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Complementary Policies to Reduce Poverty  
and Unemployment**

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## ABSTRACT

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### **Basic Income and a Public Job Offer: Complementary Policies to Reduce Poverty and Unemployment\***

Unconditional basic income, or a job guarantee by government as employer-of-last-resort, are usually discussed as alternative policies, though the first does not provide the benefits of an earned income and a good job to the growing numbers in precarious- or under-employment, while the second fails to assist those who would prefer to remain in self-employment or particular occupations if their incomes were higher, rather than to work under a JG. Furthermore a JG cannot support those who are unwilling to work. We argue here that the only cost-effective policy for comprehensive welfare is a combination of a modest basic income with job offer by local authorities below the minimum wage.

**JEL Classification:** H53

**Keywords:** basic income, job guarantee, poverty, unemployment

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## *Introduction*

Current and pending problems in most labour markets, such as persistent under-employment, stagnating real wages for the majority, and a perceived, growing threat from automation have revived discussion of the old idea of a universal basic income (BI) – with the first nation-wide pilot study now underway in Finland. Conservative, right-libertarian proponents such as Murray (2013) suggest replacing all government welfare programmes in the US with BI, though this would impose immense hardship on the poor who currently rely on Medicaid. Santens (2017) has a much better proposal to combine BI with other welfare measure, but like most advocates, neglects the additional benefit of a job guarantee (JG).

In the UK combining disability and housing benefits with a modest BI would bring major welfare gains but not solve the problem of under-employment. The much less discussed alternative of (local) government as employer of last resort, or JG, could actually be an important complement to BI. However, a JG would also have to require minimum standards of attendance and performance, so we shall refer to a *job offer* (JO) by local authorities, open to all who are able and willing to meet such standards.

For those unwilling to work, but not eligible for the disability benefits which obviously need to be retained, even a modest BI provides the necessary, alternative safety net to current forms of *targeted* social assistance, which inevitably generate a poverty trap as the benefits are withdrawn with increasing earnings. Such a combination seems to be the only policy which offers hope for at least approaching the now largely abandoned goals of full employment and ending poverty in both developed and developing economies at relatively low cost, while all face a future of increasingly precarious labour markets and even secular stagnation.

Proponents of either BI or JG have usually criticised the alternative policy, and neglected limitations of their own preferred policy (including the need for sanctions to ensure performance in a job ‘guarantee’. Frank (2014) proposed to combine a BI ‘that is far too small to lift an urban family from poverty with an open offer to pay sub-minimum wages to those willing to perform useful tasks in the public sphere’, because a poverty- level BI would generate too much taxpayer resentment. Though a majority should benefit from BI with a progressive tax system, opposition to higher taxes, even if only for the rich, remains strong. However only a JG can end involuntary unemployment, which is itself a major cause of unhappiness, and the benefits of combining a modest BI and JG have been neglected by subsequent writers. Here we develop a detailed, general case for the complementarity of these two very different welfare policies, explain the problems with either on its own, and offer illustrative numerical examples for the UK and Germany.

### *1. The future of employment and the failure of targeted welfare*

As automation threatens to accelerate the ‘hollowing out’ of middle classes and demise of even non- routine white collar jobs, non-standard employment arrangements combining low pay with irregular and on-call work and lack of job security have already proliferated everywhere to create a new ‘precariat’ (Standing, 2014; Temin, 2017). At the same time, forms of under-employment have persisted at much higher levels than official unemployment in most economies, including self-employment with low and irregular earnings, and involuntary part time work, for those unable to find adequate full time jobs. The OECD (2017a) estimates an average labour underutilisation rate of 15 % for 2015, including officially unemployed and discouraged workers no longer searching for jobs. The full-time equivalent (FTE) employment rate average is only 60%, nearly 10 percentage points below the average for the most successful Nordic economies. These in turn have much lower

average working hours per worker than countries with lower employment rates, as well as among the highest life satisfaction scores (Bruenig, 2017).

While the FTE employment rate in Britain (GBR) is only slightly above the OECD average, long term unemployment is slightly lower, and headline unemployment is about half the OECD average, the latter statistic conceals major problems in the labour market. Research by the New Economics Foundation (Wheatley, 2017) shows that only about 60% of workers hold ‘good jobs, which are defined as people employed in permanent jobs, or voluntarily in temporary jobs, or in self-employment, who earn the Living Wage’ (£8.45 outside London), so in other words about 40% are in ‘bad jobs’ with inadequate earnings, and ‘two thirds of Britain’s children in poverty are in working families’. More than half the self-employed earn less than the living wage, while the rise of self-employment and ‘zero hours’ contracts, many of which fail to provide adequate hours, have helped to push the unemployment rate to its current low.

Including those in the work-force who are inactive but would like to work, the Joseph Rowntree Foundation (2017) estimates an underemployment rate of 18% in the UK. The JRF and an IPPR (2017) Interim Report recommend many individually sensible policies to reduce poverty and improve employment and welfare, but with no mention of either BI or JO or their combination, which, as we show below, is a cost-effective and essential complement to more standard policies. This would also give workers the bargaining power and resources to demand or search for better jobs.

A recent report estimates 6.8 million unpaid carers in the UK economy, whose rapidly rising hours of work were valued at £132 billion, almost as much as the NHS budget (Valuing carers, 2015). As the population ages and the incidence of chronic conditions such as type-2 diabetes and obesity increases, home care by local authorities has been cut as part of the

Conservative Government's counter-productive austerity policy, forcing already over-stretched families to provide more unpaid care themselves, averaging over 1,000 hours p.a.

Meanwhile growth has mainly benefitted the rich, in particular the top 1% of the income distribution in both the UK and US, and concern over rising inequality and the failure of 'trickle down' economics under austerity and other neoliberal policies has fuelled right-wing, populist movements in many countries (Lastra-Anadon and Muniz, 2017). Labour's share of GDP has been declining in most industrial economies, while real wages of lower-skilled workers most affected by under-employment have remained flat or declined. Average real wages in the UK have been declining since 2007, a decline exacerbated by austerity policy and Brexit-induced depreciation of sterling, the longest such decline for more than a century (Cooper and Whyte, 2017; Wren-Lewis, 2017).

Austerity instead of expansionary fiscal policy since the financial crisis of 2008/9 has exacerbated these trends, and traditional targeted welfare has become increasingly ineffective, with rising rates of child and in-work poverty, as well as long-term un- and under- employment even in the most successful Nordic welfare states, albeit still at much lower levels than in other advanced economies - particularly the UK and US. Increasingly popular in-work benefits for low earners do not help the jobless or discouraged who have dropped out of the labour market, and are too low to avoid widespread in-work poverty. At the same time, effective marginal tax rates for low and part time earners who wish to work more hours can be 70-90% or more, as various targeted welfare payments are tapered or withdrawn, a widespread 'poverty trap' for the unskilled and low paid in all advanced economies (IFS, 2010; Cooper and Whyte, 2017).

Other advanced economies face related problems. In Germany, real disposable household income for the lowest 10% of incomes (1<sup>st</sup> decile) declined by 8% from 1991 to 2014. The

bottom 40% experienced essentially no growth over this period, while the top 10% benefitted from 25% real income growth (DIW, 2017). In the US, median real full time male earnings have *declined* since 1972, while the income share of the top 1% has more than doubled to around 20%, an extreme concentration last observed in the 1920s. Wealth inequality is even more extreme, exacerbated by tax havens which authorities have made little effort to restrict (Shaxson, 2011; Zucman, 2015), and by growing levels of personal debt to maintain consumption under austerity in recent years in several advanced economies. Thus while poverty has also been increasing, the poorest half of the German population owned only 1% of total wealth in 2012, compared to 4% in 1993 (Bertelsmann Stiftung, 2017). The debilitating effects of growing inequality on almost all indicators of social welfare have been documented in alarming detail by Dorling (2017) and in the seminal work of Wilkinson and Pickett (2010).

## *2. The return of basic income*

In these circumstances it is perhaps not surprising that the old and long neglected idea of a universal basic income has recently become the focus of intense interest and discussion. The related ‘negative income tax’ to ensure a minimum income for all had been suggested by prominent economists in the US such as Milton Friedman and James Tobin from opposite ends of the political spectrum in the 1970s. Similar ideas were espoused earlier in Britain by other well-known economists such G.D.H. Cole, Juliet and Brandon Rhys-Williams, and James Meade, and later by J.K Galbraith in the US, but were then largely forgotten until the widespread failure of targeted welfare to mitigate rising poverty during the ‘Great Recession’ that followed the financial crash of 2008/9.

However, so far only Finland, suffering from persistent and very high unemployment, has introduced a nation-wide pilot BI scheme in 2017, although several successful trials in

developing countries are discussed by Standing (2017), and other pilots are planned in Canada, Spain and the Netherlands. A comprehensive discussion of the history, benefits and prospects of BI is provided by Van Parijs and Vanderborght (2017), but they only see a minor role for a JG. The OECD's new 'Policy Brief on the Future of Work' provides a detailed survey of 'Basic Income as a Policy Option: Can it Work?' (May, 2017) covering all OECD countries. Reed and Lansley (2016), Standing (2017), and Torrey (2016) make compelling arguments for a modest BI of around £4,000 p.a. in the UK but, like most advocates, neglect the complementary role of a JG. To avoid making some individuals worse off, the balance of disability and housing benefits above the BI would have to be retained.

Straubhaar (2017a) suggests replacing Germany's generous € 900 billion social security budget and notoriously complicated tax system with a much larger BI and negative income tax yielding €12,000 minimum income for all citizens, and a 50% flat tax on all incomes and value added. However several problems with this proposal are not addressed. The high VAT would cause substantial price rises, thus reducing the real value of the minimum nominal income, while a 4 person household with an unearned income of €48,000 and facing a 50% marginal tax would have strong incentives to substitute leisure for earnings and drastically reduce labour supply, while inciting resentment among the growing single population, so such a generous NIT is unlikely to be politically acceptable.

If essentially every family becomes a lottery winner, and marginal taxes are so high, reactions may be quite different from those of a rare individual winner who continues to go to work to maintain social networks with colleagues and avoid the stigma of even voluntary non-employment. In view of the complexity of the German tax, subsidy and welfare system, it is also likely that some individuals, particularly adults living alone with disabilities, might actually be worse off in this system. The 40% VAT in Straubhaar's (2017b) book-length

version is still problematic and does not address the remaining issues. Reliance on indirect taxes to fund remaining public expenditure would also make the tax system more regressive.

A more plausible initial reform might offer a BI of €6,000 p.a. at half the cost, plus a JO below the minimum wage, say €12,000 for full time work. If taken up by, say, 3 million currently un-and under-employed, their wages would cost only €36 billion, yet keep singles well above poverty, and allow additional disability and other targeted benefits, including higher pensions, which are needed to ensure that nobody is made worse off. This scheme could be funded with a much lower basic tax rate as discussed below, while progressively higher rates for high earners are urgently needed to reverse growing inequality.

In the UK, with less than half of German social spending per capita, but to initially avoid politically unrealistic, major tax hikes, a BI of around £4,000 p.a. for most adult citizens, possibly less for children and more for elderly (pensioners), should replace most existing cash transfers, and increase at the same rate as per capita GDP. In the UK this is about the maximum unemployment benefit (job-seeker's allowance), but is less than half the poverty level for a workless adult living alone. However, due to the complexities of current, uncoordinated tax and welfare systems, many of the poorest individuals in the bottom income decile and some in higher deciles, particularly those with disabilities, and those receiving housing benefits, as well as some pensioners, would be substantially *worse off* under such a BI. Similar problems are found in other EU states (OECD, 2017b).

Thus targeted housing and disability benefits in excess of BI should be retained, but importantly, without current coercive attempts to downgrade many disabilities and reclassify recipients as employable, which have caused great hardship to many of the most vulnerable individuals, including numerous suicides, evidence for which was systematically suppressed by the Conservative government under David Cameron (Patrick, 2017). Housing benefit also

urgently needs improvement to keep up with exorbitant rents and growing shortage of accommodation in SE England, the result of decades of disastrous housing policy. Of course this implies that means testing and monitoring of recipients will have to remain, so the simplicity of a ‘pure’ BI is really unattainable, but this is the only way to ensure that no-one is made worse off under a modest BI. The growing use of sanctions to punish conditional unemployment benefit recipients for minor infringements of the rules has also imposed poverty and destitution on many poor people in the UK (Patrick, 2017), and this injustice would be abolished by replacing the job-seekers’ allowance (JSA), which less than half of the unemployed actually receive, with unconditional BI.

To provide some rough outlines of the costs involved, UK welfare spending on cash transfers in 2014/15 was £258 billion, of which £108 billion was spent on pensions for the 12 million over 65s, including former public sector employees, which would presumably be unchanged, leaving £150 billion (ONS)<sup>1</sup>. Due to the complexity of the system, benefits amounting to about £15 billion p.a. are not claimed, mainly by the poorest, while higher income deciles receive more transfers than the lowest (Turn2us, 2016). Abolishing the personal income tax allowance, as detailed in the next section 3, would yield an extra £80 – 90 billion revenue, which adds up to about £20 billion more than the cost of a £4,000 BI for the remaining 53 million non-pensioners out of the current population of nearly 65 million. This modest BI could thus be funded, together with at least part of disability and housing benefits above the BI, without additional tax increases. However, the simplicity of BI compared to the current system might also encourage poor households to claim any additional benefits they are entitled to, and the substantial job offer programme discussed below would need further funding.

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<sup>1</sup> Pension expenditure has been rising, while other welfare spending is declining.

One advantage of BI (usually viewed as a potential problem, even by advocates of BI) is the income effect, which tends to reduce desired labour supply, raising populist fears about ‘subsidising idleness’. On the other hand, removal of the ‘poverty trap’ generated by withdrawal of targeted benefits as earnings rise, should encourage greater labour supply by low earners. In households with multiple job holders, or for lone parents, all with a high opportunity cost of time at work, the income effect should dominate and reduce labour supply.

What is generally overlooked even in scholarly discussion is that reduced hours for (some of) those in employment, and especially less unpaid overtime for workers with more bargaining power due to BI, while aggregate income is maintained with BI, should not lead to a reduction of aggregate demand in the economy. BI could thus lead to an *increased* demand for workers, and for hours worked by the under-employed, in order to satisfy aggregate labour demand. This, and greater individual bargaining power due to BI, should then generate a *reduction in involuntary* un-and under-employment, an obvious welfare improvement.

This argument does not consider the relative costs of employing more workers, or more hours for existing workers, which may be problematic, particularly in small firms, but there is also evidence that reducing hours can increase productivity. In fact extensive studies of lottery winners show quite small reductions in average working time, partly due to more time between jobs and searching, so presumably resulting in better job-worker matches, and very few who cease working altogether (Cesarini et al, 2016). Furthermore, BI should encourage self-employment and new start-ups with the possibility of further job-creation, putting additional downward pressure on aggregate un-and-underemployment.

Another aspect of BI which has worried some observers is that the income effect might allow some workers to accept lower wages for otherwise attractive jobs, thus exerting downward

pressure on wages which could undermine minimum wage legislation. A job guarantee, discussed below, would put a floor under the total utility from employment, improving on a minimum wage, the benefits of which are often essentially undermined by increased stress or pace of work imposed by employers, or the need for unpaid overtime to complete tasks.

While modest BI would not abolish poverty, particularly for adults living alone, the alternative of a generous BI at, say £8,000 in the UK, or about \$12,000 in the US would also require substantially higher taxes on the rich, though many would see this as a much needed reform to counter decades of growing inequality. Note that a single adult with an income of £8,500 was at the 10<sup>th</sup> percentile of the 2015/16 UK income distribution, while the median or 50<sup>th</sup> percentile income for a single individual was £16,800 (DWP, 2017). Thus doubling our suggested BI would still leave singles well below the standard poverty definition of 60% of median income, or £10,080. A higher, conditional BI just for adults living alone might seem plausible, but like most conditionality this would generate perverse incentives, in this case for couples or families to maintain separate accommodation for all to claim the ‘single’ bonus.

Politically, however, a more generous BI is unlikely to be feasible in the near future, as it would require major tax increases and give multi-person households very substantial unearned incomes, but fail to provide the widely-recognised second component of well-being, in addition to adequate income, namely the much cited ‘dignity of work’. This desired dignity is of course *not* provided by many existing bad jobs, and even a modest BI would increase worker bargaining power and their ability to reject such jobs. However, and this is usually ignored by proponents, BI would not solve the problems of chronic un-and-under-employment under continuing austerity and progressing automation. Thus we turn to the radical and, we argue, actually complementary policy alternative of a job offer or government as employer of last resort.

### 3. A job guarantee, or a local public work offer for full employment?

Government employment for those unable to find regular work was much discussed during the Great Depression of the 1930s, and put into practice on a limited scale in various ‘New Deal’ programmes in the US and in other contexts elsewhere. However it was only mobilization for WW2 that finally achieved full employment and ended the Great Depression. In recent years the formerly popular goal of ‘full employment’ has been largely abandoned and indeed becomes difficult to define precisely under modern labour market conditions with the growth of non-standard employment.

Partly for this reason, BI has attracted far more attention than the idea of a JG, though the latter has been proposed by a few prominent economists in recent years, such as Layard (2009/10) after the financial crash (but without BI), and Atkinson (2015, p.140), who argues that an important component of policy should be government ‘offering guaranteed public employment at the minimum wage to those who seek it.’ He also favours a ‘participation income’, which is BI with conditionality – a requirement for recipients to engage in some socially useful activity, which might increase political acceptability, but also raises serious issues about the definition and enforcement of the threshold for ‘socially useful’. Painter and Thong (2015) also propose adding a JG to BI, but offer no details.

While public work programmes have often been successful, they are generally limited in scope and hence not directly comparable with a JG, a policy which, like BI, has never been implemented on a national scale. Tcherneva (2012) reviews the successful Argentinian *Plan Jefes*, a form of local JG in response to crisis, while the largest public work programme in the world is the Indian rural employment guarantee<sup>2</sup>, which has been found to yield large welfare

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<sup>2</sup> See Muralidharan et al (2017), Zimmerman (2015) and Imbert and Papp (2015).

gains for the poor by raising equilibrium wages, and surprisingly also private sector employment.

In the US, Harvey (2012, 1989), Mitchell and Muysken (2008) and Tcherneva and Wray (2005) made early cases for JG and public work for full employment. Paul et al (2017) and Spross (2017) recently argue that a generous JG paying at least \$23,000 p.a. and rising to about \$30,000 p.a. at the hourly ‘living wage’ of \$15 (twice the federal minimum wage), would essentially eliminate poverty and unemployment for the working poor by setting a floor under market wages and working conditions, and cost only a small fraction of a generous BI. Paul et al (2017) suggest 14 million jobs could be created at a total cost of nearly \$800 billion p.a., but the plan offers little detail on the jobs and has other problems (*Vox*, 2017).

In particular, proponents of a JG do not address the problems of work incentives, resulting job loss in the private sector, and the growing number of self-employed with low incomes (though Spross, 2017, argues that the point of a JG ‘is to wipe out low-pay private employment’). The genuinely self-employed, who are not effectively tied to a single ‘employer’ or contractual partner (such as Uber drivers), value their autonomy and other job characteristics such as flexibility. These are the main reasons for reported greater job satisfaction in self -employment, which could be retained under BI, while they would not be directly helped by JG.<sup>3</sup>

In the most comprehensive case for BI, Parijs and Vanderborght (2017, p.48) admit that guaranteed employment and training might ‘operate as modest complements’ to BI, which they convincingly argue is essential to avoid the coercive workfare implications of a JG as

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<sup>3</sup> See Alvarez and Sinde-Cantona, (2014). Spross (2017) also notes that BI could usefully complement a JG but offers no details.

the sole safety net for the unemployed. However they seem to underestimate the intrinsic value of work under a complementary JG.

Thus Chadi and Hetschko (2017) show that satisfaction with income from benefits such as unemployment insurance is much lower than satisfaction from earned income, even when controlling for income magnitude, thus confirming the well-known stigma of involuntary unemployment, which is only partially compensated by more time for family and leisure. A BI without the conditionality and limited duration of most current benefits would doubtless improve welfare, but is unlikely to completely remove the stigma of unemployment. Unfortunately, most proponents of either BI or JG treat their preferred policy choice as exclusive, neglect problems with sole reliance on this option, and ignore the potential gains from complementarity, as illustrated in our numerical example below.

As Keynesians have frequently pointed out, replacing austerity with major fiscal expansion is urgently needed for several reasons. Public infrastructure and other investment has been neglected in most advanced economies, at least since the financial crisis in 2007/8, massive investment in renewable energy and efficiency is essential to avert catastrophic climate change, and this could also help to approach traditional ‘full employment’ with a ‘Green new deal’, as proposed by The Green New Deal Group (2008), in response to the financial crisis. The large fiscal multiplier in economies with under-utilised resources (including under-employment) is now recognised by the IMF, and would dramatically reduce the final cost of these investments (Tily, 2017). Such a programme could have generated rapid recovery from the crash, in contrast to ‘quantitative easing’ which mainly benefitted the rich by inflating asset prices, with little effect on under-employment and most wages. Additional spending on a JO programme would also imply a fiscal stimulus, and lower ultimate cost.

Another policy instrument for reducing unemployment which has been neglected recently, but was widely practiced in the early 1930s in the Great Depression in the US, is the idea of work-sharing by working time regulation (LaJeunesse, 2011). Though often disparaged by economists, work-sharing was remarkably successful in Germany after the financial crash in 2007/8. Though GDP fell by nearly 7%, in one of the largest declines in the OECD, average hours of work were reduced by about 3% mainly through short weeks, with lost wages largely replaced by unemployment benefits, while unemployment only rose by 0.5%, much less than in the US (Arico and Stein, 2012).

A large public sector providing employment with good conditions, flexible work time and at least the minimum wage as in the Nordic economies would put pressure on private sector employers to match these terms, and is indeed essential to provide the high levels of public services, including affordable child and elderly care, that only the Nordics currently provide (Partanen, 2016), and must be funded by higher taxes on high earners. The public sector should of course provide training for all who need it, and offer flexible, part time work including opportunities for those with various degrees of partial disability. However even such a large public sector and low residual aggregate unemployment is not the same as a JG for all who seek work, since some workers may still be unable to find adequate jobs as automation and globalisation continue to undermine traditional employment, particularly in the declining middle class. Even in the early post-war decades when un- and under-employment were low and usually short term compared to modern levels, long-term unemployment and poverty still existed.

A JO could complement a modest BI without the coercive stigma of various ‘workfare’ schemes that have been introduced in several countries. Thus the German ‘1 Euro Jobs’ scheme was supposed to help the long-term unemployed return to regular work by offering work experience for a limited time with pay at only 1 Euro per hour, but no explicit training

programme. In fact this kind of work experience has been found to *reduce* subsequent job chances, but refusal to accept an offer may be sanctioned by reducing long-term social assistance payments known as Hartz IV (Groll, 2016).

There would obviously be some substitutability between a large Nordic-type public sector and the need for a JO, which is currently much greater in the UK and US with their underfunded public services, weak welfare provisions and extensive, low-wage- and under-employment. However even some Nordic economies face very high unemployment, particularly Denmark and Finland, due to macroeconomic problems, rising (though still relatively low) poverty rates, and very high participation tax rates for entering employment.

An unqualified JG literally implies a right to be ‘employed’ and paid, but no reciprocal obligation on employees to perform tasks to any required standard, a problem which proponents have generally neglected, though the critical but essentially favourable review by Roth (2017) does mention the need for sanctions. An absence of any sanctions would provide a strong incentive for shirking, so to avoid demotivating the likely conscientious majority who would benefit from a JG, wage cuts for missed hours or targets, or (temporary) suspension of those persistently unwilling to work effectively and according to their ability, would have to remain an option. Thus some form of additional social assistance or safety net such as BI is definitely required, and only a qualified JG, or job *offer* (JO) for those who are able and *willing* to work, would be feasible.

The number of workers dropping out of a well-organised, public sector JO programme that included effective training and counselling might well be very small, though difficult to predict for such a radically new institution. The JO would clearly greatly increase the bargaining power of labour even when unions remain weak, and establish an effective ‘floor’ under wages and working conditions for those in low-paid and precarious employment.

A JO at a lower wage than the legal minimum, as proposed below following Frank (2014) to maintain an incentive to seek regular work, would not prevent some employers from trying to undermine (higher) legal minimum wage provisions by speeding up the pace of work, reducing amenities or requiring unpaid overtime, so stricter enforcement of employees' rights would still be needed. Of course, a very generous JO without sanctions as proposed by Paul et al (2017) and Spross (2017) would probably destroy many marginal jobs where employers couldn't match JO conditions, and also lead to substantial price rises. Giving workers a choice between higher income with BI in low-wage jobs or self-employment they actually enjoyed, or JO work instead of lousy jobs, as well as increased bargaining power arising from the choice, would seem to be a better and much more affordable alternative.

While some may be critical of public low wage employment, there should be broad agreement that such workers need to be offered career and wage progression opportunities. These incentives need not raise costs if they generate corresponding productivity increases, but will require careful monitoring and regulation and sensitive management because rewarding measured short-term productivity in service provision, particularly for the most vulnerable and elderly, easily leads to neglect of quality in the form of time allocated to what may seem to be less essential aspects of caring activities. These include simply taking the time to listen to the concerns and worries of many who suffer from loneliness and disability. Since lack of social interaction is a major cause of ill-health and unhappiness, efforts to provide and facilitate such interaction will also generate long term material benefits in the form of reduced health care costs.

There are also occupations, including some self-employment and part time or non-standard employment, with relatively low productivity and earnings, and little security, but which are nevertheless both socially valuable and provide high job-satisfaction. In combination with BI to compensate for low pay and insecurity, such occupations may offer more job-satisfaction

for some individuals than possible under JOs, which can only offer a limited range of tasks to minimise costs and direct competition with the private sector. In particular, the nearly 6 million unpaid home-careers would be major beneficiaries from BI, but difficult to employ formally with a JO. Thus there are several large groups, likely to grow with the trend towards more non-standard employment and the growing impact of automation, that would benefit from the support which BI but not a JO can provide.

#### 4. BI+JO

In spite of the limitations of either BI or JO on their own, the benefits of combining these two complementary policies are rarely mentioned— notable exceptions are Atkinson (2015), Frank (2014) and Spross (2017), but these authors offer little discussion of the details. The great advantage of the combination is that modest levels of both together with existing and improved housing and disability benefits could bring almost everyone into employment and above the poverty level with only moderate tax rises, as we show in the following UK example. This does not of course deny that major tax reform and redistribution is urgently needed on equity and welfare grounds in the non-Nordic economies, as e.g. Atkinson (2015), Diamond and Saez (2011), Stiglitz (2013) and many other prominent economists have emphasised, but there are many advantages to separating these issues as far as possible and concentrating initially on the most politically feasible.

It would clearly be difficult for one country in the EU to introduce such a BI plus JO scheme without attracting large inflows from other member states, so eligibility restrictions to native citizens and long term residents would be required already for the local pilot schemes, which in turn would be needed to attain broad political support, before nation-wide implementation.

We consider a simple example for the UK. The National Living Wage (NLW) which replaces the minimum wage, will be about £9 per hour in 2020, which we assume provides ‘full time’

pre-tax earnings of £16,000<sup>4</sup>. We assume pre-tax BI of £6,000 p.a., (with more for pensioners to match current state pensions, and possibly less for children), so the NLW worker with BI and a basic tax rate of 33.3% (just above existing NIC and basic rate income tax) on *all* income up to the threshold for the next higher rate (currently £45,000 for the 40% rate) in tax progression, has net income of £14,652. We are thus dropping the personal income tax allowance, so BI is essentially ‘clawed back’ from higher earners, while lower earners will be better off and no longer face the very high effective marginal tax rates of the ‘poverty trap’.

Assume full time, pre-tax JO earnings of £12,000. Combining BI with the JO, and 33.3% basic tax, leaves total net income of £12,000 p.a. for a full time single adult JO worker, well above the poverty level of £10,080 for a single adult, especially when combined with housing benefits. But this is also well below the NLW worker’s £14,652, and so maintains an incentive to seek regular work.

Net BI at £4,000 p.a is roughly equivalent to the maximum job seeker’s allowance, and even with housing benefits would leave a single adult, without disability or other benefits and living alone, well below the poverty level. A household with two unemployed adults and two young children would still be below the poverty line of £21,000 for this class of household with only £16,000 net basic income, but well above poverty after adding £8,000 net JO earnings for one adult, and perhaps additional housing benefits (DWP, 2017).

Under the current system with basic rate tax at 20% on income over £11,500, and employee NIC (national insurance contribution) at 12% on income over £8,000 p.a., our full time NLW worker is left with £14,140, which is less than the £14,652 obtained above with BI+JO. Someone earning £8,000 with no tax or NIC currently, would in our model with BI receive

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<sup>4</sup> This implies 1,778 hours which is a reasonable, annual ‘full time’, say 47 weeks of 37.8 hours, though officially work weeks over 30 hours are classified as full time, so the ‘full time’ average is lower. To simplify we only consider annual earnings henceforth.

£9,324 net, and someone earning £6,000 currently would gain £2,000. Of course the income effect might lead some such workers to take some of the potential gain in the form of shorter hours and increased time for family and leisure, which would further contribute to greater well-being.

Of course, many employers would still try to undermine a legal NLW which is above the JO wage by reducing other benefits or increasing work-loads so that unpaid overtime is needed, and thus stricter enforcement of workers' rights would be required – which is already an urgently needed reform. However the JO would end involuntary underemployment, and establish a utility floor under the package of pay, hours and working conditions that regular employers could offer, something that a modest BI alone could not achieve.

A more generous JO following Atkinson (2015), Paul et al (2017) and Spross (2017) might pay the NLW and establish a higher welfare floor for jobs in the private sector, albeit at greater cost. This might attract workers from existing private employers who do not provide good working conditions, and who would then have to raise prices to cover the higher costs of increasing worker pay and/or welfare to match JOs, and some would likely be unable to compete. Too large a take-up of JOs might exceed the scope for useful local public employment, and lead to direct competition with the private and the existing public sector. However, as noted above, by providing training and work experience, JOs should offer career progression to regular employment at minimum or higher wages. Lack of training and progression has been a major failing of 'direct job creation' after reunification in Germany, '1 Euro Jobs' and other 'workfare' schemes (Eichhorst, 2015).

Our proposed 33.3% tax on all income below the higher rate threshold, combined with the BI, might induce a number of marginal workers, particularly those below current tax thresholds and with household responsibilities, to work less or remain at home and thus be

able to provide better care for dependent children or elderly relatives. This would represent not only a significant welfare gain but also provide more employment opportunities for the otherwise under- or un-employed, since aggregate demand should be maintained by the BI, or even augmented, because the redistribution involved raises incomes of those with a higher propensity to spend on consumption.

However such a tax would also encourage the informal labour market for unregistered and untaxed, casual work, which might reduce revenue from this extension of the tax base. On the other hand, withdrawal of benefits as low earners increase their hours worked under the current, uncoordinated and incoherent tax and benefit system create effective marginal tax rates of 70 – 90% or more for some individuals, so removing these disincentives would encourage labour supply, and the aggregate net effect is difficult to predict.

The biggest unknown in this proposal is the resulting number of JO employees, but this of course depends crucially on the magnitude and success of other employment and fiscal policies such as a ‘green new deal’. There is obvious substitutability – JO workers could contribute to some kinds of labour intensive, ‘green’ or other infrastructure investment which did not require the specialised skills which they are unlikely to possess, but under the supervision of those who are suitably qualified, in a form of apprenticeship.

The long term unemployed, about 30% of all unemployed in the UK, are obvious candidates for full time JOs, as are discouraged workers no longer looking for work, while many under-employed could benefit from part time JOs. No doubt some will choose casual or home work or even idleness with the help of BI, rather than a JO, raising uncertainty about final uptake. For example, 2 million full time equivalent JO workers (likely to be spread among many more part timers) would initially cost £16 billion in net wages, plus some administrative and other costs. In the long run, as some JO workers are promoted to higher

pay levels, the wage cost would rise. Since they would mainly supply personal services, capital costs would be low, and the total cost will be much less than supplying these services by much higher paid, public or private sector employees. Current policy of not supplying urgently needed services due under –funding causes widespread misery, and of course raises long term health care costs as more patients will need treatment and hospitalisation.

For comparison, over a million people are not getting help with daily activities that they need to remain in their own homes, due to cuts in social services. Residential care home accommodation for them would cost more than twice as much, around £45 billion, but is not available because the number of care homes is declining, due to underfunding! In the meantime, overcrowded hospitals have to retain patients who have nowhere to go on release (Collinson, 2016). Thus helping the elderly to remain in their own homes as long as possible and reducing the need for costly care - home accommodation would yield substantial financial returns as well as welfare gains. Means-tested fees for these services would therefore be reasonable given the growing number of relatively affluent pensioners, and could offset some of the JO cost.

Comprehensive training should obviously be part of JO schemes, best implemented by local authorities, but with funding from central government to redistribute income from wealthy to poorer areas with high under-employment. However many women who have raised children, but who have little formal qualification, outside work experience or chance of regular employment, would be well suited for the low dependency caring tasks that multiply with aging populations, including help with housework, shopping, transportation and many other tasks which do not require qualified nursing skills. Unskilled men could work on repairing and maintaining roads, parks and other local public goods with appropriate organisation and supervision, and help to meet seasonal demand in agriculture. Some of these tasks would be in apprentice/helper roles, learning on-the-job under supervision, with the incentive of

progression to higher pay and semi-skilled or more skilled work. Men without formal qualifications or skills could also supply many important services for the elderly and infirm, including transport, simple gardening, and dog walking, which are far beyond the capacity of currently overstretched social services. The low JO wage would encourage labour–capital substitution, countering the prevailing tendency, and help to limit the additional cost of JO employment.

It would obviously be important to integrate and coordinate JO systems with local social and other services. This would facilitate promotion of the most proficient JO workers to higher pay grades in the regular services, while maintaining continuity of care and other personal relations without disruptive job changes. Local job and community centres could be developed to coordinate JOs and match supply with demand. It will be important to prioritise useful JO activity and avoid ‘make work’ tasks which would bring the programme into disrepute. Local ‘bottlenecks’ may arise for various reasons, such as inadequate funding for all JO applicants, and then JO rationing may be required, with means-tested priority for the poorest households. On the other hand, demand for JO services may exceed supply in some areas, so JO worker mobility may be required, as well as priorities for those with the most urgent care needs. Local pilot schemes are surely needed to develop new organisational and management skills and experience for local authorities in these uncharted areas.

## *5. Conclusions*

A BI could replace some but not all existing cash transfers, and provide much needed support for the growing numbers in non-standard employment without the coercive sanctions which often accompany targeted or conditional welfare benefits. A little noticed benefit of BI is that it should encourage work sharing by (slightly) reducing desired working time for many employees. On the other hand, only a JO with appropriate training can provide employment in good jobs for all who are willing and able to work, which is a major component of life

satisfaction. Thus even with fiscal expansion in place of austerity, a combination of these two measures remains the most effective policy to end residual unemployment, the insecurity of non-standard employment and the injustice of unpaid home care and sanctions with conditional welfare.

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