



Tackling Poverty: A Defence of the Universal Basic Income

G i n e t t e B r e n k m a n

Introduction

The welfare state is ineffective and counterproductive in achieving its primary goal: that of poverty relief. Instead of helping the poor escape poverty, it prevents them from doing so. Key problems with the system are i) complexity and non-transparency, ii) dependency traps and disincentives to work, and iii) stigmatisation and intrusiveness into the lives of the poor. Aside from these primary reasons, restructuring the welfare state is necessary out of budgetary necessity (Murray, 2006, pp. 1-5; Zwolinski, 2015; Torry, 2013). In the light of the recent economic crisis, a dominant policy line has been welfare retrenchment by limiting eligibility for existing benefits (Koistinen & Perkiö, 2014, p. 25). However, with this approach the problems persist or even worsen.

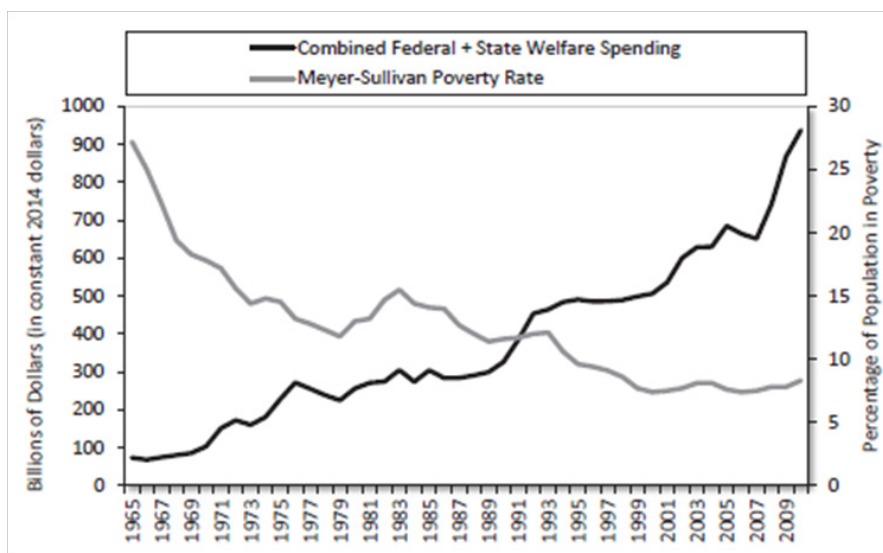
A potentially much more effective, but often-neglected solution is the universal basic income (UBI). This is an income granted to all members of society without means test or work requirement (Van Parijs, 2004, p. 8). The idea has been receiving increased attention on the European continent. Finland and The Netherlands, for example, are planning basic income experiments and Switzerland had a referendum on the issue in June. This dissertation attempts to analyse how a basic income policy can address the problems concerning poverty alleviation and the welfare state. My central concern is to explain why a universal basic income is a better means to reduce poverty than the welfare state. Those who continue to address welfare issues by advocating for more narrowly targeted benefits by limiting eligibility criteria are missing the straightforward economic benefits that can be realised by a basic income policy.

Poverty relief through means-tested benefits: diminishing returns

Advocates of a universal basic income come from all corners of the political spectrum. Unsurprisingly, left-wing politicians applaud the idea following concerns over inequality, rising unemployment and poverty. However, some free-market and libertarian economists are also welcoming the idea. Among them are Hayek, Friedman and, more recently, Bleeding Heart Libertarian Matt Zwolinski. The idea that free-market economics can go together with a UBI policy culminated in the publication of the book: *Basic Income and the Free Market. Austrian Economics and the Potential for Efficient Redistribution* (Nell, 2013). Conservatives and libertarians are attracted by its potential to realise cheaper and more efficient alternative to current welfare, which grows larger every year (Tanner, 2015, p. 4).

There is a growing consensus that the welfare state is not working as intended. Welfare states are, without exception, enormous, complex, and incredibly costly. The US government started the War on Poverty in 1965 and now spends nearly \$1 trillion on at least 126 anti-poverty programs. Despite these efforts, the poor are not getting out of poverty or becoming self-sufficient. The massive welfare spending may have reduced material poverty, making it a little less uncomfortable, but it seems to have reached a point of ‘diminishing returns’. As welfare states expand and spend more on benefits, poverty does not decline. The system fails to make poor people independent or increase economic mobility among them and their families (Tanner, 2015, p. 2). Figure 1 demonstrates how, during recent years, as welfare spending increased, the poverty rate remained almost the same.

Figure 1 Meyer-Sullivan Poverty Rate vs. Combined Welfare Spending



Sources: (Tanner, 2015, p. 14): Bruce Meyer and James Sullivan, “Winning the War: Poverty from the Great Society to the Great Recession,” *Brookings Papers on Economic Activity* (Fall 2012); Michael Tanner, “The American Welfare State: How We Spend Nearly \$1 Trillion a Year Fighting Poverty—and Fail,” *Cato Institute, Policy Analysis no. 694*, April 11, 2012; Government Services Administration, *Catalog of Federal Domestic Assistance*, <http://www.cfda.gov>; Gene Falk, “Low Income Assistance Programs: Trends in Federal Spending,” *Congressional Research Service*, May 7, 2014; *Congressional Research Service*, “Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data,” Report RL33340; Jeffrey Barnett and Phillip Vidal, “State and Local Government Finances Summary: 2011,” *United States Census Bureau*, July 2013.

The rationale behind discriminating between the deserving and the undeserving poor for the distribution of benefits is clear. It stems from the notion that the state should only provide aid to those in need and not to those who merely wish to take advantage of the state to make their lives easier (Zwolinski, 2011, p. 8). This paper focusses on the consequences of making that distinction and provides a pragmatic case for the basic income. It argues for the simplicity of a universal benefit and opposes means-tested benefits, which require a large bureaucratic labour force. Universality is preferred over means-testing for three main reasons. Firstly, it would abolish the massive apparatus surrounding means-tested benefits and replace them with a much simpler and far more transparent basic income policy. This could result in a significant lowering of administration as well as bureaucratic labour costs that is causing severe ‘dead-weight losses’. Eliminating much of the existing bureaucratic apparatus would furthermore, to a

large extent, decrease possibilities for fraud and political opportunism, and would provide an answer to public choice considerations (Zwolinski, 2011, p. 9). Secondly, with a universal character, welfare provision creates better incentives to work, decreasing high marginal tax rates to a large extent. And thirdly, a universal basic income would reduce paternalistic and invasive state intrusion into private lives of individuals as well as stigmatisation of welfare recipients. It would enable poor people to enter mainstream economic life and develop life skills needed to become independent agents (Torry, 2013, p. 127; Zwolinski, 2015, p. 516; Tanner, 2015, p. 7).

Replacing bureaucratic, discriminatory welfare for a universal benefit

The universal character of the basic income is preferable over means-tested, selective redistribution, as it is a much more simple method compared to the bureaucracy, arcane rules, regulations, restrictions and high costs of the means-tested safety net schemes currently employed worldwide (Zwolinski, 2015, p. 516). Providing a basic income would be far simpler and more transparent than current welfare provision. In the USA, there are '21 different programmes providing food or food purchasing assistance ... administered by three different federal departments and one independent agency' (Tanner, 2015, p. 7).

Administrative costs of a basic income policy could be very low. In 2013, the US Social Security Administration spent not more than \$6.2 billion on administration, while providing around \$812 billion in benefits. 'If there is one thing that the federal government does with relative efficiency, it is mailing out checks' (p. 7). The decrease in bureaucracy and administrative loopholes would work better for recipients of benefits. In current systems, they have to navigate through demeaning and difficult forms, conflicting eligibility standards, and intrusive programme administrators. We are dealing with an incredibly complex and confusing 'welfare maze' (Campbell, 2014, p. 34).

Rather than discriminating among citizens, the basic income is a rule that is 'general in application to all citizens'. It thus conforms to both Buchanan's and Hayek's demand for rules that promote the general welfare by applying equally to all individuals (Buchanan, 1997; Hayek, 1960, p. 142). Now, governments select who should receive benefits according to a vague notion of social justice or need. These criteria can be manipulated by groups or individuals with special interests. The disadvantaged will unlikely benefit from the opportunities the current system creates for those who are wealthier and fewer in number, which makes them better at organising themselves (Tanner, 2015, p. 8). This furthermore means that a basic income policy would lessen the opportunities for special interests that are now part of the welfare system. Interest groups such as landlords, health care providers and farmers currently put a lot of effort in rent-seeking activities. They lobby for food stamps, expanded health care programmes, and lucrative housing policies. A basic income would cut these intermediaries out of the welfare process, reducing their possible gains from lobbying for funding of political favours (Tanner, 2015, p. 8).

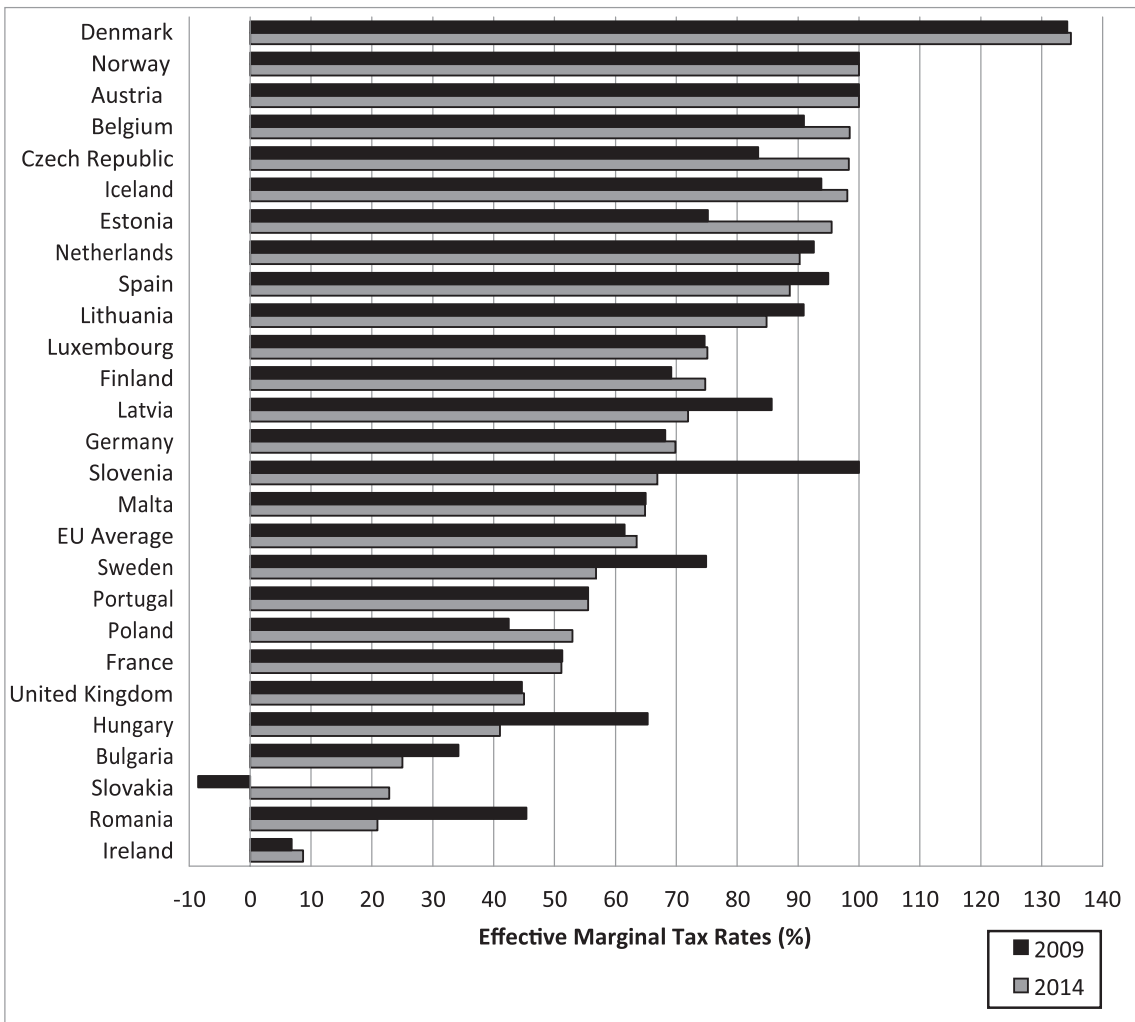
Poverty traps

Poor people are not lazy, but neither stupid. They respond to incentives like everyone else does. If work does not bring sufficient gains, many will choose not to work. Not only does this disincentive effect of the welfare state burden tax-payers, it also traps poor people and their families into long-term dependence (Tanner & Hughes, 2015, p. 22). Due to the mean-tested character of benefits, the welfare state creates a welfare cliff or poverty trap. In many countries, benefits are high relative to an individual's expected earnings from a low-wage or entry-level job. In 2013, welfare benefits exceeded the minimum wage in nine EU countries. It becomes thus economically rational for an individual to choose welfare over work and thereby to remain in 'poverty' (Tanner & Hughes, 2015; Tanner, 2015).

High effective marginal tax rates (EMTR's) for poor people are the result of high benefits relative to

Figure 2

Inactivity Trap: Effective Marginal Tax Rate for Single Parent with Two Children Moving from Welfare to 30 Percent of Average Wage, 2014.

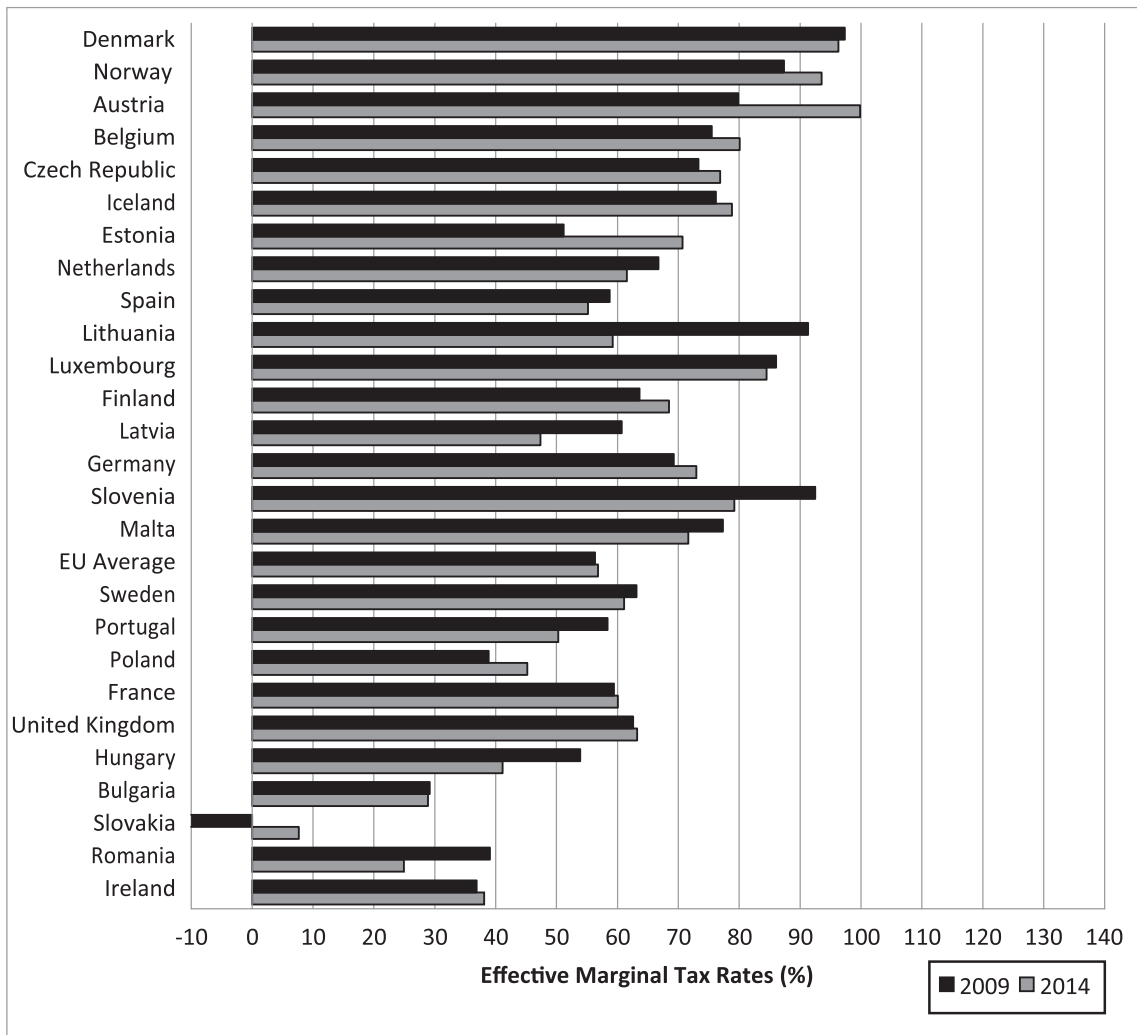


what someone can earn from a minimum-wage job. They become larger once benefits are targeted to the poor only, which means that as soon as someone starts moves from welfare to work, he loses his benefits. The welfare state creates high effective marginal tax burden on low-wage work, by phasing out benefits and simultaneously taxing individuals. This means that someone who leaves welfare for work is, especially in the short term, financially worse off. Figures 2 and 3 demonstrate the EMTR for an individual who moves from welfare into a job that pays 30% or 50% of average wage respectively. In Denmark, he would actually be worse off when starting working. Once we take the (opportunity) costs of working into account, such as transport, clothing, childcare, and the loss of leisure and family time, the effective marginal costs of leaving welfare for work became even higher.

The European Commission has also recognised the issues concerning the poverty or inactivity trap and Member States have introduced policies to make low-wage work more financially rewarding. Some authors claim that ‘structural reforms’ surrounding work disincentives for the low-skilled, ‘have started to pay off’ (Carone, et al., 2009, pp. 23-4). However, looking at the data above seems to imply that these changes have not brought significant improvement. When looking at the high effective marginal tax rates that create these inactivity traps as depicted in Figures 2 and 3 we do

Figure 3

Inactivity Trap: Effective Marginal Tax Rate for Single Parent with Two Children Moving from Welfare to 50 Percent of Average Wage, 2014.



not see these policy strategies reflected in the difference between 2009 and 2014. On balance, the EU Average deteriorated for both categories over these five years. Welfare still encourages living of benefits as a permanent lifestyle, rather than a temporary measure. This makes benefits self-defeating as they trap individuals in long-term dependency, ultimately making the poor worse off.

Paternalism & stigmatization

A basic income would be less intrusive and paternalistic than most aspects of current welfare systems. Many benefits are handed out as ‘in-kind’ benefits, such as food stamps and housing assistance. This is especially the case in the United States, where only 24 percent of federal welfare provision consists of direct cash assistance. As a result, poor people do not budget or make cost and benefit analysis like non-poor people do, as the money is directly payed to providers of the goods. The goods that recipients are allowed to buy are even limited to state-approved purchases (Tanner, 2015, pp. 8-9). Research indicates that by handing out cash, making recipients manage their own affairs, can lead to important behavioural changes in, for example, ability to save and invest. Moreover,

the idea that recipients will just spend the cash on temptation goods such as alcohol or tobacco, has been refuted by several studies. A World Bank studies review concluded that there was either no significant impact or a significant negative impact of transfers on temptation goods (Evans & Popova, 2014).

Decreasing the degree in which governments are involved in the lives of poor people would furthermore preserve their dignity and cause less stigmatisation. It would also reduce the socially exclusive effect that current welfare systems create. Policies such as public housing programmes often force the poor to live in areas where poverty is concentrated. These neighbourhoods are marked by increased crime rates, fewer economic opportunities and a lack of social cohesion (Tanner, 2015, p. 9; Wilson, 1987).

By better integrating the poor into the larger community, the chances of them escaping poverty become much higher.

Conclusion

The aforementioned welfare state problems would be significantly reduced by implementing a basic income policy. This would minimise bureaucracy and rent-seeking possibilities, from which the poor are unlikely to benefit. It would furthermore create better incentives for low-skilled to take up work, rather than keeping them trapped in poverty. A basic income would furthermore address the paternalistic and stigmatizing effects that the welfare state currently creates. However, this does not mean that implementing a basic income could not raise any problems of its own. Among the most important are affordability and the long-term effects on both labour supply and people's attitude to work in general. I therefore welcome the experiments that tell us more about these possible long-term effects wholeheartedly.

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