AN EFFICIENCY ARGUMENT FOR THE BASIC INCOME GUARANTEE

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This paper originally appeared as, "An efficiency argument for the guaranteed income," paper no. 212 in the work paper series of the Levy Economics Institute of Bard College. It was briefly updated in January of 2005.

The welfare reform of 1996 created more need for reform of the welfare system than ever. The passage of the Social Security Act of 1935 granted impoverished Americans a statutory right to governmental assistance, if they fell into categorical conditions of need. The plan signed into law by President Clinton, in addition to turning much of welfare policy over to the states and strengthening the conditionality of assistance, removed the guarantee of assistance. Under this new system the needy can simply be turned away if they appeal to the government for help during hard times.

In this paper, we will make the case that welfare reform needs to move in the opposite direct, not back toward the pre-1996 system, but away from conditionality altogether toward a basic income guarantee (BIG). This policy (in any of its various versions: e.g., negative income tax, basic income, or the social dividend) is the most efficient and comprehensive method to attack poverty. In part 1, we define poverty and our goal for poverty policy. In part 2, we critically examine five theories of the causes of poverty: the physical inability to work, single parenthood, inadequate demand for labor, inadequate human capital, and a poor work ethic. In part three we critically discuss six policy strategies for fighting poverty: promotion of economic growth, workfare, the minimum wage, separating the "deserving" from the "undeserving" poor, publicly guaranteed employment, and publicly guaranteed income. We assess how well each of these programs address the five proposed causes of poverty, making the case that the most efficient and effective of these is the basic income guarantee.

THE DEFINITION OF POVERTY AND THE GOAL OF POVERTY POLICY

Although the goal one has for policy is closely linked to the particular policy one chooses to achieve that goal, it is important to define both separately. This allows us to evaluate how well different policies achieve the same goal.

There are two different definitions of poverty: "absolute" and "relative." Poverty, according to the absolute definition, is the lack of resources necessary to meet one's basic needs. According to the relative definition, poverty is the possession of a level of resources that is less than some specific proportion of the level of resources possessed by the average person. According to the absolute definition, "the poverty line" is the amount of income needed for a person or family to purchase their minimum needs for food, shelter, and clothing. A family with less income than the poverty line is considered to be living in poverty. This is the definition we use. We do so because we think the relative conception is really about another important social issue: this is the issue of inequality. Instead of addressing this issue here, we leave it for a future work. Our first priority should be to meet everyone’s basic needs before addressing the question of whether there is enough equality in the consumption of luxuries.

The question of how the poverty line ought to be has been extensively debated (Schiller 1989; Schwarz and Volgy 1992; and Mishel and Bernstein 1994), but this is not a debate we intend to join here. For present purposes, we accept the government's standard of the poverty line. There are good reasons to believe it is inadequate, but arguments that BIG is the best policy to reach that line would not differ significantly if the line were drawn higher.

We believe that there is a broad consensus among all but the most radical property rights advocates that the ultimate goal of policy should be to reduce poverty as much as possible and eliminate it if we can. People who argue for less generous redistribution most often couch their arguments in terms of such programs being counter-productive or ineffective, and to goal of this paper is not to question the sincerely of that argument, but it’s validity. Bob Dole exemplified this consensus in the 1996 presidential debates when he said, "this is America, nobody's going to starve." That statement is non-controversial even in partisan debates; thus, we feel free to evaluate policies by how effectively and efficiently they reduce poverty. The wide differences of opinion about poverty policy reflect differences about how best to achieve that goal, which in turn depends on people’s beliefs about the causes of poverty.

VIEWS ON THE CAUSES OF POVERTY

There are many differing views on the cause or causes of poverty, including the physical inability to work, inadequate demand for labor, inadequate human capital, lack of work ethic, and single parenthood. There is no clear consensus about the relative importance of each of these possible causes. We discuss each of them and then discuss our own view.

A. Physical Inability to Work

Some people are physically incapable of holding a job and, hence, providing for their own subsistence because of old age or disability. Disabilities can be the result of a birth defect or an injury. They can be either physical or mental, including developmental delays or mental illness. Although this is in some ways the most straightforward and widely accepted cause of poverty, there is considerable gray area as to how disabled one must be to be incapable of working (Dolgoff, Feldstein, and Skolnik 1993). The House Committee on Ways and Means (1992) defines the disabled as, “those unable to engage in any substantial gainful activity by reason of medically determined physical or mental impairment expected to result in death or that has lasted or can be expected to last for a continuous period of at least 12 months.” A major question raised by this definition is what types of physical and mental impairments render one unable to, “engage in any substantial gainful activity?” That is a difficult qualitative question. Some people with disabilities severe enough to make them eligible for assistance do work while others with the same categorical disability do not. Do they differ in unobserved abilities or in their willingness to work for the wages available?

B. Single-Parenthood

A single parent, especially of an infant, is faced with the problem of having full-time demands on them outside of work. One cause of poverty could be that single parents cannot afford the time away from their children to work (Ellwood 1988). Diane Pearce (1978) found that female-headed families have become a disproportionate share of the impoverished population. William Kelso (1994) found that, between 1960 and 1991, the percentage of poor families headed by single women increased from 18.3% to 38.7%. There is disagreement whether this should be viewed as a root cause of poverty or not (Mishel and Bernstein 1994; Garfinkel and McLanahan 1986; and Mayer 1997). If single parenthood does cause poverty, the root cause is whatever makes people become single parents. Are they people in unfortunate circumstances or people who have deliberately chosen their position? Some authors (Magnet 1993; Murray 1984; and Tanner 1996) argue that welfare causes single parenthood by encouraging women who would not otherwise become single parents to do so. According to Marlene Kim (1997) while most single-parents with children under age six did not work, 46% of those who did work had incomes below the poverty line, which implies that the reason that so many single-parents do not work is because if they do they may have a high probability of still being in poverty.

C. Inadequate Demand for Labor

According to this view, the demand for labor is presently not high enough to employ, at above poverty wages, all those who are willing and able to supply their labor. Two consequences can follow from this: high unemployment or low wage employment. Keep in mind that, according to this view, low wage employment is caused not by lack of human capital but by inadequate demand. Just as is the case in any other market, when demand is less than supply, there is downward pressure on price, which in this case is the wage (Harvey 1989; Harrison and Bluestone 1990; Rose 1994; and Wilson 1996).

To be unemployed one has to be willing, able, and looking to work at the going wage, but unable to find it. A person can only be unemployed in this sense if there is inadequate demand for her labor at the going wage. Some Neoclassical economists reject the idea that unemployment can exist for very long. According to this view, what appears to be unemployment is really a result of people choosing not to sell their labor at the going wage, perhaps because they are searching for a better job, making their unemployment “frictional.” When demand for labor is low, wages simply fall until an equilibrium level is reached at which all workers who are willing to work can find a job. In other words, if more workers want to work than there are jobs, the wage will simply fall until no one wants those jobs anymore (Munday 1996).

Even if an equilibrium level can be shown to exist there is no reason to believe that the equilibrium wage will be a living wage. There is no economic theory assuring that everyone who wants to work can find a job that pays above poverty wages. It has been pointed out at least as long ago as Adam Smith (1776/1976), and by many others since, that workers have a disadvantageous position in the labor market because they need a job to survive but the owners of natural resources do not need employees to survive. This could explain the tendency for wages to be low in at least some sectors of the economy. This “lack of market power” cause of poverty tends to be overlooked, and we caution that any poverty policy should be evaluated by its effect on the market power of laborers. The lack-of-market-power argument can be expressed in an imperfect model of the labor market or using the perfect-competition model. In the latter case the distress of works causes a large amount of competition for a limited number of employment opportunities bidding down wages.

D. Low Level of Human Capital

Human capital refers to the skills, knowledge, and abilities that make people more productive on the job. If the labor market is competitive, economic theory predicts that the people with more human capital will find more work and better paying jobs. This theory is the basis of one influential view of the cause of poverty: people with poor skills end up either unemployed or employed in low wage jobs (Atkinson 1983; Becker 1993; and Ehrenberg and Smith 1994).

E. Lack of Work Ethic

Some people may choose to behave in ways that cause their own poverty. For example, Lawrence Mead (1986) contends that an insufficient work ethic causes poverty. Able-bodied persons might choose not to work because they would rather stay home, or they may choose not to work hard and find it hard to hold a job. Individuals who chose not to work are considered "out of the labor force," because they voluntarily chose not to participate at the going wage.

F. Our View of the Causes of Poverty

As we see it, all of the factors mentioned in the previous sections should be considered. The causes of poverty are many and complex, but the problem is simple; people are poor if they do not have enough money to buy the basic necessities of life. Although some of the possible causes of poverty are clearly more important than others, because the problem has many possible causes we would be ill advised to ignore any of them. We believe that the widespread characterization of the poor as bad people with no work ethic is clearly false, but we would believe it is a mistake to go so far as to assume that no one has an insufficient desire to work or that certain kinds of policies might discourage that desire.

We believe that a significant problem of formulating effective public policy is caused by the fact that many people on all sides of the political spectrum find it appealing to focus on only one or a few causes. The left tends to focus on unemployment while the right tends to believe that people do not value work enough. What tends to be left out of the discussion is that the extent to which people value work depends upon wages and working conditions. People may not value work, not because they lack the work ethic, not because the alternatives are too appealing, but because the jobs available are not rewarding. Policies designed to foster a work-ethic sufficient to make workers accept a lifetime of working for poverty wages cannot end poverty but they can do much to help people who pay poverty wages.

Policies should be evaluated on the basis of their effects on the living standards of the working poor, the living standards of those who do not work and the size of each group. In 2002, there were 7.4 million people who had been in the labor force for at least 27 weeks who were poor. This amounted to 5.3% of the labor force (U.S. Department of Labor/Bureau of Statistics, 2004). The problem we address in the next section is to design a policy that takes all of the causes of poverty into account. Even though the problem is complex, the solution must be simple enough to be politically manageable. We should focus on "treating" the problem but look carefully on how well any treatment of it addresses the possible causes.

SOCIAL POLICIES TO ADDRESS POVERTY

In this section, we discuss six possible solutions to poverty. Four are aspects of the current system and two are proposed reforms. We do so by relating these solutions to the different possible causes of poverty, evaluating how well they combat these causes and achieve the goal of cost effectively reducing or eliminating poverty.

A. Policy Aimed at Economic Growth and Full Employment

One often cited approach is to aim government policy at increasing economic growth, indirectly increasing the demand for labor, increasing wages and reducing poverty. However, historically, growth has sometimes reduced but never eliminated poverty. In 1949, despite years of sustained growth and the highest per capita income in the world, almost one third (32%) of Americans lived in poverty (Levy 1987). The greatest reduction in poverty in US history happened in the period 1949 to 1973, falling from 32% in 1949 to 11.1% in 1973 largely as a result of active government policy (Levy 1987). Since 1973 there has been a disturbing trend in which poverty increased, despite sustained economic growth, creeping back up to 14.5% by 1994 (Gottschalk, 1997).

The economy did not grow as quickly between 1973 and 1994 as it did between 1949 and 1973, but it was wealthier for entire later period than it was during the earlier period. Clearly, economic growth on its own does not eliminate poverty. Just because there is wealth to go around does not mean that some of that wealth will get around to the poor.

Why growth does not eliminate poverty is a difficult and controversial question that closely relates to the debate about the cause(s) of poverty. Growth cannot cure the disabled. It could provide more opportunities for the unemployed, but not necessarily. William Baumol and Edward Wolff (1996) find that economic growth actually *increases* the average level of unemployment. Constantly changing technology, which stimulates growth, also tends to displace labor, creating demand for new skills, making other skills obsolete. Rebecca Blank (1994) found that the poverty rate declined by little during the relatively long economic expansion that occurred between 1982 and late 1990. Therefore, we believe that economic growth, though strongly desirable, is not a solution to poverty.

A similar belief is that the government can use fiscal and monetary policy to maintain the full employment level of output. We believe that, like economic growth, full employment is desirable but full employment alone is not enough to eliminate poverty. The U.S. government's experiments at maintaining full employment have been mixed and some economists believe that the closest attainable approximation of it is a 5 percent unemployment rate (Munday 1996). Others contend that it is possible to bring the unemployment rate down as low as 3 or 4 percent as it has been at times in post-war U.S. history. However, in 1966, during the Vietnam War, the unemployment rate was only 3.8 percent but the poverty rate was 14.7 percent (Census Bureau, 1975). In 1953, during the Korean War, the unemployment rate was only 2.9 percent, the lowest rate between the end of World War II and the present, yet the poverty rate was 26.2 percent (Murray 1984). Clearly full employment alone will not eliminate poverty.

B. Workfare

Workfare is a policy approach, now being implemented as part of the recent welfare reform legislation. It is a component of The Temporary Assistance for Needy Families program (TANF), formerly AFDC.

TANF recipients with very young children are required to work or prepare for work in return for their benefits. Work activities include working in parks, social service agencies and schools. Preparation for work includes enrollment in secondary school, classroom-based job training programs, and other activities, designed to prepare people to make the transition from welfare to the job market. TANF recipients who do not take part in these activities stand the risk of losing a portion of their benefits. They are paid less than minimum wage, and far below the poverty line (Center on Social Welfare Policy and Law 1996a). The Welfare reform law also includes a five year lifetime limit on welfare benefits as an added incentive for recipients to move from welfare to work (Center on Social Welfare Policy and Law 1996b).

Obviously, workfare does nothing for people who are physically unable to work. It is usually viewed as part of a more comprehensive strategy along with other policies aimed at those who physically cannot work.

Single parents are the main participants in workfare. Its goal is to get single parents into the workforce, assuming that the reason they do not work is because they lack a work ethic or adequate human capital. This is a departure from the strategy of AFDC, which before 1988 did not require single parents of children under six to work outside the home (Lewis 1995). Workfare requires that single parents put their children in someone else's care while they work. This increases the cost of the program. Part of the strategy of workfare seems to be to discourage people from deciding to become single parents, but it does not offer anything very attractive to people who are single parents nor does it deal very well with the lack of available time of single parents as a cause of poverty.

From the perspective of the low level of labor demand theory of poverty, the workfare approach is unappealing. In fact, it is likely to hurt the working poor, increasing the poverty of those regarded as the most deserving. Neoclassical economic theory predicts that, all else equal, if workfare succeeds in moving more people into the labor market, it will increase the supply of labor, leaving demand unchanged, and drive down wages for all of those in the low-wage labor market. According to Keynesian theory, new entrants will not necessarily be able to find work. Neither outcome is very attractive. Because low-wage workers are already paid poverty wages, even if former TANF recipients can find jobs at prevailing wages, they will still have incomes below the poverty line. Public debate has focused on the extent to which workfare has succeeded in moving recipients from welfare to work, with very little discussion of its impact on poverty. If TANF succeeds in reducing welfare rolls by increasing the poverty of the working poor it could hardly be called a success for the poor—for their employers perhaps, but not for the poor.

From the low level of human capital perspective, the workfare approach could conceivably be viewed approvingly, but it would take a major revision of the approach for this to happen. Workfare is ostensibly designed to enhance the skills, work experience, and education of welfare recipients. However, many of the jobs workfare participants are being offered, such as picking up garbage in parks, do not provide people with opportunities to enhance their human capital at all. Workfare would need to be completely overhauled for the work done by participants to be truly human capital enhancing. This, however, would greatly increase the expense of the program.

Supporters of the view that poverty is caused by the lack of a work ethic, often advocate workfare because of its potential to socialize the undeserving poor into recognizing the importance of work. The fact that TANF recipients are denied assistance if they fail to show up for workfare assignments provides a powerful incentive for them to behave more “responsibly” and go out and get a job. Assuming the legitimacy of governmental efforts to socialize the “irresponsible” into recognizing the importance of work, the workfare approach is problematic. Workfare participants are expected to work, but are not considered “workers;” they are still treated as “recipients.” It has not yet been established whether they have the right to organize, even though some claim that in many cases, their duties were formerly performed by union workers. Workfare offers its “recipients” work at poverty wages potentially for years. It is hard to see how this will teach people the value of hard work. It may only teach them that if you’re willing to work hard, others will take advantage of you.

The major problem with workfare is that it appears grounded on an extreme version of the work ethic: a one sided moral obligation that requires the poor to work for their subsistence, but employers (whether private or government) are not obliged to pay subsistence wages. It also does not create any incentive for employers to pay living wages. In fact, it may be the case that much of our recent welfare reform has primarily benefited low wage employers rather than workers (Lewis 1995; Piven and Cloward 1993). There are at least two less extreme alternatives. One would be to hold employers to a reciprocal moral obligation to pay living wages; the other is to offer people positive incentives to work rather than an obligation.

The latest round of welfare reform, that highlights workfare, greatly over-emphasizes the “bad values” explanation of poverty; it ignores even the *possibility* that the poor might already have a good work ethic. Many, perhaps all, would be willing to work if they had enough incentive to do so, but wages are so low that there is little incentive to do so. Our current strategy treats this by making absence from work less attractive rather than by making work more attractive. In other words, we make people more willing to work for below poverty wages. This probably will succeed in increasing work, but it will not succeed in helping the poor or ending poverty.

The available evidence suggests that welfare recipients who have been participants in workfare programs are not much more likely to leave welfare for work than those recipients who have not participated in such programs. Those former workfare participants who do obtain employment usually end up with wages well below the official poverty line (Gueron and Pauly 1991 and Friedlander and Burtless 1995).

Supporters of the work ethic argument would probably counter that simply getting people into the workforce will put them on the road to success, while welfare is a dead end. We have three responses to this argument. First, hard work is no guarantee of long run success in the labor market. From the work ethic perspective, one could say that it is an individual’s responsibility to improve her skills. However, someone in a desperate situation working two minimum wage jobs to keep her family above the poverty line, would not have much time to enhance her skills. Low wage poverty could in this case be self-perpetuating.

Second, low wage employment has detrimental social consequences. Elliot Currie (1985) found that underemployment is, in fact, more closely associated with crime than unemployment.

Third, if workfare does provide benefits, they are long delayed. Currently, in no state do welfare benefits raise income to the poverty line (Center on Social Welfare Policy and Law 1996a). This could last up to five years and still the recipient may not be able to find a job that pays above the poverty line when leaving the program. Therefore, workfare risks making participants work through years of poverty only to end up still poor. It holds recipients to a moral obligation to work for subsistence, but does not hold anyone to the obligation to pay subsistence wages.

C. The Minimum Wage

The minimum wage is another strategy to reduce poverty. It is currently $5.15 per hour, approximately $10,000 per year before taxes. However, it would have to be increased much further – to about $9.20 per hour – to bring pretax wages to the poverty line, of $18,400 per year (U.S. Federal Register 2003).

Clearly, an increased minimum wage is not aimed at those who are physically unable to work. Assisting this group would require a separate program.

It could raise the wages of single parents, although it would not do much to render working easier for single parents. It could make it more affordable for single parents to find childcare and, thereby, increase their willingness to work. However, providing singe parents enough resources to allow them to afford daycare and remain above the poverty line would require a further increase in the minimum wage or a government funded daycare program.

If the cause of poverty is inadequate demand for labor, the minimum wage approach is an unappealing solution by itself. It does nothing for the unemployed. On the surface, the minimum wage looks like an appealing solution if inadequate demand for labor causes wages to drop below the poverty line. However, even though it increases wages for those who can find jobs, it does not directly expand demand for labor, and, some argue, it might reduce the amount of labor demanded causing an increase in unemployment.

A proponent of the low level of human capital view is not likely to find much to approve of regarding the minimum wage approach, because it does not directly enhance human capital. It would treat the symptom but not the cause of the problem (Brown 1988).

A higher minimum wage would have limited appeal for someone who believes poverty is primarily caused by a lack of work ethic on the part of the poor. Lawrence Mead (1992) argues that the poor, even the working poor, can bring themselves out of poverty, if they take advantage of opportunities that already exist to improve their skills. A minimum wage does increase the incentive to go to work, but it does not necessarily do so enough to bring everyone with “bad values” out to work.

Our view of the minimum wage is mixed. It is certainly the case that the government could increase the minimum wage enough to bring those working for it above the poverty line. This would be consistent with the idea of a reciprocal moral obligation for employers. However, there is conflicting evidence whether the minimum wage causes increased unemployment. Brown (1988) found that it does, especially among "minorities" and the unskilled, implying that a higher minimum wage would move some out of poverty and others into it. Card and Krueger's (1995) results suggest that we should question the link between the minimum wage and unemployment. Castillo-Freeman and Freeman (1991) find evidence that small changes in the minimum wage do not cause significant increases in unemployment but large changes do. To increase the minimum wage to $9.20 per hour would be a 79 percent increase. There is no certainty whether this would increase unemployment, but it does not help the unemployed. To eliminate poverty the minimum wage would have to be combined with other policies to help the unemployed and those who are unable to work. The basic income guarantee, which gives low-wage workers market power to command a living wage, and which helps the working poor and the unemployed alike, is a simpler and more comprehensive strategy to achieve the goal of higher wages and higher after-tax incomes.

D. Separating the "Deserving" and "Undeserving" poor

The current social insurance system is based largely on the belief that there are not one but many causes of poverty, allowing us to categorize the poor, not by how poor they are, but by how "deserving" they are. People who advocate this policy typically believe that those who cannot work (either because of disability or unemployment) are the "deserving" poor while those who simply do not work, are the "undeserving" poor (Zastro, 1986). The strategy then becomes to categorize the poor by the cause of their poverty, create a different solution for each deserving category, and encourage the undeserving poor to get a job. If it works perfectly all of those who cannot work will be helped, while all those who can work will have no work disincentives. As we discuss below, this definition leaves out some one who does not work because of unacceptable working conditions.

This strategy offers a complex solution to a complex problem, employing each of the strategies discussed in parts A, B, and C as part of an enormous system of incomplete and overlapping programs as summarized in Table 1.

Table 1:

Category (cause)	Program

Physically unable to work	Social Security, SSI, Medicare, Worker’s Compensation, Medicaid
Single parents	TANF, public housing, Medicaid, Food Stamps
Unemployment	Unemployment Insurance, food stamps, public housing, Medicaid
Low wages	The minimum wage, food stamps, public housing, Medicaid, the earned income tax credit
Inadequate Human capital	Public education, some counseling as a part of TANF and other programs
Lack of work ethic	Employment Counseling, denial of benefits

Despite the large number of programs, they are not enough to eliminate poverty or even to bring all workers out of poverty; remember that 5.3% of the labor force in 2002 had incomes below the poverty line (U.S. Department of Labor/Bureau of Statistics, 2004). Each program has its own eligibility requirements, making it difficult for people in need to know what they might qualify for. Simply having low or no income does not qualify someone for these programs; thus, many poor people may fail to qualify for any assistance at all.

The categorical approach has been the basis for our social welfare system since the great depression. Although it has had many successes and has helped to reduce poverty, especially among the elderly, we believe it is clear that this approach has proven to be extremely expensive and not completely effective. The rest of this section discusses four reasons why the categorical approach is not efficient or effective: first, the problem with defining “deserving,” second, the cost of categorizing each person, third, the harsh penalty for the undeserving, fourth, the effect of this position on the market power of workers.

First, how can one accurately define “deserving?” Even if we accept the distinction between those that cannot and do not work, how can we agree on who is able to work? Most would agree that a person with a severe developmental disability or someone with a profound case of schizophrenia is unable to work, but it is harder to agree about milder disabilities? A blind psychiatrist can still work but not a blind factory worker. Does being blind make a person deserving? What if the blindness was caused by complications due to diabetes that resulted from eating too many sweets? Once single mothers were considered “deserving” now they are not.

Second, once a definition of need is determined, it is costly to separate people into categories of need. The effort involved in categorization is expensive and there are significant costs associated with making mistakes. Our social welfare system has numerous overlapping programs all with the same ultimate goal. Each program has its own eligibility requirements making it expensive for the government to determine who is qualified for which program, and it is difficult for needy persons to determine which programs they may be eligible for. Programs vary greatly in the portion of total spending taken up by administrative costs, some being surprisingly high. The administrative cost of unemployment insurance is more than 85 percent of its total budget while the administrative costs of social security is less than 1 percent of its total budget (House Ways and Means Committee, 1992).

Third, the cost of making mistakes is just as important. Someone who is actually deserving could be classified as not deserving (a type 2 error), or someone who is not deserving could be classified as deserving (a type 1 error). A type 2 error is someone “falling through the cracks” such as a homeless person with an undiagnosed mental disorder. Type 1 errors include giving benefits to someone who has a high income, such as sending a social security check to a retired billionaire. Type 1 errors also include giving benefits to someone who has a low income but would otherwise be earning a higher private income, such as a person who waits until unemployment runs out before looking for a job.

Separating the deserving from the undeserving involves a very high penalty for laziness. Even if a person is “truly undeserving” should they face imminent starvation? This makes the penalty for laziness more severe than the penalty for most crimes except murder. It seems also to retreat from the goal of eliminating poverty. Saving (1997) characterizes this as “tough love” saying that less redistribution will get more of the poor into the labor force, reducing the number of the poor at the cost of increasing the severity of poverty. Even if this were an acceptable trade off, we doubt that it would work once we seriously consider its effects on the labor market.

This brings us to the fourth problem with the categorical strategy. It hurts the market position of all laborers. Requiring everyone to work increases the supply (or reduces the market power) of labor making workers desperate to get a job quickly. We have inadequately attempted to solve these problems by other government actions such as the minimum wage and labor regulations, but none solve the underlying problem that workers are desperate for jobs, but employers are not desperate for workers. The distinction between deserving and undeserving does not allow a person the freedom to refuse a job because the pay is too low or the working conditions unacceptable. Our effort to impose “tough love” undermines our belief that people who work hard should be rewarded for it. The definition that those who work are “deserving,” implies that no one who works full time full year should live in poverty, yet many of our workers do – not because they are lazy, but because of their bargaining position.

This problem can lead to a paradox of hard work. The harder workers work, the more labor there is in the market, and the further wages will go down.

The current system over-emphasizes “bad values” as the cause of poverty. Workers may have good values but few opportunities, and “bad values” may be the result, not the cause of poverty. People at the low end of the job market know that the jobs available to them pay very little and offer little hope of advancement. A minimum wage job requires a single parent with two children to work two jobs just to get by; which could take 70 to 80 hours of work a week just to reach the poverty line, and she can’t get there unless she has access to a large amount of free childcare. This person would not be able to save money to start his own business and would not have time outside of work to learn skills to improve her situation. It would take years to advance out of this situation. It is not surprising that people faced with these options do not develop a strong work ethic. If we want people to value work, we must make work valuable to them in the short run, not as a distant promise coming after years of poverty wages.

We believe that one should not be called “undeserving” for choosing not to work if the only jobs open to them would leave their families in poverty. We, therefore, search for a solution that will give workers greater market power. The guaranteed income would increase the market power of workers and so it would help the unemployed and working poor alike.

E. Guaranteed Public Employment

Because inadequate demand for labor is a significant cause of poverty and unemployment, government provided jobs have been proposed as a solution. A comprehensive version could replace all transfer payments to those able to work (including TANF, unemployment insurance, the minimum wage, food stamps, and public housing) with a government guarantee to hire anyone willing and able to work. This idea is known as the public jobs approach, the guaranteed job, or the government as employer of last resort (ELR). Hyman Minsky proposed a version in 1986; another version, the WPA, was introduced in the United States during the Great Depression.

Several Post Keynesian economists have recently put forward ELR proposals as a systematic method to balance the demand and supply of labor without creating inflationary pressure. The best known of these is the book *Understanding Modern Money* (Wray 1998), and the comments here are directed at that proposal. An evaluation ELR as an economic stabilization tool is beyond the scope of this paper. We will be evaluating it as a tool to reduce poverty. It is possible that ELR could simultaneously be an efficient tool to stabilize the economy and an inefficient tool to reduce poverty. To the extent that ELR can stabilize the economy in ways that other policies do not, those effects could at least partially mitigate the inefficiency effects that we point out below.

There are two important differences between ELR and workfare. First, ELR is comprehensive: the government promises to hire anyone who is willing and able to work at a pre-determined wage. They do not need to demonstrate that they are poor or single parents as workfare requires. Second, ELR is pays higher wages. Wray argues that ELR should pay a living wage and include fringe benefits such as healthcare, childcare, and retirement. He uses $6.25 per hour for illustration and asks the reader to “assume” that that is a living wage while admitting that that assumption is unlikely to be true unless wages are supplemented with other sources of income, possibly including a second job (Wray 1998, p. 125 and p. 150).

Obviously public employment is not aimed at those unable to work; it would have to be combined with programs for the elderly and disabled as part of a more comprehensive strategy to eliminate poverty. As a poverty policy, it must, therefore, be seen as part of a larger targeted system of benefits, and the associated costs of determining who is eligible for a public job and who is eligible for other kinds of aid count as inefficiencies of a poverty strategy incorporating ELR.

It would seem to eliminate the problem of separating the unemployed from the unwilling to work, but it would not do that perfectly. The ELR offers a uniform wage equal to the minimum wage. Some people might be genuinely unemployed from higher-skilled occupations and unwilling to accept underemployment in ELR jobs.

ELR could help single parents in poverty, but not without serious side effects. The jobs could pay enough to enable workers to obtain private day care, or they could include day care as a fringe benefit, or they could arrange flexible hours and work-sharing arrangements so that groups of workers could take turns caring for each other’s children. All of these create the problem of separating parents from children for a significant amount of time, which might not be the best thing for those families. The alternative would be to classify single parents as those “unable to work.” But because single parents and their children make up the majority of the poor, doing so would mean that a job guarantee could not help most people who live in poverty.

The ELR could eliminate both of the problems (low wages and unemployment) caused by a low demand for labor. It would directly eliminate unemployment, and, if it pays higher than poverty wages, it would nearly eliminate low wages as a source of poverty. An ELR with health benefits, daycare, and a living wage would greatly reduce poverty, but a low-wage would not reduce the number of people living in poverty and would verge on being exploitative.

Although at one point Wray argues that ELR should pay a living wage, he is not very optimistic that an ELR can or should attempt to increase the going wage in the labor market. He seems to take the going wage in terms of purchasing power in the low-wage sector as something beyond the control of policy. With a very small discussion of how and why the purchasing power of wages is determined or whether it can be influenced by other policies, he states that increasing the ELR wage is equivalent to devaluing the currency and that other wages and prices will adjust upward to reflect devaluation (p. 135-136). That implies that if the going wage in the labor market is a poverty wage, ELR alone is powerless to give low-wage workers a higher standard of living. If ELR jobs at the going wage are poverty-wage jobs, why is it so important to make sure everybody has one rather than making sure that everybody has the power to refuse them? I do not believe that proponents of guaranteed public employment believe that stabilizing the price level has the necessary side effect of leaving the working class with no other option but to work for poverty wages, but they need to spell out their strategy not only how to get the poor to work but to ensure that once they do they will no longer be poor.

That said, the rest of this section assumes that the ELR system has found a way to pay wages sufficient to bring workers out of poverty.

Proponents of the low level of human capital view might give qualified approve of the public jobs approach if the ELR has the power to set higher wages. That policy could directly eliminate the symptom (low wages), but would less directly address its cause. Public employees might or might not gain valuable work experience and skills necessary for them to increase their earnings if and when they return to the private sector. An extreme proponent of the low human capital view might fear that public jobs would become “make work,” and would not eventually lead to better private sector jobs. However, if such a problem arises, the system could be readjusted to include a job-training program.

People who think that the poor lack sufficient values might also voice qualified approval of this approach. They would see its major weakness being the difficulty to both guarantee a job and give people an incentive to work hard on that job. Could workers be fired for poor performance? If not, it wouldn’t be much of a job. But if so, the job would not be a truly guaranteed job, and what would happen to the people who were fired? If a worker does not perform his job adequately, the problem of separating those who cannot perform due to mental disability from those who simply do not perform resurfaces. An employer of last resort may be reluctant to fire employees, but workers who least value hard work would have incentives to try to work as little as possible. One solution would be to take on judgmental position and treat such workers as “undeserving,” “bad” people who ought to be poor or homeless. Another solution would be to heavily supervise employees, but this could increase cost, reduce productivity, and develop an antagonism between employees and management. A third solution would be to combine ELR with a smaller, universal system, such as the basic income guarantee, so that people who did not accept the jobs as they are or did not perform well enough to keep them, would not do as well as ELR workers but were not destitute either.

However, like workfare, public employment might socialize the poor into recognizing the value of work. It would do this more effectively than workfare if it positively rewarded work with a higher than poverty income. Thus, participants would directly and immediately see a positive reward for their labor.

Our view is that public employment would be a vast improvement over the current state of affairs, or any of the strategies discussed above. Like the guaranteed income it would act as an automatic stabilizer on the economy and would eliminate many of the sources of poverty. However, there are four reasons why public employment is not as appealing as the guaranteed income.

First, it relies on an extreme version of the work ethic similar to workfare. We say this because, like workfare, unless it is accompanied by some universal support system, an ELR would require able-bodied persons to work in return for assistance. We hasten to add, however, that public employment with a living wage would apply the extreme version of the work ethic more fairly than the current system does. This is because it would create a reciprocal moral obligation rather than a one sided moral obligation. It would require people to work for assistance but would assure that the level of assistance was high enough to allow them to escape poverty. Yet, it would put workers in the position in which they have to accept the employer’s decision about what is a fair wage. Public employment in the context of a society in which poor individuals have no access to the means of survival unless they work for people who control property leaves the workers with no options but to accept whatever the employers decide is fair. We would like to hope that the market wage is always fair or that public employers will always decide to pay good wages, but we don’t have reason to believe those hopes will always come true. Isn’t it rather one-sided to believe that the class of people who control access to jobs and government assistance can judge the poor as “deserving” or “undeserving” while the class of people who work are not given the power to judge employers as being “deserving” of having employees?

Second, a major disadvantage of public employment is that this would be significantly more expensive than the guaranteed income. In addition to the wage costs, and the costs of separating those who can work and those who should be eligible for other programs, and the administrative costs of those other programs, the ELR would have enormous the overhead costs of its own including supervisors, materials, transportation, and planning. Every town and neighborhood would have to have facilities and managers available to handle peak levels of unemployment sitting idle during periods of relatively low unemployment. If the ELR was replaced by a basic income guarantee, all of these costs could be turned into higher payments to the poor or greater government services without putting any additional pressure on prices.

Guaranteed public employment also has external costs that, though hard to measure in pecuniary terms, are costs just the same. A public employment induced net increase in the supply of labor would also mean an increase in traffic congestion, crowed subways/buses, and the health effects (stress, respiratory problems associated with breathing in automobile fumes, etc.), and increased environmental depletion of any scarce assets used in production. Traffic congestion and some types of work also tend to create noise pollution which, even if not a threat to health (which it can be), is certainly what neoclassical economists would call a disutility.

Considering all of these costs a public jobs program could turn out to cost many times more than its wage cost. Thus, it is likely to be the most expensive of all programs we discuss in this paper. The guaranteed income, because of its simplicity, would be likely to have low administrative costs comparable to social security as discussed above.

One could counter that the cost of public employment would be compensated for by the fact that participants would be producing goods that would counteract these costs. However, participants would also be giving up time that they could spend in job training, starting a business, volunteering, getting an education, raising children, or doing whatever it is they find valuable. There is no objective way to judge whether participants would make more valuable use of their time with a guaranteed job or a guaranteed income and thus no a priori way to say that the increased production of the public employment approach would be worth its cost.

Third, both public employment and the guaranteed income would create an effective bed for private sector wages, but the guaranteed income could have a greater effect on private sector wages for a given level of benefits. For instance, to establish $300 a week as the effective minimum wage, public wages would have be $300 to make workers indifferent between private and public sector jobs. However, if people preferred leisure to labor, the guaranteed income could be less than $300 to make workers indifferent between private sector jobs and living off the guaranteed income.

Fourth, public employment would be a logistical nightmare. Imagine all the resources the government would have to expend deciding what public employees would do and all of the political fights over what district would get which jobs and the output. Unemployment is erratic and, presumably, so would be the number of applicants for public jobs. How would public employment ensure enough work for all applicants, in all locations, at all times without resorting to make work?

F. The Basic Income Guarantee

In this section, we argue that the basic income guarantee (BIG) is the most efficient and comprehensive poverty policy, because it can eliminate poverty no matter what the cause. There are different versions of the basic income guarantee, including the citizen's income, the basic income, the negative income tax, the social dividend, and others. For our purposes we need not go into detail about the technical differences between them. All of them are essentially income insurance, providing a guarantee that no one's income falls below the poverty line for any reason, but ensuring that the more one works outside the home, the better off one is.

There are two important numbers in a basic income guarantee scheme: The grant level and the marginal tax rate. The grant (or the minimum income or the maximum supplement) is the amount of money received by a person who makes no private income. The marginal tax rate is the rate at which the grant is reduced (in the case of a negative income tax) or private income is taxed (in the case of a basic income) as private income rises. The basic income guarantee would replace most of tax and benefit system with a simple equation. After tax income (D) equals private income (Y) times one minus the marginal tax rate (t) plus the grant (G):

$$D = Y(1-t) + G$$

If the grant is greater than private income times the tax rate, net taxes (T) are negative (the person or family is a net recipient of transfers):

$$T = Yt - G$$

For example, suppose we constructed a system with a $10,000 grant for a family of three and a 50 percent marginal tax rate (meaning that for every dollar a family earns they would lose $0.50 of their supplement or they would pay $0.50 tax on their private income). A family with no private income would receive the $10,000 transfer. If that family earned $2,000 privately, its benefits would be reduced by $1000 (50% of $2,000) amounting to an after tax income of $11,000 ($10,000-$1,000+$2,000=$11,000). If this family increased their private earnings to $10,000, their after tax income would be $15,000. If this family increased its earnings to 20,000 (the break-even point), it would receive no net subsidy giving it an after tax income of $20,000. Notice that this family is always economically better off increasing its private earnings rather than relying solely on the basic income guarantee.

Table 3: Hypothetical tax and income schedule

Private Income	Net Tax	After-Tax Income	Average Tax Rate
0	-10,000	10,000	-
5,000	-7,500	12,500	-150%
10,000	-5,000	15,000	-50%
20,000	0	20,000	0
30,000	+5,000	25,000	17%
50,000	+15,000	35,000	30%
100,000	+40,000	60,000	40%

These numbers are purely for illustration. The minimum income level and the marginal tax rate would have to be chosen based on the poverty line and the revenue available. Notice that although the marginal tax rate is fairly high at 50%

the average tax rate is much lower for most families. Notice also that although the marginal tax rate is proportional the overall effect of the tax benefit system is quite progressive. The marginal tax rate could be reduced by collecting revenue from property, sales, or wealth taxes while collecting less revenue from the income tax.

Those who believe poverty stems from disability or single parent status might find the BIG approach appealing. A basic income guarantee would assure that everyone unable to work, for any reason, would not become impoverished. Retirees could live off of the minimum income, but would be assured that the more private savings they have accumulated, the better off they would be. Some, however, advocate combining BIG with a retirement program or simply giving a higher maximum supplement to retirees. The basic income guarantee would eliminate the possibility that someone would fall through the cracks because someone truly unable to work, but who does not qualify for a particular program under the current system, would be guaranteed assistance under the system we propose.

The guaranteed income would work very well to prevent poverty if inadequate demand for labor is the cause of poverty, whether it causes low wages or high unemployment. The unemployed would be able to live off of the minimum income until they found another job, while low-wage workers would receive a supplement bringing their income above the poverty line, always making them better off than those who are not working.

The guaranteed income would eliminate many of the negative effects of our current policies for inadequate demand for labor. Unlike the possibility with a minimum wage, it would not directly have a negative effect on labor demand. And unlike unemployment insurance, it would not encourage workers to stay on until their benefits run out nor leave them desperate to find any job after their benefits run out. A worker on unemployment has to give up her entire supplement to take a job, and risks not being able to get her benefits back if she has to quit her job. Suppose a recipient received $200 a week in unemployment insurance. If they were offered a $250 a week job, they would lose all of their unemployment benefits, and start paying income taxes leaving them little better off and possibly worse off than staying on unemployment. A person in the same situation with a basic income guarantee could take the job and see their after tax income rise from $200 to $325 a week without risking that they won't be able to get their benefits back if they have to quit their job. The basic income guarantee ensures that the more one works the more one makes while ensuring that no one fears complete destitution.

People who believe inadequate human capital causes poverty might voice qualified approval of BIG. It does not treat the cause, but it effectively treats the symptom. It does little to directly enhance human capital, simply giving people enough money to meet their subsistence needs. However, they might find something appealing in the approach because it would allow people more time to allocate to attempts to enhance their levels of human capital. If people were assured that their subsistence needs would be met whether they worked or not, they would be in a position to devote more of their time to training and other activities which would increase their levels of human capital. Such a person would have more opportunity to increase her human capital than a minimum wage worker today who would have to work two jobs to keep a family of three above the poverty line leaving little time available for her to increase her skills. Also, the basic income guarantee could be combined with increased job training, placement, and educational funding. This combination would be superior to workfare because it would offer both a long-term and a short-term solution to poverty caused by inadequate human capital.

The strongest opposition to the guaranteed income is likely to come from the perspective that a lack of work ethic causes poverty. Some might make this argument directly, others indirectly.

The strongest resistance to the basic income guarantee would come from people who directly contend that the lack of a work ethic causes poverty. They would say that a policy providing enough money for people's basic needs would result in a severe work disincentive. We would not be able to get enough people to work to create the things needed to sustain us as a society.

This is an important objection. However, there are three problems with it. First, it relies on a very strong and unrealistic assumption about people's aversion to work. Second, it relies on an extreme and one-sided version of the work ethic. Third, it ignores the incentive effects on businesses. These arguments are supported in the following discussion.

Unlike the present system, the guaranteed income would always provide an incentive for people to work and earn more if they could, because no matter what a person earned they would always be better off earning more. The guaranteed income is a lump sum transfer (the poor receive it as a grant, others receive it as a tax deduction) and so itself causes no inefficiency; inefficiency could only be caused by collecting taxes to support it. It has a work disincentive only in the sense that one is not completely destitute if one does not work, but it counters that with a significant reward if someone does work.

As mentioned above, the incentive to work for a person receiving a guaranteed income removes some work disincentives that many of our current anti-poverty programs have. TANF, food stamps, unemployment insurance, even public housing are all very difficult to qualify for. However, if something is difficult to obtain, it is risky to give it up. In a guaranteed income system a worker takes no risk when he takes a job. This would greatly reduce the “cycle of dependency” problem.

A supporter of the “bad values” view of poverty might respond using the extreme version of the work ethic: able-bodied persons are obligated to work for their subsistence. Those who hold this view tend to be ambivalent about or to oppose poverty policies that provide able-bodied poor people with assistance without requiring them to work for it (Mead, 1986).

We are neither ambivalent about nor opposed to such policies. As we have said it is one sided to hold individuals who do not own property to a moral obligation to work without holding society to a reciprocal moral obligation. There are two ways to solve this inconsistency. Either increase the moral obligation of employers (as the minimum wage and public jobs attempt to do) or decrease the moral obligation on the part of workers. We believe the second is more effective because the belief that large numbers of people will not work even if offered a good wage relies on an unrealistic assumption about human behavior—believing in a world in which *every man does **not** have his price*. On the whole people will work if given incentive to do so, and people are happier and better workers if they *chose* to work rather than if they are *forced* to work. Remember as cited above, that 5.3% of the labor force in 2002 lived in poverty (U.S. Department of Labor/Bureau of Statistics). Since some of those who made up this 5.3% were actually working, instead of simply looking for work, this implies that some Americans had such a strong work ethic that they were willing to work even though they had little pecuniary incentive to do so. Even before TANF, when AFDC had no time limits, most recipients were off public assistance in less than three years. The times and places where one does see a “cycle of dependency” tend to be where there are few opportunities in the private sector (Handler and Hasenfeld, 1997).

Recall that neither Keynesian nor Neoclassical theory necessarily imply that the labor market will provide above poverty wages for everyone who wants to work. Recall that in the absence of redistribution workers are desperate to work, but employers are not as desperate for workers, causing a tendency for low wages in the least skilled labor markets—which effectively holds them to an obligation to work. Although BIG provides a supplement for non-workers and workers alike, it gives low-wage workers the market power to command higher wages. If, as people so often fear, a large number of low wage workers attempted to quit their jobs to live off of the minimum income, the market would respond with higher wages to coax them back to work. Even if wages did not rise enough that everyone would chose to work, wages would rise enough so that the hard working would be significantly better off than they are under the current system and significantly better off than those who lived off the minimum income.

Many people make the values argument indirectly, saying that because the work ethic is so strong in our society, we should advocate poverty policies that are consistent with it. A guaranteed income is not consistent with the work ethic because it provides people with "something for nothing." For this reason, even if a guaranteed income plan were to be enacted, the income guarantee would not be set high enough to meet subsistence needs. Politicians and the public would not be willing to give non-working people a lot of governmental assistance. A poverty policy that involved the government in the creation of public sector jobs would not run into this problem. Poor persons who took these jobs would be working for their subsistence, and politicians and the public would be willing to reward them with higher income than would be the case under a basic income guarantee. The implication is that due to our societal adherence to the work ethic, public assistance beneficiaries would end up better off under a public employment scheme than a guaranteed income plan.

We agree that politicians and the public might be willing to give more money under a public employment approach than under a BIG approach. This does not necessarily mean, however, that recipients would receive more money or would be better off. As we argued above, the public employment approach is very expensive. Taxpayers must be willing to give not only more, but enough more to cover the added expense of supervisors, materials, and all the other overhead costs of the public employment program. And covering all these costs would still leave the externalities discussed earlier unaccounted for. Public jobs are likely to be so much more expensive and involve so many more costs that do not directly benefit recipients that it is doubtful whether people would be willing to give enough more to make sure that recipients would actually receive more wages than they would under the guaranteed income. Even if they did, they still might not be better off because work is a costly activity to the working individuals themselves. With work often comes with travel costs, childcare costs, and other costs. The money used to purchase these cannot be used to purchase food, shelter, clothing, and other goods/services. If these things are taken into account, wages would have to be *significantly* higher before we could say that recipients would be better off with a guaranteed job than a basic income guarantee.

CONCLUSION

The other programs we have considered all require the government to spend large amounts of money on things other than direct payments to the poor. This is an inefficiency in itself, and it causes the second inefficiency of making errors possible by allowing people to fall through the cracks. The basic income guarantee makes a simple, effective payment system to the people who need it without wasting funds on anything else, and it has no cracks to fall through. Therefore, if we want to make fighting poverty the central goal of poverty policy, the basic income guarantee is the most efficient way to do it.

We believe that the biggest barrier to a more effective poverty policy is a desire to judge the poor, but our judgments of the poor hurt a lot of good people. At the time of this writing, states across the nation have been under the new welfare regime for about seven years. This law requires those on welfare to work in return for benefits, and it limits the amount of time recipients are eligible to receive benefits to five years over their entire lifetimes (Center on Social Welfare Policy and Law, 1996b).

We are doubtful that this approach will do much to curtail poverty. In fact, it might actually exacerbate it. As more people are pushed off the welfare rolls, they will face increased pressure to compete in the labor market, putting downward pressure on wages. Thus, at best, the result of the welfare reform law might simply be to swell the ranks of the working poor, who have already seen their living standard stagnate for the last 25 years despite continued economic growth and great substantial increases in living standards for the higher classes.

Someone who believes that the value of work is that it can provide workers with a better life, would be distressed by this. It is not necessary to have poverty, especially among workers in a country as rich as the U.S. If the goal is to eliminate poverty, the basic income guarantee is an efficient and comprehensive means. In the end, the issue is a normative one. Should our society be so committed to the work ethic that we force the poor to work even at poverty wages? No, eliminating poverty is so important that everyone deserves the resources required to meet their basic needs. If we say yes to that question we are putting enforcement of a very strong version of the work ethic ahead of our shared desire to have an economy that provides a decent life for everyone. There is plenty of room for work incentives by providing good jobs without making people face desperate poverty. We should reward the work ethic, not enforce the work ethic.

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Medical care, though important to one's standard of living, we treat as a separate issue. One related problem that we will not be discussing in this paper is someone who is impoverished because of health *expenses* owed by them or a member of their family for a condition that does not prevent them from working. Providing adequate affordable health care to all citizens is an important public policy question, but it is best addressed as a separate issue.

The term *work* is being used as it often is in neoclassical economics: time spent doing something one is paid a wage for. Nonmarket labor, such taking care of children is not considered work from this point of view. Just because something is not considered work, as economists define it, does not mean that it is not socially valuable. For example, someone raising their kid but not getting paid for it is, arguably, engaging in a more highly valued activity than someone building bombs for a wage.

This question might be answered empirically, if the two are introduced simultaneously and the authority experiments with different wage rates and different basic income guarantee levels to find out if the wage needed to encourage workers to switch is greater than their productivity.