completely phased out. Hence, while EITC reduces the unemployment trap from OB to OA for waged employment (like RSSC), it reduces this trap from OA to OR for self-employment (whereas RSSC leaves it unchanged).

Under PBI, all earnings are subjected to the same increase in taxation from the first Euro, but being exempted from social security contributions, earnings from self-employment can exceed the GMI level (PM) more quickly, with the unemployment trap for self-employment lowered from OA to OU, while the unemployment trap for waged employment drops, as usual, from OB to OA (graph G6). Consequently, in the extreme case in which self-employment escapes all social security contributions (and to a reduced extent in all cases in which it is subjected to a lower rate than waged labour), EITC and PBI can be viewed, relative to RSSC, as favouring self employment by making it profitable from a lower level of gross earnings (OR in graph G5, OU in graph G6) than was previously the case. As usual, the net gain for the low-earning self-employed (RW in graph G5, UC in G6) needs to be made up by higher taxation above C. How much higher depends on how high a share of total income is earned by self-employed people in the relevant ranges.

²⁴ While not yielding any less entitlements to benefits than waged labour. As mentioned earlier, we are treating taxes and contributions as equivalent in this respect.

PBI better for LETS traders, volunteers and drug dealers, but worse for the tax base and moral guidance?

Finally, consider a third possibility of asymmetry in the taxation of two types of income: labour income can be either formal, and hence subjected to discounting in the means-testing of benefits, to social security contributions and to taxation, or informal and escaping all of this. Informal work in this sense can consist of drug dealing and moonlighting at odd jobs, but also of producing one's own food, looking after the household in exchange for a share in one's partner's purchasing power or performing volunteer work in exchange for a number of in-kind advantages (free meals and phone calls, computer use, and accommodation) or taking part in a network of (untaxed) exchange of services (the so-called LETS schemes).

If a person's labour income is entirely informal, obviously she could not, by definition, benefit from either RSSC or EITC, whereas she might in principle benefit from PBI. But given that there is a means-tested GMI in the background, to the full amount of which she is entitled (under the above assumptions) since she has no formal "means", this does not make any difference. Whether or not any of the three schemes is in place, the person could be said to use her guaranteed income OM as a full BI. Her informal can be fully combined with it, and her total income therefore rises from M along the top 45° line of graph G6.

Suppose now, more realistically, that what income is taken into account for the sake of means-testing is considerably more comprehensive than what is taken into account for the sake of taxation (and social security contributions): it includes, for example, an estimate of the market value of one's home and other belongings, or the claims one may be able to make on the help of close relatives, whether in cash or in kind, or some degree of self-production, or various black-market earnings far more likely to be detected by the social worker than by the tax controller. To make the contrast in the sharpest form, let us suppose that informal income is completely untaxed, but fully part of the means by reference to which means-tested benefits are being assessed. The profile for an informal worker then becomes MDK in the initial situation as well as under RSSC and EITC (see graphs G1, G4 and G5). But here again, and even more sharply than with unearned formal income, PBI stands out. For the informal worker receives the PBI at level OP and can start earning at a zero rate of tax as from that level (along the PY line in graph G6). Hence her disposable income profile is MXY rather than the less favourable MDK. Relative to the other two formulas,

therefore, PBI can be seen as a subsidy to informal labour at all levels of earnings: someone with informal earnings at level CK, for example, will remain at that level after taxes and transfers under RSSC and EITC, while being promoted to CK+CI under PBI (see graph G6).

How much of an advantage or a disadvantage this is heavily depends on the nature of the informal work thereby encouraged and on the way it is distributed among various levels of earning power. If poor people have little access to informal income sources and all the PBI does (in this respect) is top up the underground income of a handful of wealthy mafiosi, it constitutes, at best, wasted money. But suppose, perhaps more realistically, that the potential for informal earnings is not insignificant either in the lower reaches of earning power. Whereas PBI has exactly the same impact on the formal unemployment trap as the other two schemes (down from OB to OA), it has a dramatically stronger impact, under the stated assumptions, on the informal unemployment trap, which it brings down from OA to OV (in graph G6), while the other two schemes leave it unaltered at OA. Owing to the PBI, people need to possess an informal earning power of only OV for them to have access to a total net income in excess of OM and hence find themselves beyond the maximum limits for means-tested benefits.²⁵ Exiting the range in which the means test applies not only has the advantage of avoiding what may be regarded as unwelcome intrusions into the claimants' privacy (on a scale that far exceeds what a tax controller could get away with). More important for our present concerns, it enables poor people in the VA range (graph G6) to get out of the trap and start earning in the informal sphere without being taxed at an effective rate of 100%. Moreover, the administrative costs of the means test can be expected to shrink significantly, at least if only a small proportion of those currently on means-tested benefits have earning powers in the very lowest range OV.

On the other hand, this very reduction in the reliance on the means test may be considered a serious disadvantage by those who view transfer schemes as an opportunity for enforcing proper conduct. The very fact that a PBI would, relative to the

²⁵ The difference also holds, in a gradually attenuated form, when the earning power accessible to the poor is a combination of formal and informal earning power. As the formal component increases, the extent of the reduction of the trap gradually shifts and shrinks from VA to AB (in graph G6), whereas for the other two schemes it expands from nothing to AB. Needless to say, the difference is also reduced as informal income is treated less differently from formal income by the tax system (at the limit, they are taxed at the same rate and with the same probability) and more differently by the means-tested GMI (at the limit, any level and kind of informal income can be combined with the GMI, just as with the PBI).

other two schemes, reduce the scope for meddlesome casework from the OA range to the OV range of earning power then counts as an argument against it.²⁶ So does, less controversially, the fact that the dramatic lowering of effective taxation on informal income in the VA range under PBI, may lead some people who would be earning a formal income beyond level OA under any of the other two schemes to substitute some informal for formal earnings, thereby reducing the tax base. This effect may or may not be offset by the fact that those in the VA range of earning power will have, relative to the other two schemes, a somewhat greater incentive to do some formal work too and, above all, to maintain their skills and sanity.

2.2 UNDERNEATH THE GMI

A second set of differences emerges — even if all income consisted of formal waged income — as soon as one allows for the possibility that some households' incomes may fall below the GMI by virtue of their choosing to earn less than this amount. That some households may have an income below the GMI is an obvious possibility in those countries in which the GMI is restricted to certain categories of households (e.g. to families with children or to single parents). But even in those countries in which there is an effective and general GMI applying to all types of households, it is possible for people to find themselves under level OM because the right to GMI payments is usually subjected, not only to a means test, but also to some willingness-to-work test. Consequently, people who willingly reduce their working time in such a way that their gross income falls in the OA range are typically not entitled to having their disposable income lifted to level OM. If an income equal to OM were strictly necessary for survival, this would be an insignificant fact, as no one would make use of such an option. But in reality, even if the GMI does not exceed sheer survival requirements, account must be taken of the scope for intertemporal transfers (living off one's savings or one's loans) and interpersonal transfers (above all within households). Hence, finding oneself in the OA range as a result of choosing to give up, be it temporarily, part or all of one's job, is far from inconceivable.

²⁶ On this disadvantage of any variety of BI relative to NIT (as interpreted), see e.g. Petersen (1997: 58): whereas the "means" which determine the level of the NIT transfer take the right to support payments by spouses and relatives into account, "the introduction of a nontested transfer program would destroy the important role of self-responsibility in the family".

PBI better for low-paid working-time reducers?

For this reason, it is not irrelevant to look at the profile of disposable incomes, under the three policies, in the gross income range OA. Under RSSC and EITC, disposable income falls steeply along the 45° line (DO) as people voluntarily reduce their working time (see graphs G4 and G5). Under PBI, in sharp contrast, disposable income goes down far more mildly in the same circumstances (along DP in graph G6).²⁷ This basic fact can easily be used to clarify and qualify our earlier suggestion that, unlike employment subsidies of any kind (such as RSSC and EITC), BI schemes can be advocated, not only as unemployment-trap-reducing in-work benefits, but also as employment-trap-reducing chosen-time subsidies. When displaying the apparently identical net outcomes of all three policies, the thick line that shows the profile of disposable incomes in graphs G4 to G6 is simply blind to the fact that if people choose to earn less than OA, RSSC and EITC send them down the DO track, whereas PBI keeps them on the DP line. Relative to RSSC and EITC, therefore, PBI cheapens, and hence encourages, working time reduction in the OA range. How much of an encouragement this proves to be depends on how many people find it feasible and sufficiently attractive to live below the GMI with voluntarily reduced working hours.²⁸

For those who believe that the expansion of individually chosen part-time jobs is desirable, this is an important argument in favour of PBI against RSSC and EITC. But others believe that such an expansion is undesirable, for example because of the training

²⁷ For NIT, two interpretations are possible. Either the payment of the negative tax is subjected to exactly the same (willingness-to-)full-time-work requirements as the payment of the GMI, in which case the disposable income of a willing working-time reducer follows the sharp D-O slope. Or it is kept distinct as an unconditionally refundable tax credit, in which case the relevant slope is the milder one D-P, the same as under PBI. Under the latter interpretation, people with a gross income below A could claim some amount even if they are not job seekers as an advance on their NIT, and a further amount only if they are job seekers. This can easily become confusing for both the public officials in charge and, even more, for the ordinary claimant. As long as a residual conditional GMI remains in place, therefore, the strict, PBI-equivalent NIT is quite tricky to implement. I shall nonetheless assume that such implementation is possible.

²⁸ To judge by the experience of Belgium's voluntary career interruption benefit scheme, this number may well be considerable. The scheme was started in 1986 by the then Employment Minister (and later Director General of the ILO) Michel Hansenne. The number of beneficiaries at any single time has risen from less than 10.000 in 1987 to around 50.000 in 1996 (about 2% of total employment), most of them women (86.5%) and most of them retaining a part time job (69%). See Szabo (1997: 16-18) for further data.

or organisational costs it generates, or because of the gender bias in its distribution, or because of the lesser involvement in the work sphere that may be associated with it. They can therefore use the very same difference to substantiate their preference for RSSC and EITC over PBI. They must, however, be careful not to overstate their case. For whereas the policies have sharply diverging relationships to working time reduction at sub-minimum levels of earnings (the OA range), all three of them favour it in a strictly symmetric way in the probably more crucial BC range. For people whose earnings are in this range, the three policies decrease identically the cost of reducing gross income, and hence working time, since any voluntary move from C to A is now matched by a smaller decrease in disposable income than was the case in the initial situation (graph G1).²⁹

PBI necessarily more expensive in an economically relevant sense?

Like the asymmetries pointed out when different types of income are considered, the asymmetry just emphasised underneath the GMI level unavoidably upsets the net cost equivalence between the three schemes, and hence their impact on the tax adjustment required in the upper reaches (above C) to secure budget neutrality. But which way the resulting net cost difference will go is a complex and contingent empirical matter. Voluntary working time reducers in the infra-minimum range OA are entitled to higher net transfer payments under PBI than under RSSC and EITC. This justifies a strong *prima facie* expectation that the latter two schemes must be cheaper than the former two, not only because the people who happen to find themselves voluntarily in that range in the initial situation (graph G1) will cost more under PBI, but above all because PBI creates a greater incentive to give up some tax-paying working time and move into this range. But there are two countervailing effects which may more than offset this difference.

Firstly, the financial sanction if one were to openly admit that one deliberately keeps one's working hours down in the OA range is notably tougher under RSSC and EITC (it corresponds in both cases to the gap between MD and OD in graph G6) than under PBI (it corresponds in this to the gap between MD and PD). Given the choice

²⁹ This is one of the central reasons why Phelps (1997) rejects EITC as badly designed, in favour of his own hourly wage subsidy restricted to full-time workers.

between being fully and (allegedly) involuntarily unemployed and being partly and (openly) voluntarily unemployed, some people may choose the former option under RSSC and EITC (and hence cost the government the full amount OM), whereas they would choose the latter option under PBI (and hence cost the government the smaller amount OP, minus the tax and contributions, which rise from zero to $DY=OP$ as gross earnings rise from zero the break-even level OA). This assumes (plausibly, it seems to us) that the inconvenience to the claimant of claiming the full means-tested, willingness-to-work-tested GMI (intrusiveness, dole queues, job applications, risk of being caught “cheating”, etc.) are neither so great that everyone would choose instead to work part-time under RSSC and EITC, nor so mild that no one would choose the part-time option even under PBI. PBI would then offer a potential for savings by dissuading people from relying on the full amount of the GMI and encouraging them instead to earn a (low) taxable income.

Secondly, there is the work sharing aspect of the encouragement of voluntary working time reduction by PBI. As mentioned before, this encouragement — especially the one which is specific to PBI (in the OA range), as opposed to the one common to all three schemes (in the BC range) — is only sizeable for those with a low earning power. But this is of course also the category of workers which is most significantly plagued by involuntary unemployment. The very fact that some voluntarily reduce their working time, be it temporarily, for example in order to look after their children or acquire further education, frees slots for some of the others. This is of course at the core of the chosen-time-subsidy aspect of the PBI strategy. But it is also a potential source of savings, as the net transfers to these newly employed people shrinks from OM (or whatever higher level of unemployment benefit they are entitled to) to OP minus the taxes and social security contributions on their earnings. Suppose for example that two workers with gross earnings OB decide to halve their working time under PBI whereas they would not have done so under RSSC or EITC (because their disposable income would then have fallen too steeply along GDO, rather than GDP, in graph G6). Suppose further that both halves of their jobs are taken up by an unemployed previously claiming benefits at level PM (in addition to her PBI at level OP). PBI payments are obviously unchanged. So are taxes and social security contributions, with the third person now paying what the first two no longer pay. But a net saving of PM (or more) is booked by virtue of the unemployment benefit no longer needing to be paid.

This is the dividend from work sharing, from the mutually beneficial redistribution of leisure. Added to the dissuasive effect on GMI claimants mentioned before, it is bound to offset at least in part the direct net cost that stems from PBI giving a better deal to the low-paid voluntarily underemployed. What the net balance is — and hence whether the tax rate beyond C needs to be readjusted upward or downward relative to RSSC and EITC — depends on such factors as the availability, among the involuntarily unemployed, of suitable substitutes (qua location and skills) for the voluntary time-reducers, and can therefore not be told a priori.

PBI better for low-paid quitters and strikers?

The same difference in what happens below A is also most relevant to assess the difference between the three policies in terms of the redistribution of bargaining power they bring about. If a worker chooses to quit because (s)he is fed up with her working conditions or pay level, the immediate cost (s)he has to bear is smaller by amount OP under PBI than under the other two policies. Similarly, workers on strike would keep receiving their PBI (which could therefore be regarded, among many other things, as a systematic collective subsidy to strike funds), while they would obviously lose all benefits from EITC or RSSC.³⁰

For highly paid workers, this is of little significance, partly because the PBI corresponds to only a small fraction of their earnings, and partly because, for most of them, their bargaining power derives mainly from the alternative job opportunities they have. But for poorly-paid, low-skilled workers, even a low PBI can make a significant difference to their bargaining power, with noticeable consequences for both the working conditions and the pay of the jobs in which employers will want to keep them. It does not follow from this difference that the quit rate can be expected to be higher or strikes to be more frequent under PBI. Simply, the fact that the threat of quitting or striking needs to be taken more or less seriously, depending on the scheme adopted, will systematically lead to different deals. This argument, again, is two-edged, as some may

³⁰ Under a sufficiently broad specification of the participation condition (part time work, education, child care, etc.) most of what applies to PBI in this section also applies to Atkinson's (1993b, 1996) "participation income". One exception concerns the power to strike, as it would be hard to construe strikers as fulfilling the participation condition.

regard this equalisation of bargaining power (however modest) as a major danger: for those concerned that there should be enough people to do cheaply the dirty jobs, EITC and RSSC offer, for this reason, a better promise.

PBI better for human capital accumulation?

In the discussion on BI or NIT, it is sometimes pointed out that the incentive to improve one's skills and thereby one's earning power will be reduced. This can be attributed in part to the rise in marginal tax rates upward of gross income OB (in graph G6): the return to skill acquisition, and productive effort generally, is significantly reduced in the BC range, in which many people start their working careers, and to a lesser extent also beyond C. The negative impact on incentives can also be attributed in part to the fact that some young people will be satisfied to supplement their PBI with the income from a low-skilled more or less regular job in the AB range, whereas in the absence of a PBI they would have bothered to acquire further skills so as to fit into a more productive job in the BC range.³¹ The overall result would be a less educated labour force and a less productive economy than could be, and would otherwise be, the case.

This is a potentially important argument, which applies to exactly the same extent to RSSC and EITC as it does to PBI, since in the AC range all three policies amount to straightening DEF into DGF (see graphs G4 to G6). How weighty this argument is against the family formed by all three policies needs to be assessed bearing in mind, among other considerations, the following three. First, intra-organisational promotion provides non-monetary incentives (power, titles, non-taxable privileges) no less than monetary ones, and the former are left unaffected by the change. Second, rises in marginal tax rates may go hand in hand with rises in marginal returns, if it operates on the background of a growing inequality in gross earning power — which is precisely one central aspect of the trends which are creating the problem in which the “new social question” consists. Third, the human capital of the people stuck in the unemployment trap is getting quickly eroded, owing to a powerful positive feedback process of skill

³¹ These two facets of the human capital argument against BI are being presented as the central objection against it, respectively, by Bovenberg & van der Ploeg (1995) and by Krause-Junk (1996).

obsolescence and motivational adjustment, which the three policies, by reducing the unemployment trap, are helping to keep in check.

All these considerations apply symmetrically to all three policies. If there is a significant difference between them, as regards human capital accumulation, it must again be due to differences arising below the GMI level. One possibility is that some people may be happy to combine their PBI not only with a low-paying job in the AB range, but also with an even lower-paying job in the OA range, one which would yield them a far lower disposable income under RSSC and EITC (see the gap between PD and OD in graph G6). Would some people really choose to durably stick to such a modest standard of living by voluntarily refraining from upgrading their skills? Perhaps. But this difference is quite likely to be more than offset by the following three countervailing differences.

First, one standard reason for voluntarily and substantially reducing one's working time in such a way that one's disposable income temporarily falls below M , is precisely that one may wish to invest in further education and training so as to boost one's future earning power. In this fashion, a PBI can work as a permanently available study grant, whereas RSSC and EITC cannot.

Second — more speculatively —, another major reason for choosing to temporarily reduce one's earnings below the (permanent) subsistence level is one's desire to spend more time with one's children at the time they need it most. Given some striking standard empirical facts about the determinants of educational achievement — such as the strong predictive power of one's mother's educational level —, freeing poor households from a compelling pressure to work full time at the expense of bringing up their children as they would like to can be a major contribution to the productively usable human capital of the next generation.

Thirdly, the impact on bargaining power associated, as pointed out above, with the differential cost of quitting and striking is likely to show up in the training content of the low-productivity jobs (in the AB range) which the reform aims to make viable: workers with a higher bargaining power will be less willing to put up with low pay unless the job provides them with a useful experience or training which should help them move up. The heavier the cost to them of quitting or striking, on the other hand, the less discriminating they can afford to be and the more likely the low-skilled are to be

stuck in dead-end jobs.³² Whether directly or indirectly, therefore, the improvement of the lot of those who choose to find themselves in the OA range would seem to enable PBI to foster a better educated work force than RSSC and EITC.

2.3. UNIVERSALITY

PBI more effective as an instrument against poverty?

Finally, the most striking difference between PBI and the other two instruments is that it is given *ex ante* to all, rich and poor.³³ In terms of fight against income poverty, this has the obvious advantage of making surer that at least some purchasing power reaches the poorest. The rate of take up for universal benefits is systematically higher than for means-tested ones, owing both to the difficulty of providing the information to those entitled to claim them and to the stigmatisation that tends to accompany any benefit scheme restricted to the poor. Of course, a PBI does not lift people out of poverty and therefore does not make the GMI dispensable. But for those people in the OA range for whom the GMI scheme does not do what it is supposed to do, whether permanently (because of the inhibition generated by intimidating or humiliating procedures) or temporarily (because of information failures or file-processing delays), it makes a big difference whether they can move along the PD curve, as the PBI regime enables them to, rather than along the much lower OD curve, as the other two policies restrict them to in the most favourable case, or even along the even lower OZ curve if tax credits take a while to reach their beneficiaries under EITC (see graph G6). How much of a difference this makes clearly depends on the relative effectiveness of GMI and PBI at honouring the entitlements of people in the OA range. The greater the gap, the greater the additional net cost of PBI (to be offset again by tax adjustments beyond

³² The first argument (educational grant) is closely related to Guy Standing's (1986, 1992, 1999) case for BI as a strategy for facilitating the back-and-forth between work and education which our flexible economies require. The second argument is related to Ken Mayhew 's (1991) cautious claim that the introduction of a BI should lower the relative attraction of low-skill poor-training full-time jobs from both the employers' and the employees' standpoint, and thereby help a country such as Britain out of a "low quality/ low skills equilibrium"

³³ Contrary to the features of PBI discussed in the previous two sections, universality is not shared by NIT, which will therefore side, in the discussion to follow, with EITC and RSSC.

C), but also the stronger the prima facie case in its favour as an incentive-friendly but nonetheless effective tool against income poverty.

On the other hand, it may be argued that it is precisely this administratively straightforward nature of the transfer, the fact that it does not rely on means-tested transfers, that makes PBI less effective as a strategy for tackling those aspects of poverty which do not reduce to income poverty. Desperate isolation, the inability to manage one's income or a shaky mental health may often be no less crippling than the lack of adequate purchasing power. Against this background, the social workers' implementation of the means test, while sometimes perhaps unpleasantly intrusive, provides precious opportunities for them to effectively identify and tackle these further problems. This argument would definitely be worth a close look if we were here talking about a full BI. But a PBI is coupled with a residual GMI which gives social workers the opportunity and power to help as aptly as they can in those cases in which non-income aspects of poverty require it. Indeed, by automatically softening the blow of sudden adversity (by virtue of its dispensing with the need for any claiming procedure) and by lifting more people out of the means test than the alternative schemes (at least if there is something to the informal work argument of section 2.1 and the working-time-reduction argument of section 2.2), a PBI might enable social workers to do a better job by concentrating, in a less emergency-dominated way, on the people who really need their professional help.

PBI better at handling the uncertainty side of the unemployment trap?

Field researchers have pointed out that what kept many of the "excluded" from accepting a job or actively looking for one is often less the lack of an income differential between no-work and work than the fear of leaving the relative safety of a regular flow of benefits for the uncertainty of a job that may pay late or prove too demanding. For the risk of a period without any income is something households at the margin of solvency cannot responsibly afford.³⁴ If this is the case, the trap may not be suppressed, for someone with a gross earning power of OB for example, by the sole virtue of the corresponding net income being lifted by the reform from BE to BG (for

³⁴ See Delvaux & Cappi (1990), Jordan & al. (1992).

example in graph G5). People may therefore stick to joblessness with the lower income level OM, because of the feeling that the higher income BG is less safe: the job can be lost, and in case it is lost, going back to OM is often far from automatic.

Hence, it may prove of far more than marginal importance to point out that under PBI, not under the other two policies, part of BG is made totally safe, because people keep it no matter what. With a PBI, the net income BG of someone with gross income OB is neither less nor more than under the other two policies, and the income-differential aspect of the alleviation of the poverty trap is therefore identical (as reflected in graph G3, or in the thick lines of graphs G4 to G6). But under PBI, jumping from earning nothing to earning OB is less of a risk than under EITC or RSSC because only the difference HG (in graph G6) is affected by uncertainty, while the firm flow BH is unaffected. The importance of this difference can vary from the trivial to the crucial, depending on (1) how large a share of net income the PBI represents, (2) how insecure the relevant jobs and earnings are (private sector precarious jobs, self employment, workers' co-operatives, etc.)³⁵ and (3) how complicated, lengthy, humiliating and in other ways difficult it is to get the flow of means-tested benefits running again once the job has vanished, or has been taken away by the employer or been given up by the worker.

PBI less appealing to Trade Unions ?

The fact that PBI is paid ex ante to all may be better, for the reason just explained, for the sake of fighting unemployment. It might also provide a reason for expecting PBI to be less popular with the Trade Union movement than the other two policies.³⁶ That this should be the case is not obvious from the considerations explored so far. True, PBI is comparatively more favourable to informal labour than the other two schemes (see

³⁵ This ties up with the old theme, developed by Nootboom (1986) and Meade (1989) among others, that a BI would be a way of spreading entrepreneurship in the population, and also with the idea that there is a natural complementarity between a BI and both a co-operative economy and a share economy (see Van Parijs 1995: section 6.4)

³⁶ By no means do we want to imply that there are no voices in the Trade Union movement that support the BI approach (see, for example, van Berkel & Hindriks 1991, de Henau 1996). But with the remarkable and partly enigmatic exception of the Voedingsbond FNV in the Netherlands (van Berkel & al. 1993), there is to our knowledge no single Union leadership which has openly and systematically advocated it (which cannot be said for RSSC, employment subsidies or even forms of NIT).

2.1 above), which makes it unlikely to be a vote catcher among organised formal workers. But compared to RSSC, it has the advantage of leaving untouched the level of social security contributions — which, unlike tax revenues, are often to a notable extent under Union control. Moreover, PBI can be seen as a massive contribution to strike funds (see 2.2 above). Of course, unlike strike funds of the standard form, PBI is not Union-controlled. It gives a power to strike without the Union's consent and may therefore prove a mixed blessing from the standpoint of the Union's leadership and its ability to effectively mobilise working people. Nonetheless it should, all in all, strengthen the bargaining power of organised labour.

So, why are the Unions not more enthusiastic? If a Union's objective can be reduced to the interest of its median member and if the latter can be depicted as earning a gross wage in excess of OC — and hence having nothing to gain from the reform —, then the Union's being at best lukewarm should come as no surprise. But this would apply symmetrically to all three policies and would therefore do nothing to predict a specific reluctance to embrace PBI. The PBI's ex ante payment may be the key. For even if a worker's net income, her effective marginal tax rate, her comprehensive average tax rate and the income difference between her income at work and out of work (whether social assistance or unemployment benefit) are exactly the same in all three cases, her take-home pay is significantly lower under PBI than under the other two schemes (in graph G6, IF instead of CF for a worker with level CK of gross earnings). The difference is exactly the amount of the PBI, which the worker's household receives independently of the worker's pay package. The household should not care, but the Union will, as the fraction of the worker's material welfare which it is perceived to control, or at least affect, will be significantly curtailed. This perception, no doubt, rests on an illusion, since in all three cases the public tax-and-benefit system modifies the distribution of gross incomes in exactly the same way. But this is an illusion of a particularly credible and possibly powerful kind. If take-home pay is a far smaller proportion of a household's income under one scheme than under another, how can this fail to affect the degree of unionisation or the ease with which the Union leadership can mobilise the rank and file?³⁷

³⁷ In some countries, this effect may be reinforced by another, which derives from the differential impact of the various schemes on unemployment compensation. Under both EITC and RSSC, the level of unemployment benefits should be hardly affected, if at all. But under PBI, their (post-tax) level needs to be reduced by an amount about equal to the PBI. In some countries (such as Belgium), the distribution of a large proportion of the unemployment benefits is managed by the Unions and a significant fraction of

To the extent that Union support is important to secure the adoption of one of the policies, this effect, if significant, provides a tactical case for EITC, RSSC and the NIT version of PBI against the latter's universal, ex-ante version. But there may be more at stake than political feasibility. The Unions' concern with the non-decrease of take-home pay may generate a different dynamics of labour costs depending on which of the policies is adopted. For if such a concern is of decisive importance, the introduction of a universal PBI and any increase in its level would affect collective bargaining very differently from corresponding advances with EITC, RSSC or NIT. As organised workers insist on protecting their net wages, not only their net incomes, they would trigger off a wage-inflationary process, with detrimental effects on the achievable trade-off between unemployment and non-accelerating inflation.

PBI politically less attainable but more stable?

A final asymmetry that stems from the same fundamental difference between the ex ante PBI and the other schemes concerns their political chances in the democratic process. There is bound to be a tremendous difference in perception between an income that suddenly starts being paid separately to every citizen (PBI) and such more localised and less visible changes as a modification in the schedule of social security contributions which will remain unmentioned in any document routinely received by workers and citizens (RSSC) or a tax reimbursement to the working poor (EITC). In all likelihood, workers in the BC range will soon notice, under each of the three policies, that they have become better off, though possibly only with some delay, owing to the length of the tax procedure (especially with EITC). Gradually, people will hopefully also start discovering the increased potential in the AB range or indeed, as far as voluntarily underemployment is concerned, in the OA range. Moreover, the tax adjustment above C, if significant, is also going to be felt by some. But all this is relatively minor and local, compared to the highly visible introduction of an income henceforth paid from the same source to every citizen, coupled with a dramatic increase in the apparent rate of taxation.

the Unions' revenues takes the form of a share in the amount distributed by way of compensation for the expenses incurred in the provision of this service. If the latter is dramatically reduced, the Unions may fear that a significant part of their funding will become less secure. Even if this is not the case, the material importance of the Union's role in the (unemployed and potentially unemployed) workers' eyes may be notably reduced.

There are at least three reasons why this feature may make the introduction of PBI more difficult than equivalent variants of the other two alternative policies — and indeed than the much closer NIT —, even assuming that there is no difference whatever in their economic consequences and in their impact on the material fates of all categories of households. One is simply that, being less conspicuous, the other policies can be phased in more swiftly by politicians clever enough to alert the likely beneficiaries without attracting too much attention from those likely to lose out (those with incomes above C). A second reason is that opponents can easily exhibit the (alleged) absurdity of handing out benefits to scores of people who do not need them in the least, namely with a gross income in excess of OC.³⁸ It would not be very hard for them to be persuasive, as their audience may well fail to see the equivalence between PBI and the corresponding NIT (with all transfers on graph G6 netted out) and be eluded by the subtle superiority of "giving to the rich" in terms of the interests of the poor (whether because of higher take-up rates or the trap aspects discussed earlier in the present section). A third reason is the scare of high apparent tax rates. Whereas RSSC and EITC (and NIT) can be sold as tax cuts (admittedly compensated by a somewhat higher taxation in the range above C), PBI cannot but be perceived as a massive increase in government expenditure and taxation. One can no doubt devote some energy to explaining that what matters is the profile of effective tax rates and disposable incomes, which happens to be exactly the same as in the "tax-cut" alternatives, and that one should think about the "cost" of redistributive programmes quite differently from the way one thinks about the cost of substantive expenditure programmes.³⁹ But, in some countries at any rate, it is nonetheless likely that opponents (whether in good or bad faith) to the proposal will manage to focus public attention so intensely on this huge "cost to the taxpayer" that, for a mainstream politician, defending it will look tantamount to political death.

PBI, therefore, does not fare too well in terms of political attainability. On the other hand, it may fare better in terms of political stability. The experience with the Alaskan Dividend Scheme provides some evidence in support of this conjecture.

³⁸ James Tobin remembers, for example, that, in the 1972 democratic primaries, George McGovern's demogrant proposal (which Tobin, as his chief economic adviser, had managed to squeeze into his platform) was ridiculed by his rival Hubert Humphrey on precisely this ground (see Van Parijs 1998: 8).

³⁹ This point is neatly made by Shaviro (1997).

Despite occasional observations that the money would be better spent if it were more targeted or if it were used for public investment, the scheme is proving a "political sacred cow".⁴⁰ By contrast, being less visible, tinkering with contribution rates and tax rebates to the low-paid may for this reason be easier, not only to introduce, but also to roll back. Further indirect support for this claim can be gathered from the discussion on family allowances. True, there has been a wave of reforms subjecting previously universal child benefits to a means-test of varying severity on the ground that "a universal payment to all mothers regardless of a family's means was wasteful" (as Margaret Thatcher's government put it). But the first two countries to travel this road have since returned to a universal system (Denmark in 1981 and Japan in 1985) and similarly motivated government means-testing plans were successfully resisted in several other countries, including the UK in 1987, Ireland in 1991, Sweden in 1995 and France in 1998. Moreover, comparative evidence seems to support the view that the level of the transfer is more secure when everyone receives it than when only the poor do. For example, the level of child benefits as a proportion of average wages is systematically higher in countries which have stuck to a universal system.⁴¹

Greater political irreversibility is a precious advantage if one is certain that reducing the unemployment trap, as done by each of the three policies, is the way to go. Otherwise, it may be regarded as a serious defect. What, for example, if the disincentives to work or train in the BC range — which are, as we have seen, a necessary corollary of the stronger incentives to work in the AB range — are so strong that a dramatic net loss in economic efficiency will result, once the full effect of having a more laid back, less skilled labour-force (drifting leftward on our graphs as worker cohorts succeed each other) make themselves felt? In this case the very superior political robustness of the PBI scheme (if established) would prove a handicap, as it would prevent swift readjustment once the negative effects of the policy are detected and their full size assessed.

⁴⁰ See Olson & O'Brian (1990), Brown & Thomas (1994).

⁴¹ See Gauthier (1996: 164-166) on the back and forth between universality and means-testing since 1976, and on the putative effect of universality on benefit levels. See also Bezat (1998) on the recent U-turn in France.

CONCLUSION: PBI ON THE AGENDA?

Underneath the prima facie equivalence between matching variants of the three policies, our very stylised graphical analysis has thus enabled us to highlight a number of potentially important differences. Once we laid aside the distinction between taxes as pure levies and social contributions as insurance premiums, we were left with three basic sources of differences: how the three policies relate to different types of income (section 2.1); how they treat those who voluntarily find themselves under the GMI level (section 2.2); and whether they rely on ex ante payments (section 2.3). This systematic inventory of what we believe to be the main relevant differences is obviously inconclusive on many counts. For most of the differences we explored, it was possible to state a priori, if there was an advantage, which way it would go. But our assessment of the significance of this advantage has always been rather vague and tentative, based on casual or indirect evidence — if any. In many cases, a far more serious empirical evaluation of the differential impact would be useful, and so would, in some of them, more complex theoretical modelling.

However tentative, our exploration should force supporters of each of the three policies to qualify a number of arguments they routinely make in favour of their favourite. This holds, in particular, for those who support a universal PBI. If they do so out of a basic concern for improving the options open to the worst off — a plausible normative foundation for the objective of fighting unemployment without worsening poverty —, they will no doubt have been pleased to see their case upheld in connection with the impact of universal payments on take up and traps (section 2.3) and the importance of unconditional support under the poverty line for bargaining power and human capital formation (section 2.2). But there are at least two important differences between PBI and its alternatives which present supporters of PBI with serious challenges.

One concerns PBI's political feasibility. Owing to its ex ante nature and the implied height of the apparent rates of taxation it requires, we have seen that there are reasons to expect a universal PBI to be comparatively less popular with organised workers and public opinion. True, much of this unpopularity can be traced to variants of an illusion — basically the failure to perceive the sense in which a tax expenditure and a benefit are equivalent. But this illusion may well be so resilient as to block any direct introduction of a PBI. One can non doubt endeavour to undermine it through effective pedagogical efforts. But this is likely to prove a Sisyphus task. Alternatively, one can try

to use opportunities to introduce a universal PBI as a uniform dividend on a commonly owned asset (royalties on oil extraction, for example), or as uniform compensation for a commonly suffered nuisance (energy consumption, for example), or even out of non-inflationary money creation.⁴² But this is unlikely to provide more than a very low floor. Beyond this, the most promising way forward for shrewd politicians who believe in PBI's substantive preferability is probably to first introduce an appropriately calibrated uniform refundable tax credit (or NIT), soon to be inconspicuously turned into a "tax-creditable benefit" (or PBI).⁴³

The second challenge may be viewed as more serious still, as it does not concern PBI's achievability, but its very desirability in a context in which informal (i.e. legally or illegally untaxed) income represents a major option (see section 2.1). Providing one can (plausibly) assume that the assessment of GMI entitlements is more sensitive to informal income than taxation is, we have seen that PBI is unquestionably more favourable to informal-income earners than the other two policies.⁴⁴ It is not altogether absurd to regard some boosting of the informal sphere as a meaningful objective in itself. In one interpretation, for example, political ecology can be defined by this objective and contrasted on this basis with liberalism and socialism.⁴⁵ However, this assumes an unrealistically benign perception of what is bound to be a very heterogeneous bundle. It might be good, not just for the quality of human relations but also for the long-term performance of the economy, if people are less hooked on monetary rewards and spend more time in their families, their vegetable gardens, their neighbourhoods and their voluntary associations. But some informal work is ruled by no less strong a cash nexus than formal work, or is performed within the framework of a barter relationship with no intrinsic virtue compared to monetary exchange. Indeed,

⁴² An old and suspicious idea recently rehabilitated by Joseph Huber (1998, 1999).

⁴³ If the strength of illusions makes a NIT version the best strategy, part of the case for an individual PBI (versus a household-sensitive full BI) delineated at the end of section I becomes shaky.

⁴⁴ As soon as the informal income of a household with no formal income, when added to its PBI, exceeds the guaranteed level OM (upward from gross earnings OV in graph G6), it is unambiguously better off under PBI than it would be in the initial regime or under the other two policies.

⁴⁵ Each of the three main ideologies of industrial and post-industrial society can then be represented in a triangle whose angles correspond to a fully market-ruled, a fully State-governed and a fully "autonomous" society: liberals, socialists and greens are interpreted as claiming that the optimal mix of activities can be reached by moving somewhat closer to one of these angles from where our societies currently are. See Van Parijs (1991).

much informal work, precisely because it escapes the standard controls of formal activities, may be more degrading, unsafe and in other ways unpleasant than had it been performed formally. If this is the typical case, there is not much of a case left for promoting informal activities. Moreover, the PBI will be wasted on some high-income people from whom little or nothing will be clawed back in taxes. And by increasing the relative attraction of untaxed activities, it may jeopardise the sustainability of the GMI, and hence of the level of poverty alleviation already reached. How much of a threat this really is depends, for example, on how much a country's economy relies on non-monetary exchange, on how weak or corrupt its tax authorities are, and on how much dishonesty its citizens feel comfortable with. Under such circumstances, PBI is unlikely to be better than EITC, for example, as way of tackling unemployment without worsening poverty, even if political feasibility were no problem. Or at least it won't become superior until the background institutions have changed in such a way that the bulk of sizeable market incomes has become sufficiently visible to a sufficiently effective tax administration.

These two challenges do not really overturn the fundamental presumption in favour of a PBI — and, beyond it, in favour of a full individual BI — for those whose ultimate objective is neither maximal output nor maximal employment, but is captured in a conception of justice that gives priority to the real freedom of the worst off.⁴⁶ But they do invite them to shed any dogmatism in terms of immediate political agendas. If the cosmetic-didactic dimension of politics is taken into account, if the administrative background conditions are given the attention they deserve, the most direct route is most unlikely to always be the best one. Under certain circumstances, some of the other strategies for fighting unemployment without increasing poverty may be either more feasible or more appropriate. Under certain circumstances, BI may need to step aside and give way to one of its cognates. This is a concession, but no sacrifice of principles to expediency. To best serve one's principles, one must not stubbornly advocate, under all circumstances, the immediate implementation of their most straightforward expression. To wish that one day, everywhere, an individual and universal BI should belong to the acta, does not prevent one from believing that sometimes, in some places, it is better that one of its cognates should be on the agenda.

⁴⁶ Very little has been said here to establish such a presumption, which is vindicated at length in chapters 2-4 of Van Parijs (1995).

REFERENCES

- Alstott, Anne L. 1995. "The Earned Income Tax Credit and the Limitations of Tax-Based Welfare Reform", Harvard Law Review 108 (3), 533-592.
- Atkinson, Anthony B. 1993a. "What is happening to the distribution of income in the UK?", STICERD Working Paper WSP/87, March 1993.
- Atkinson, Anthony B. 1993b. "Participation Income", Citizen's Income Bulletin 16, 7-11.
- Atkinson, Anthony B. 1995. Public Economics in Action. The Basic Income / Flat Tax Proposal, Oxford: Oxford University Press.
- Atkinson, Anthony B. 1996. "The Case for a Participation Income", in The Political Quarterly 67 (1), January-March 1996.
- Atkinson, Anthony B. 1998. Poverty in Europe. Oxford: Blackwell.
- Besley, Timothy & Coate, Stephen. 1995. "The Design of Income Maintenance Programmes", Review of Economic Studies 62, 187-221.
- Bezat, Jean-Michel. 1998. "Lionel Jospin trace les axes d'une politique familiale de gauche", Le Monde, 13 June 1998.
- Bourguignon, François & Chiappori, Pierre-André. 1997. Fiscalité et redistribution: Plans pour une réforme, Paris: Fondation Saint Simon (Note n°88).
- Bovenberg, A. Lans & van der Ploeg, Frederick. 1995. "De utopie van het basisinkomen", Economisch-Statistische Berichten 3995, 1.2.1995, 100-104.
- Brittan, Samuel & Webb, Steven. 1991. Beyond the Welfare State. An examination of basic incomes in a market economy, Aberdeen: Aberdeen University Press
- Brown, William S. & Thomas, Clive S. 1994. "The Alaska Permanent Fund: Good Sense or Political Expediency?", in Challenge, September-October 1994, 38-44.
- Castel, Robert. 1999. "Minima sociaux, allocation compensatrice de revenu et RMI", in R. Godino & al., Pour une réforme du RMI, Notes de la Fondation Saint Simon 104, 39-48.
- de Henau, Thomas. 1996. Débat sur l'allocation universelle et approche syndicale, mémoire de licence en sciences du travail, Université catholique de Louvain: Institut des sciences du travail, septembre 1996, 93p.
- Delvaux, Bernard & Cappi, Riccardo. 1990. Les Allocataires sociaux confrontés aux pièges financiers: Analyse des situations et des comportements, Université catholique de Louvain: IRES, 172 p.

- Fitzpatrick, Tony. 1999. Freedom and Security. An Introduction to the Basic Income Debate. London: Macmillan
- Garfinkel, Irwin. 1973. "A Skeptical Note on "the Optimality" of Wage Subsidy Programs", in American Economic Review 63 (3), 447-453.
- Gauthier, Anne Hélène. 1996. The State and the Family. A Comparative Analysis of Family Policies in Industrialized Societies. Oxford: Oxford University Press.
- Gilain, Bruno & Van Parijs, Philippe. 1995. "L'allocation universelle: un scénario de court terme et de son impact distributif", Revue belge de sécurité sociale 1, 5-80
- Godino, Roger. 1999. "Pour la création d'une allocation compensatrice de revenu", in R. Godino & al., Pour une réforme du RMI, Notes de la Fondation Saint Simon 104, 7-20.
- Gottschalk, Peter & Joyce, Mary. 1993. "The impact of technological change, deindustrialization, and internationalization of trade on earnings inequality - An international perspective", Luxemburg Income Study, Discussion Paper 85.
- Haveman, Robert. 1988. Starting Even. An Equal Opportunity Program to Combat the Nation's New Poverty, New York and London : Simon and Schuster.
- Huber, Joseph. 1999. Plain Money. A Proposal for Supplying the Nations with the Necessary Means in a Modern Monetary System. Martin-Luther-Universität Halle-Wittenberg: Institut für Soziologie, 45p.
- Huber, Joseph. 1998. Vollgeld. Beschäftigung, Grundsicherung und weniger Staatsquote durch eine modernisierte Geldordnung. Berlin: Duncker & Humblot.
- Jordan, Bill, James, Simon, Kay, Helen & Redley, Marcus. 1992. Trapped in Poverty? Labour-Market Decisions in Low-Income Households. London and New York: Routledge, 1992
- Krause-Junk, Gerold. "Probleme einer Integration von Einkommensbesteuerung und steuerfinanzierten Sozialleistungen. Anmerkungen zum Gutachten der Experten-Kommission", in Wirtschaftsdienst 7, 1996, 345-349.
- Mayhew, Ken. "Basic Income as a Lever for Economic Efficiency", in BIRG Bulletin 12, February 1991, 10-12.
- Meade, James E. 1989. Agathotopia: The Economics of Partnership, Aberdeen: University Press, David Hume Institute.
- Mitschke, Joachim. 1985. Steuer- und Transferordnung aus einem Guß, Baden-Baden: Nomos.

- Mitschke, Joachim. 1995. "Jenseits der Armenfürsorge", Die Zeit 50, 8 December 1995, 30-31.
- Muysken, J. & van Veen, A. 1996. "It Does Matter Which Side of the Labour Market Is Taxed", Paper presented at the American Economic Association Meeting.
- Nooteboom, Bart. 1986. "Basic income as a basis for small business", in International Small Business Journal 5 (3), 10-18.
- Olson, Dennis O. & O'Brien, Patrick O. 1990. "The great Alaskan money give away program". Economic Inquiry 27, July 1990, 604-15.
- Pelzer, Helmut. 1996. "Bürgergeld — Vergleich zweier Modelle", in Zeitschrift für Sozialreform 42 (9), 595-613.
- Pelzer, Helmut. 1999. Finanzierung eines allgemeinen Basiseinkommens. Ansätze zu einer kombinierten Sozial- und Steuerreform. Aachen: Shaker Verlag, 1999, 40p.
- Petersen, Hans-Georg. 1997. "Pros and Cons of a Negative Income Tax", in Reforming the Welfare State (Herbert Giersch ed.), Berlin: Springer, 1997, 53-82.
- Phelps, Edmund S. 1994. "Low-wage Employment Subsidies versus the Welfare State", in American Economic Review. Papers and Proceedings 84 (2), 54-58.
- Phelps, Edmund S. 1997. Rewarding Work, Cambridge (Mass.): Harvard University Press.
- Piketty, Thomas. 1997. "La redistribution fiscale face au chômage", Revue française d'économie 12 (1), 157-201.
- Rasmussen, Bo Sandemann. 1994. "Wage Formation, the Structure of Labour Taxation and Welfare", University of Aarhus: Department of Economics.
- Salverda, Wim. 1984. "Basisinkomen en inkomensverdeling. De financiële uitvoerbaarheid van het basisinkomen". Tijdschrift voor Politieke Economie 8, 9-41.
- Scharpf, Fritz. 2000. "Basic Income and Social Europe", in Basic Income on the Agenda (R.J. van der Veen & L. Groot eds.), Amsterdam: Amsterdam University Press.
- Schokkaert, Erik, Van der Linden, Bruno & Van Parijs, Philippe. 1997. "Repenser la solidarité entre actifs", in Repenser la solidarité, numéro spécial de La Revue nouvelle 5-6, 106-121.
- Shaviro, Daniel. 1997. "The Minimum Wage, the Earned Income Tax Credit, and Optimal Subsidy Policy", The University of Chicago Law Review 64 (2), 405-481.

- Standing, Guy. 1986. "Meshing labour flexibility with security: an answer to mass unemployment?", in International Labour Review 125, 87-106.
- Standing, Guy. 1992. "The Need for a New Social Consensus", in Arguing for Basic Income (P. Van Parijs ed.). London: Verso, 47-60.
- Standing, Guy. 1999. Global Labour Flexibility: Seeking Distributive Justice. Basingstoke: Macmillan.
- Szabo, Francis. 1997. "Le profil des bénéficiaires de l'interruption de carrière", Revue du Travail 25, 16-20.
- Terraz, Isabelle & Joyeux, Christophe. 1998. "Un système d'allocation universelle en Belgique?", Cahiers économiques de Bruxelles 160, 353-388.
- van Berkel, Rik / Hindriks, Theo. 1991. Uitkeringsgerechtigden en vakbeweging. Over de modernisering van het arbeidsbestel, Rijksuniversiteit te Utrecht, Doctoral thesis, November 1991, 346p.
- van Berkel, Rik, van Heereveld, Ellen, van Klaveren, Inge-Marie, Minnaard, Herma. 1993. Met z'n allen zwijgen in de woestijn. Een onderzoek naar het basisinkomen binnen de Voedingsbond FNV, Universiteit Utrecht: Vakgroep Algemene Sociale Wetenschappen, October 1993, 103p.
- van Berkel, Rik / Hindriks, Theo. 1991. Uitkeringsgerechtigden en vakbeweging. Over de modernisering van het arbeidsbestel, Rijksuniversiteit te Utrecht, Doctoral thesis, November 1991, 346p.
- van Berkel, Rik, van Heereveld, Ellen, van Klaveren, Inge-Marie, Minnaard, Herma. 1993. Met z'n allen zwijgen in de woestijn. Een onderzoek naar het basisinkomen binnen de Voedingsbond FNV, Universiteit Utrecht: Vakgroep Algemene Sociale Wetenschappen, October 1993, 103p.
- Van der Linden, Bruno. 1996. "L'allocation universelle et l'allègement du coût du travail peu qualifié peuvent-ils apporter une réponse au chômage des moins qualifiés ?", Wallonie 44, 1996, 17-22.
- Van der Linden, Bruno. 1999. "Fighting Unemployment without Worsening Poverty: Basic Income versus Reductions of Social Security Contributions", Université catholique de Louvain: IRES, Discussion Paper 9928, December 1999, 29p.
- Van Parijs, Philippe. 1987. "A Revolution in Class Theory", Politics and Society 15, 453-482. (Reprinted in P. Van Parijs, Marxism Recycled, Cambridge: Cambridge University Press, 1993, 110-39.)
- Van Parijs, Philippe. 1991. "Impasses et promesses de l'écologie politique", Esprit 171 (5), 1991, 54-70. (Reprinted in F. De Roose & P. Van Parijs, eds., La Pensée écologiste, Bruxelles: De Boeck Université, 1991.)

- Van Parijs, Philippe. 1995. Real Freedom for All. What (if anything) Can Justify Capitalism ?, Oxford: Oxford University Press.
- Van Parijs, Philippe. 1996. Refonder la solidarité. Paris: Cerf. (Solidariteit voor de 21e eeuw, Leuven & Apeldoorn: Garant.)
- Van Parijs, Philippe. 1998. "James Tobin, the demogrant and the future of U.S. social policy", Basic Income 29, Spring 1998, 7-8.
- Van Parijs, Philippe. 2000. "Basic Income at the heart of Social Europe? Reply to Fritz Scharpf", in Basic Income on the Agenda (R.J. van der Veen & L. Groot eds.), Amsterdam: Amsterdam University Press.
- Wood, Adrian. 1994. North-South Trade, Employment and Inequality, Oxford: Oxford University Press.
- Zeckhauser, Richard. 1971. "Optimal Mechanisms for Income Transfers", in American Economic Review 61, 324-334.