

Subsidize Wages to Restore Participation and Self-Support

Several economists over the past couple of decades have been calling for a universal employment subsidy—a subsidy to firms for each low-wage person they employ without regard to parental or marital status. Self-support (vs. dependency), personal growth (vs. disengagement), integration (vs. marginalization)—these are our rallying cries. Now there come efforts to gain instead a reconsideration of a universal basic income, or demogrant—a periodic transfer payment to each resident with no conditions on working and earning. These two proposed innovations in social policy differ importantly, I will argue, in what they suppose a society is for. And they also rest on quite different assessments of the practical consequences they would have, if adopted.

In several ways I find the idea of a demogrant attractive, as I did when, in the 1960s, I was a young economist just beginning to think about economic and social policy. A demogrant would help to level the playing field by counteracting the ability of families—under market socialism and market capitalism—to bequeath their children advantages (such as individual freedom) over other children, their children's' children, etc. A demogrant would permit low-wage workers to reject as inadequate the pay differentials offered by unsafe or unhealthy jobs. And it would bring an efficiency gain in giving people more of their total social benefit in the form of fungible cash to use as they prefer, less in the form of free services whose amounts are chosen by the state. One can therefore understand the support that proposals for a demogrant usually find.

The idea of a universal minimum income seems to enjoy especially wide appeal among the many Europeans who have an almost religious (and, in many cases, literally religious) sense of nation and community. To them it will appear to be further progress in the development of a society that feels the near-sacred value of each person's life and autonomy. Most of western Europe, particularly the Continent, has already gone a long way toward providing universal—that is, unconditional—benefits to its citizens (and in most cases other residents): subsidized housing, free medical care, and free education services, among other services.

Now Philippe Van Parijs makes the strongest imaginable case for going the rest of the way by means of a universal basic income. But I remain opposed. For me, there are two sticking points. One of them, which I will take up later, has to do with consequences. The demogrant device has no monopoly on the beneficial effects that make us like it, whatever the balance of its total benefits and total cost. The alternative to it—a subsidy to employers for every low-wage worker in their full-time employ—would have some of those effects and some other benefits as well. The subsidy, in pulling up paychecks and the number employed at the low-wage end of the labor market, would also mitigate serious disadvantages of talent and background; it would also expand the jobs that low earners could afford to reject; and it would also widen low earners' latitude in meeting their needs.

The other sticking point is that the demogrant idea seems in an important respect to go against the grain of the traditional American conception of a liberal republic. This conception, I am going to argue, would cause many Americans to hesitate to embrace a universal basic income while being willing, at least in principle, to contemplate low-wage employment subsidies.

Let's consider these two points, starting with the second.

1. Where can we look for the American conception of the liberal society? I suggest we need look no farther than John Rawls, widely regarded to be the leading moral philosopher of the twentieth century. His *A Theory of Justice* is seen by many of us as the sourcebook of most of the new ideas of importance on how to think about matters of economic justice in economic and social policy, even if we don't always want to follow him to the letter. Since Rawls is an American writing against the background of American social history, the conception of society he expresses in that book is at least an important sample of American thinking.

The conception of liberal society there is in refreshing contrast to the more European one. It excludes religious states having a public purpose. It also excludes aggregations of persons engaged in solitary pursuits who might cooperate only for their mutual protection. For Rawls, a society (the sort of society he wants to consider, at any rate) is a cooperative enterprise in which individuals come together to participate in its interactive economy for the purpose of mutual private gain—largely, individual achievement and personal growth from career and family life. Accordingly, economic justice is about the distribution of those mutual gains over the individuals participating. It is wrongheaded to ask what this economic justice requires in the way of support for individuals who choose to opt out and live in isolation off the land, or sects that choose to break off from the larger society. Rawls's kind of justice is owed only to those who, being able and willing, participate and contribute at least something to the economy's pie.¹

¹ In conversation and correspondence I could never get him to endorse this interpretation. But he never protested it either. In a 1985 letter he commented that the presentation of his system on pp. 144-49 of my textbook *Political*

These views on the nature and function of society trace far back in American thought. Thomas Jefferson wrote that the early settlers came to the American continent for “the acquisition & free possession of property”—and thus for the “pursuit of happiness,” as he was to put it later. Calvin Coolidge encapsulated the cooperative-enterprise conception of society with his great apothegm, “the business of America is business.” It came to be understood in the Progressive Era that the possibility of mutual gain, which Rawls built on, arose from the “social surplus” generated by the interaction of people’s diverse talents and skills within society’s central institution, the business economy. In his economics textbook, which was dominant for nearly the second half of the last century, Paul Samuelson never failed to bring up this social surplus, always citing the eloquent statement of the idea by the social theorist L. T. Hobhouse in his 1922 book *The Elements of Social Justice*. It is implicit, I think, that the social surplus is a flow of income that can be legitimately redistributed, since the way a free market would distribute it is morally arbitrary and a free market is an impossibility in any case.² It is also implicit in all these expressions, I believe, that the social surplus is to be made available for redistribution to the contributors, not to non-contributors. It would be incoherent to say that the contributors to society’s enterprise, in generating a social surplus, have—as defenders of a UBI suggest—the obligation to share it with those who have not contributed. What do the latter have to do with it? If they can be shown somehow to have a claim, is there a claim of animals and other sentient creatures? If we earth-people should discover Martians unwilling to trade or collaborate with us, do they nonetheless have a claim too?

Economy: An Introductory Text (New York: W. W. Norton, 1985) accurately presented his position. That exposition makes explicit the premise that society is a cooperative enterprise for the contributors’ mutual gain.

² Some argue that this flow is the largest that can be legitimately redistributed. aspects of the matter are taken up in Robert Nozick, *Anarchy, State, Utopia* (New York, Basic Books, 1974).

2. The argument for UBI set out by Van Parijs appears to be substantially pragmatic. He appears to believe that, although it might go against the ideology of some to hand out the basic income unconditionally, the practical effect of doing so will be to encourage participation, hard work, self-support, achievement, and all the other desiderata dear to those with that perspective.

“With a UBI, it becomes significantly easier to have a break between two jobs, to reduce working time, to make room for more training, to take up self-employment or join a cooperative. As a result, poorly productive jobs made economically viable by the [alternative wage-subsidy] approach are likely to be just as unattractive as those which existed previously, whereas those made viable by the [UBI] approach can only exist if workers with the right skills find them sufficiently attractive relative to the new options which a UBI helps make available to them.”

One can see that a UBI would open up some new job options to many people, just as inheriting a substantial sum of money would make it possible to try one's hand at composing music or writing a book. But financing it will entail lower after-tax wages and lower private saving until private wealth (defined to exclude the present discounted value of the expected stream of UBI) has reached a sufficiently reduced level; to a rough approximation, private wealth would fall by as much as social wealth (defined as the present value of the UBI stream) rose.

So there is no alchemy here by which a net increase of wealth is achieved and costlessly at that. At some point in middle age, the average worker-saver will have a lower total wealth, private plus social, than he or she would otherwise have had,

since wealth per head (which I am taking to be unchanged) is an average of the wealth per head of the young, who now get their social wealth right off the bat, and the wealth per head of the old. The contention that there is a social gain from “moving up” people’s wealth to the first year of adulthood, since the increased liquidity serves to increase freedom, depends on the assumption that the social benefit from the added liquidity is really quite large and sufficiently large to overcome the social cost resulting from the reduction of after-tax rewards to working.

Of course the main part of the argument is redistributive: the increased wealth would occur among those with little, the reduction of wealth would occur among those with much. But a low-wage employment subsidy scheme would be also be redistributive in the same direction. So we must weigh the practical balance of benefits and costs posed by the UBI against the corresponding balance offered by low-wage employment subsidies. I see some serious drawbacks of UBI; these drawbacks mirror the merits of low-wage employment subsidies.

I’ll emphasize four drawbacks. First, the pay rates available to low-wage workers are already so low as to be demoralizing. A large UBI, which would seem towering to a low-wage worker, would further depreciate his or her earning power; and the UBI, in requiring higher taxation to finance it, would tend to reduce their net pay rates further. Worsened employee performance would follow and, since firms won’t create jobs for workers who will quit or shirk or are absent at the drop of a hat, a large number of jobs held by low-wage workers in private business would become extinct.

Second, we are in dire straits to begin with in this regard. Work, career, and achievement are already threatened by a whole array of competitors—crime, unemployment, and the underground economy.³ This is no time to launch a new scheme that would create further disincentives to work in the legitimate business economy. Marginalization must be reduced, not increased. Introducing UBI would make that task harder.

Third, what matters to people is not just their total receipts; it is the self-support from earning their own way. No amount of UBI would substitute for the satisfaction of having earned one's way without help from parents, friends and the state—as valued as they are. I would note that, if the UBI were adopted in the United States, it would continue to rankle low-wage earners that their pay was less than half the median wage. The reason it would, I suggest, is that low-wage workers would view such low relative pay rates as bluntly showing that they cannot hope to earn their own way in the sense of gaining access to most of the median earners' way of life through their own earning; they can only gain access through the demogrant, which they may see as demeaning.

Finally, what about Parijs's image of the workplace with its exhausted women and tyrannical bosses? I feel that many academics and others reared in relatively privileged circumstances cannot see how those working in a factory forty hours a week could value it as a means to mix and interact with others, to gain a sense of belonging in the community, and to have a sense of contributing something to the country's collective project, which is business. If I am right on these matters, we

³ Europeans call the underground the “informal” economy and see as it as a charming zone of idyllic exchange rather than a parasitic sector that lives off the legitimate economy through tax evasion and other covert practices that subvert respect for the law.

should feel sorry, not envious, about Van Parijs's surfer who feels "lucky" to be able to drop out of the world of work thanks to his UBI; he doesn't know what he is missing. And we shouldn't feel sorry about women "subjected to the dictates of a boss forty hours a week." They have the self-knowledge to know something that Van Parijs appears not to know about them: the sociability, the challenges, and the sense of contribution and belonging that those jobs provide are an important part of their lives, as they are of the lives of others.

The problem is that the low-end pay rates are much too low, so low that some low-end workers must take the least "liberating" jobs to make ends meet. The solution is not to endow workers with UBI, so that they move to somewhat better jobs at a reduction in pay or else just drop out. That way lies dependency, unfulfillment, depression, and marginalization. The solution is to institute a low-wage employment subsidy, so that all pay rates facing low-wage workers would be pulled up to levels better reflecting the social productivity of their employment, their support of themselves, and their development. Then low-wage men and women could afford to avoid dangerous, unhealthy, or oppressive jobs and opt instead for more rewarding work. And many more people would be able to know the satisfactions of self-support, development, participation, and contribution.