

Reciprocity and the Guaranteed Income

by

Karl Widerquist*

Working Paper No. 245

July 1998

***Research Associate, The Jerome Levy Economics Institute**

Thanks to Stephanie Bell, Fred Block, Jay Ginn, Lynndee Kemmet, Oren Levin-Waldman, Jay Levy, and Michael Lewis.

Abstract

This paper argues that a guaranteed income is not only consistent with the principle of reciprocity but is required for reciprocity. This conclusion follows from a three-part argument. First, if a guaranteed income is in place, all individuals have the same opportunity to live without working. Therefore, those who choose not to work *do not* take advantage of a privilege that is unavailable to everyone else. Second, in the absence of an unconditional income, society is, in effect, applying the principle, "(S)he who does not work, will not eat." If the application of this principle is to be consistent with reciprocity, it must be applied to everyone. Most modern industrial societies exempt many citizens from that choice. For example, the owners of external assets do not face the work-or-starve choice and *do* take advantage of a privilege that is not available to others. An unconditional guaranteed income is one way to eliminate that violation of reciprocity. Third, this paper addresses the criticism that the guaranteed income exploits middle-class workers by demonstrating that a basic income will have a positive effect on wages, which will at least partially counteract the effect of the taxes needed to pay for it.

JEL Class: H, I, J

Key Words

Reciprocity	Citizen's Income
Redistribution	Negative Income Tax
Basic Income	External Assets
Guaranteed Income	Exploitation

If a man will not work, he shall not eat.

-Paul, Second Thessalonians, chapter 3 verse 10.

He who does not work, will not eat.

-Captain John Smith, Jamestown, Virginia, 1608.

He who does not work, neither shall he eat.

-Article 18 of the Soviet Constitution, 1918.

A craftsman . . . has a work to do from which if he were forced to abstain life would not be worth living, but we do not say that a rich man has any such job to do.

-Socrates as quoted in Plato's Republic

Part 1: Introduction

This paper questions what could be the oldest principle in U.S. politics: "(S)he who does not work will not eat." In 1608, twelve years before the pilgrims arrived at Plymouth Rock, Captain John Smith established this principle for the first successful English-speaking settlement in what is now the United States (Mabry 1998). Smith was quoting a passage at least as old as the New Testament and one that has even been endorsed by the Soviet Constitution (Thayer, 1997). Why take issue with such a widely agreed principle? Because, as it is applied in modern market economies, in which work is defined as employment,¹ this principle conflicts with the principle of reciprocity (also known as neutrality or equality before the law). To be consistent with

¹ Perhaps, work is more clearly defined as time spent making money to emphasize that it includes self-employment. Thus, it includes time spent taking care of someone else's children, but not time spent raising one's own children, growing one's own food, building one's own shelter despite the fact that these and many other nonmarket activities may be valuable to society.

reciprocity, this "work or starve" principle must be applied to *all* citizens. If the rules of a nation force *some* individuals to choose between work and starvation, a society must force *all* individuals to face that choice. However, in most modern industrial societies, those who own a sufficient amount of land, natural resource rights, capital, and government bonds are exempt from the fear that they will not eat if they do not work, but those who do not possess such assets do face that fear.

A guaranteed income eliminates this violation of reciprocity by *unconditionally* insuring that no one's income falls below the subsistence level. "Unconditionally" refers particularly to the absence of any work requirement.² Under such a system, citizens work and participate in the economy by choice. The term *guaranteed income* is a generic term for any one of a number of similar plans such as the Citizen's Income, the Basic Income, the Negative Income Tax, the Social Dividend, and others. Proposals differ as to how the benefits are paid, how they are financed, whether they are to replace or exist alongside a pension system, how allowances are to be made for dependants, and other details. But, all of these proposals share one crucial characteristic: they unconditionally guarantee that no one's income falls below the poverty line. Therefore, for the intentions of this paper all of these plans can be considered equivalent and are used interchangeably.

² Some conditional plans require work in the sense of employment. Others define work more broadly to include some valued nonmarket activity such as raising children or searching for work. An unconditional plan, rather than defining work more broadly, drops the work requirement all together.

The specifics of how such a program would work or the differences between them is not the subject of this paper.³ In simplest terms, under a guaranteed income system, a person who makes no private income, regardless of the reason, receives a fixed amount in the form of a cash transfer. As a person makes a small private income, some versions would reduce the transfer and other versions would tax the additional earnings. In either case, a person with low private income will be a net recipient and will have a higher after-tax/after-transfer income than someone with no private income. Beyond some point, as a person makes more private income, either the transfer will be reduced to zero or the taxes will become larger than the transfer, making that person a net taxpayer. But, for any two people, the one with the higher private income will always have the higher after-tax/after-transfer income. Thus, a guaranteed income preserves the incentive to earn more while insuring that no one is completely destitute.

Philippe Van Parijs's (1995) argued that the existence of "external assets" and "brute luck" justify an unconditional guaranteed income. External assets are forms of wealth that no one produced such as land and natural resources. Brute luck is the result of risks one is compelled to take such as an imperfectly fair labor market that all persons are forced to enter to obtain the means of survival.

Critics of the guaranteed income have argued that it violates the reciprocity principle. Stuart White (1997) calls this the "exploitation objection." As he states it, "An unconditional basic

³ For the specifics see Widerquist and Lewis (1997), Block and Monza (1997), Van Parijs (1992, 1995), Clark and Healy (1997), Reynolds and Healy (1995).

income would allow non-working citizens to free-ride on the efforts of, and so exploit, working citizens." White (1997) rejects this argument on the grounds that even income from external assets and brute luck must be generated by work or at least some form of social cooperation.⁴ White, therefore, concludes that an income maintenance plan that redistributes the product of social cooperation should be conditional on a work requirement.

This paper is organized as follows. Part two demonstrates that a guaranteed income is, in fact, a necessary requirement for reciprocity in a modern industrial society. Part three demonstrates that using one definition of equity, an unconditional guaranteed income is consistent with reciprocity. Part four considers in detail White's "exploitation objection." Part five summarizes and concludes the discussion.

Part 2

This section demonstrates that an unconditional guaranteed income is needed to reverse a violation of reciprocity that exists in modern market economies. In the absence of a modern society with privatized land and natural resources, persons are free to work only *for themselves*. People are free to build their own homes and hunt, farm, or gather their own food, and they are free to cooperate with others who face the same choices. This may be work in a

⁴ Social cooperation includes other sources of income along with what is normally understood as work, including when one's property generates income without any personal effort by the owner.

sense, but it is work as defined as employment or labor. Working for oneself in nonmarket activity is considered leisure by the economic definition. People in a society without privatized land and natural resources may be in a struggle for subsistence, but they are not forced to work *for others*. In a modern industrial society without an unconditional guaranteed income, a person who does not own a significant amount of external assets must work *for others* to survive. One could argue that, for the many people if not the majority, the development of a market economy with privatized resources has been an enormous benefit that has allowed consumption well above subsistence; but for the poorest people this change has left them still in a struggle for survival. Their right to work solely *for themselves* (or with others in similar circumstances) has been taken away generations ago and they will be destitute if they are unwilling or unable to work *for others*. When work becomes synonymous with working for others, the idea that "(S)he who does not work, will not eat" is not a fact of nature but a consequence of how we organize our society.

Applying the work-or-starve principle is not itself a violation of reciprocity as long as this principle is applied to everyone. However, some citizens of the United States know that even if they do not work, they will still eat. These include the owners of significant amounts of external assets, owners of capital and government bonds (which may or may not be external assets), and people who qualify for a categorical transfer program such as the severely disabled. The principle of reciprocity is violated when the principle of "(S)he who does not work, will not eat," is applied to some groups but not others. One function of a guaranteed income is to eliminate this violation of reciprocity. A guaranteed income is justified as compensation

for giving up the right to work only for oneself.

The debate between White (1997) and Parijs (1992,1995) about whether an unconditional guaranteed income is consistent with reciprocity largely turns the questions of what qualifies as an external asset and whether enough revenue can be raised by taxing external assets to support an adequate basic income. However, this debate ignores one important fundamental point: The existence of external assets alone are sufficient to justify an unconditional guaranteed income on the grounds of reciprocity. It has long been recognized that the owner of a significant capital sum is able to derive from it a permanent net income without any personal action at all. No one *produced* land or natural resources. Yet, their owners generate income partially or entirely because these goods are scarce and because not everyone can own them. Therefore, it is not accurate to talk about market "distribution" and government "redistribution" of income, because all market distribution of income depends on the prior assignment of land and natural resource ownership rights by the government. People trade the land and natural resources on the market in exchange for the products of labor and other resources only after those rights have been define by governments. This is just as much government "re"-distribution of income than if the government taxed workers and gave the money to landlords.⁵ The way we have chosen to define property rights has resulted in a situation in which one group has to work to survive and another does not.

⁵ In most cases the government assigned property rights many years if not generations ago, and most people obtain ownership of external assets by purchasing them, but no one can purchase a natural resource unless a government has previously defined that resources as someone's private property and the terms of that ownership.

White's argument implicitly assumed there were only two groups in the economy "workers" and "recipients." If groups are defined by the choices they have available to them, however, both of these are part of one group. For the purposes of this section, this group will all be called "workers" because everyone in this group has to chose between working and not working. Suppose there is another group of people who own external assets. One cannot simply chose to be a worker or an external asset owner.

One could argue that workers can save their money and buy into the group of external asset owners. In a completely fair labor market, this would be possible for any *one* worker who had the ability, perseverance, and luck, but it is not true for *all* workers. If all workers simultaneous set this as their goal, and all had a the same high level of ability and perseverance, they would bid up down the returns to labor and bid up the price of external assets benefitting those who already own external assets and hurting workers. A worker may buy external assets, but only by working first, and only by convincing the owners of external assets to part with them voluntarily. Without a guaranteed income workers face the choice, "(S)he who does not work, will not eat," while owners of external assets do not. Work is voluntary for external asset owners, and mandatory for workers. The position of worker can not be envy-free relative to external asset owners, because given the choice a rational worker would rather have income from external assets, even if (s)he still intended to work.

There are four ways society could rectify this violation of reciprocity. Three are impractical in a market economy, the third is an unconditional guaranteed income. First, a society could seize

all private holdings of external assets. This would make it very difficult to operate a market economy with all of its benefits. Second, society could grant those who are unwilling or unable to participate in the labor market a plot of land large enough to become a subsistence farmer. Such a proposal was seriously considered in Great Britain in the early Nineteenth century and one could say that the United States had such a plan at the time in the form of the Homestead Act. But, it would be rather expensive today to obtain the necessary quantity of land and it would be rather difficult to expect the modern urban poor to adapt to subsistence farming. In a productive industrialized society it is less expensive for society to provide people with enough money to buy food, shelter, and clothing than it is to provide them with enough land and natural resources to produce these things for themselves. Third, society could impose conditionality—in the form of a work requirement—on the ownership of external assets. For example, all people who own enough external assets to live on could be required to spend 40 hours a week in a community service job. This would effectively apply the work-or-starve principle to all citizens and it would not violate the principle of self-ownership because anyone could get out of this work requirement simply by giving up ownership of external assets. However, this solution would probably strike most people as ridiculously draconian. Fourth, a society could relieve workers from the choice between work and starvation by introducing some form of an unconditional guaranteed income. Just as it is impractical to impose the work or starve principle on the owners of external assets, reciprocity demands this principle not be imposed on anyone.

Many owners of significant amounts external assets do work. However, they are not forced to

work by fear of starvation. The fact that so many owners of external assets work is evidence that threatening starvation is not necessary to give people an adequate incentive to work. Some authors define providing resources for others to use productively as a form of work or at least social cooperation (for example White 1997 and Levin-Waldman 1996). To address this, the distinction must be clear between managing resources and owning them. Someone who actively makes decisions about how resources are to be used, is working by almost anyone's definition. But, people who own large amounts of external assets can hire someone else to manage their assets and do nothing except receive payment. If work is defined so broadly that an absentee landlord can be considered working simply by receiving payment, then a transfer recipient can also be considered working simply by receiving payment. Thus, the rationale for a work requirement disappears.

Part 3

The last section demonstrates that an economy with privatized external assets without an unconditional guaranteed income violates reciprocity. However, this does not ensure that a guaranteed income is not itself a violation of reciprocity. Thus, this section and the next address White's (1997) critique in detail. White states that a guaranteed income violates reciprocity because it allows people who do not work to live off of the production of those who do. Whether this is a true characterization of an unconditional guaranteed income will be addressed in Part 4. This section concedes that point and asks whether that objection is enough to conclude that an unconditional income violates reciprocity.

The guaranteed income meets Foley's (1967) condition for equity: It is envy-free. Under a guaranteed income scheme, society offers citizens two choices: do not work and receive a small unconditional income, or work and receive a higher income. Reciprocity exists in the sense that all people are equal before the law: the same rules apply to everyone. People have the right to choose to work or not to work. Those who choose to work must, therefore, find it preferable to not working. This reveals a preference for working rather than not working. If people who work envied those who do not, they could simply choose not to work. Thus, recipients of a guaranteed income are not taking advantage of a privilege that is unavailable to anyone else and, therefore, the position of a worker relative to a recipient is envy-free.

The same cannot be said for recipient relative to a worker. Perhaps this person wants a job but can't find one, or can't find one that pays above poverty wages. Perhaps this person is not intelligent enough to hold a job, has a sick relative or child to take care of, or is the victim of discrimination. There could be any number of reasons why a jobless person might be willing—but unable—to trade places with someone who works. Therefore, it is unclear that a nonworker's position is envy-free relative to those who work, while it is clear that a worker's position is envy-free relative to the jobless. If one defines exploitation as taking advantage of privileges that are not available to everyone else, one can say that a person living purely off of an unconditional income might be in an inequitable position compared to workers, but one cannot say that a worker is in an inequitable position compared to those who live off an unconditional income. Therefore, based on the principle of reciprocity, one cannot say that the existence of a guaranteed income exploits workers to benefit nonworkers. In a capitalist system

with a guaranteed income, work is purely voluntary, and one who accepts a job therefore accepts its terms. Reciprocity alone, therefore, is not enough to justify an "exploitation objection." Such an objection must resort to a distributive principle that says one person must not take advantage of another's labor.

Part 4:

White (1997) argues that even if the external asset justification of an unconditional guaranteed income stands, at least some of the revenue will have to come from the taxation of workers for the benefit of people who do not work. This leads White to the conclusion that a guaranteed income exploits workers. For this proposition to hold four propositions must be true. First, taxation of external assets alone would not produce enough revenue to support an adequate unconditional income, which means that at least some portion of the taxes will have to come from workers. Second, workers are entitled to the full value of their efforts. Third, wages in a market system without redistributive taxation directly reflect the full value of a worker's efforts. Fourth, after-tax wages in an economy with an unconditional guaranteed income are less than they would be in its absence.

One can criticize the conclusion by that a guaranteed income exploits workers by challenging any of the four premises. For example, one could challenge the first proposition that a guaranteed income cannot be financed solely by taxation of external assets. Michael Hudson (1997) estimates that in 1995, out of the \$5.9 trillion U.S. economy, \$2 trillion of income was

made directly or indirectly from real estate (including rent, imputed rent to firms and households who own and use their land, capital gains due to land appreciation, and interest on loans for the purchase of land). Comparing this estimate to Fred Block's (1997) estimate that the net cost of a negative income tax plan would be only \$70 billion raises doubts about the claim that an adequate guaranteed income requires taxation of work. Van Parijs (1995) challenges the third proposition that wages directly reflect the value of a worker's efforts, by arguing that there is no strict distinction between earned income and external assets. He accepts as given that an adequate guaranteed income requires taxation of labor income and argues that the existence of efficiency-wage unemployment means some jobs can be classified as external assets. White (1997) counters that because those kinds of assets require work to be realized, the basic income should also require work.

The argument in this paper focuses on challenging the fourth proposition, the claim that after-tax wages in an economy with an unconditional guaranteed income would be lower than after-tax wages without one. Assume there are two groups as defined above: owners of external assets and workers. Owners of external assets are more able to exploit workers than transfer recipients because owners maintain a position of privilege and do most of the employing while those who do not own external assets make up most of the employees. Assume there is no redistribution of income and a completely unregulated market, so that all workers face the choice, "(S)he who does not work, will not eat." Further, assume that people who own a significant amount of external assets do not face this trade off. Workers will then be effectively forced to accept a job, and there will be a large supply of labor, driving down wages,

increasing work hours, and leading to poor working conditions. Karl Marx described this as "exploitation" (Tucker, 1978); the same word White (1997) uses to describe recipients of unconditional transfers. But, Adam Smith (1776) recognized the same process almost a century earlier without using the word exploitation:

It is not . . . difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into compliance with their terms . . . In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate (Smith, 1776).

Both Smith and Marx thought the desperation of workers could create a situation in which they would be paid less than they deserve to be or less than they are worth. However, both wrote before the formal Neoclassical supply and demand theory was created. If, in a supply-and-demand model, workers became desperate to work, the supply of labor would increase along a given demand curve which in turn would drive down wages *and* the marginal product of labor. One could still say that workers are paid in proportion to what they produce, but one could say that at *any* wage. Whether workers are paid less than their marginal product because

they are desperate for work or whether their desperation for work drives down their marginal product to meet their wages, is inconsequential for the argument here. In either case, employers benefit, in the sense that the cost of labor falls, and workers are harmed, in the sense that their real incomes will deteriorate, if workers are desperate for employment. There is nothing in the laws of supply and demand that assures the equilibrium wage will be an above-poverty wage. Whether or not workers are paid their marginal product, they are paid less when they fear they will not eat if they do not work than they would be paid otherwise.

It is questionable whether trade can be considered voluntary if one party is desperate for survival and the other is not. For example, suppose Donald Trump falls off a pier. He asks me to throw him a rope. I respond, "How much?" We negotiate and decide that he will sign over to me ownership of all of his assets. If he values his life more than his money, this is a Pareto-improving transaction. I get my lawyer, we write up a contract, Trump signs, I throw him a rope, Trump lives. He pays me his entire fortune, which, of course, is equal to the marginal product of my labor as valued by his assessment of the utility of the rest of his life. I have been paid my marginal product, but does this in any normative sense imply that I been paid what I deserve? Most people would probably say no. Any court in the United States would invalidate this contract because it was signed under duress. Suppose, instead, that the way property rights have been defined creates a situation in which members of one group constantly face a state of duress in which they must work or starve while their employers are not under this same duress. This situation is similar to me and Trump on the pier: in both cases one person benefits from another's desperation without necessarily violating the laws of supply and demand. Trade

is not truly voluntary if one side of the transaction has to trade to stay alive while the other side does not.

Of course, not every supply and demand situation is imbalanced. If there is sufficient competition among employers, wages may not necessarily be unacceptably low. However, the current equilibrium situation is such that 10 percent of adults who work have incomes below the poverty line and 18 percent of adults who work have incomes below 150 percent of the poverty line (Kim, 1997). There does not appear to be enough demand for labor to create a market in which workers can command decent living standards.

Clearly, the U.S. government recognizes the existence of this problem. There are minimum wage laws to prevent wages from becoming too low, labor laws to ensure that working conditions are adequate, public housing and rent control to help workers whose wages do not allow them to afford adequate housing, and food stamps to help workers whose wages do not allow them to afford adequate food. These programs are necessary because workers do not have the right to refuse unacceptable employment, but they are an inadequate substitute. All of these programs together have failed to eliminate poverty, even among full-time full-year workers (Kim and Mergoupis, 1997).

An adequate unconditional guaranteed income would solve this labor market problem.⁶ It

⁶ Of course, there would need to be considerable discussion of how to define "adequate." Even if the criteria is as simple and food, shelter, and clothing, there are likely to

would give all workers the ability to decline unacceptable employment, which would force up wages. Whether this is modeled as a bargaining game, a monopsony, or supply and demand, a decrease in worker desperation will allow them to command higher wages and improved working conditions. At least for low-wage workers, after-tax wages plus an unconditional guaranteed income are likely to be higher than wages without one. It is not a simple case of comparing a society that is perfectly consistent to the reciprocity principle with an exploitative guaranteed income scheme as White portrays it. His conclusion, "An unconditional basic income would allow non-working citizens to free-ride on the efforts of, and so exploit, working citizens," (White, 1997) must be viewed in light of the possibility that the *absence* of an unconditional basic income would allow owners of external assets to exploit working citizens. If by decreasing the supply of labor a non-working citizen allows workers to command higher wages it is no longer possible to conclude that non-working citizens "free-ride . . . and so exploit, working citizens." A guaranteed income to some extent relieves workers from the possibility that they will be exploited by employers.

White (1997) instead proposes a conditional basic income tied to a work requirement, essentially making the government the Employer of Last Resort. This might relieve the problem of exploitation in the private labor market if government wages are high enough, but it does not relieve the reciprocity problem that some people have to work and others do not. If government wages are not set high enough, the government could essentially become the

be disagreements on what level of quality could be considered adequate.

exploiter of last resort. Levin-Waldman (1996), recognizing that our society effectively holds workers to an obligation to work, suggests holding employers to a "reciprocal" obligation to pay adequate wages. This obligation could redress exploitation but is not truly reciprocal. It does not redress the basic problem that one group faces the obligation to work while another group does not (discussed in part two), although it may counter-act the exploitation that situation makes possible.

The notion that harsh welfare reforms are a form of "tough love" (see Murray, 1984 or Saving, 1997) does not stand up when one takes into account the fact that wages are already below the poverty line. Jason L. Saving asserts that reducing transfer payments will actually *help* most of the poor by forcing them into the labor market and freeing them from dependence on government transfer payments. However, such reforms would increase the supply of labor and drive down wages. Thus, these reforms are likely to increase the poverty of low-wage workers without eliminating poverty among former welfare recipients. These results are beginning to show up in studies of welfare reform (Kim and Mergoupis, 1997). The more the welfare system is reformed to force every work to accept any job that is available, the less able workers are to command salaries which provide them a descent living.

Of course, the higher one goes in the wage spectrum the less likely it is that after-tax wages will be higher with a guaranteed income than without one. However, because the distribution of income is skewed so that the largest number of people have incomes closer to the lower end of the spectrum (Levy, 1987), it is quite possible that a substantial portion of workers will see

their after-tax income rise if an unconditional guaranteed income is introduced. High-wage workers and entrepreneurs whose incomes do not come largely from external assets will most likely see their after-tax incomes fall, which could revive White's claim that an unconditional income exploits at least some workers. However, it is no longer a case of taxing all workers to help all nonworkers. Many of the people who would benefit from the guaranteed income will be low-income workers and many of the people who pay the taxes will be paid by external asset owners. If there is a component of exploitation in a guaranteed income, it is that a *portion* of the redistributed income comes from high-income workers and a *portion* of it goes to people who do not work, but it is by no means certain that this will be a large portion of the redistribution.

Possible solutions for this would be to shift taxes toward a wealth tax or a property tax so that the external assets accumulated by people with high income are taxed, rather than their earned income. But, a problem with this is that any attempt to separate earned income from unearned income is likely to be imperfect. For example, John buys a piece of land and improves it. He resells it, realizing a capital gain. Mary buys a piece of land, and does nothing to improve it, but Congress builds a highway near it. She resells the land, also realizing a capital gain. It is clear that one of these persons has gained from their own efforts while another has gained from government expenditure, but both of these people are treated the same by the current tax system. Any effort to switch taxation toward speculation and appropriation rather than production is a good idea, but because perfection is impossible, a redistributive system cannot fully ensure that no income will be redistributed from workers to nonworkers.

Nonetheless, there are reasons to believe that this redistribution from workers to nonworkers is not a serious violation of reciprocity. People with high earned income will be rewarded according to Van Parijs's (1995) weak effort principle: they will have a greater income than people who make less or no private income, but not as much as they would have if there were no guaranteed income. An unconditional guaranteed income will help high-wage earners to the extent that it insures that they will not fall into poverty if they lose their jobs. People with high earned income are also those most likely to obtain some of their income from outside assets, and are among those who benefit from the way we have chosen to organize society. If one rationale for a guaranteed income is compensation to those who do not otherwise benefit from living in an industrialized society with privatized land and natural resources, it is justified that such compensation comes from all those who benefit from this method of organization, not from merely from the owners of outside assets.

The effect of an unconditional guaranteed income on wages leads directly to the answer to a common question of any such plan: What if everyone does it? Critics believe that if no one has to work, no one will work. Everyone will chose to live off the guaranteed income and there would be no output to purchase. Supporters of an unconditional guaranteed income usually respond to that criticism by saying that it is not characteristic of human nature for everyone to chose not to work, or that an unconditional income has more work incentives than does the current categorical transfer system.

These are good arguments, but they overlook the fact that the market has a self-correcting

mechanism to prevent everyone from suddenly dropping their jobs to collect the unconditional income. Although an unconditional guaranteed income is granted to all *people*, it is not granted to all *factors of production*. Of the three factors of production—land, labor, and capital—only labor has a guaranteed income. Even if an owner of real estate is happy to live solely off of a guaranteed income, the owner would still want return from her asset. The guaranteed income insures that there will be strong aggregate demand, and makes it possible for an owner to profit from land and capital assets. Meeting the demand will require labor and so the demand for labor will remain strong. If people leave the labor market, owners of external assets and capital will have a strong incentive to increase wages to entice workers back into the labor market. This will raise the living standards of workers relative to people who do not work, which in turn will decrease the number of people who chose not to work. The postulated problem that people will not work if they don't have to work is in fact self-correcting. It is not necessary to enforce the principle, "(s)he who does not work, will not eat," in order to ensure that people will work.

Part 5: Conclusion.

This paper has demonstrated that an unconditional guaranteed income does not violate the condition of reciprocity because it applies the same rules to everyone. A guaranteed income is, in fact, essential to reciprocity because it counteracts the problem that in the current system some people face a situation in which they must work or starve while others do not. It increases wages, possibly even the wages of people who are net contributors to the tax and transfer

system by improving the labor-market position of workers. An unconditional guaranteed income makes trade truly voluntary because it assures that both sides of any transaction will not be forced to trade out of fear of starvation, homelessness, or poverty. If one person starts out ownership of external assets and another starts with an assurance of subsistence, trade between the two can be considered voluntary in the sense that it is free from duress. Thus, a capitalist economy with an unconditional guaranteed income is not vulnerable to the exploitation criticism, whether it is Marx's capitalists or White's recipients who do the exploiting. A unconditional guaranteed income in Van Parijs's sense can "justify capitalism."

Bibliography

Block, Fred and Jeff Monza. 1997. "Could we End Poverty in a Post-Industrial Society?" *Politics and Society*. 25, no. 4 (December).

Clark, Charles M. A. And Healy, John. 1997. *Pathways to a Basic Income*. Dublin: The Justice Commission, Conference of the Religious of Ireland.

Hudson, Michael. 1997. Personal correspondence.

Kim, Marlene. 1997. "The Working Poor: Lousy Jobs or Lazy Workers?" The Jerome Levy Economics Institute Working Paper No. 194.

Kim, Marlene and Thanos Mergoupis. 1997. "The Working Poor and Welfare Reciprocity: Participation, Evidence, and Policy Directions." *The Journal of Economic Issues*. 31, no. 3 (September).

Levin-Waldman, Oren M. 1996. *Reconceiving Liberalism: Dilemmas of Contemporary Public Policy*. Pittsburgh: University of Pittsburgh Press.

Levy, Frank. 1987. *Dollars and Dreams: The Changing American Income Distribution*. New York: The Russell Sage Foundation.

Mabry, Donald. 1998. "A Brief History of Jamestown." The Association for the Preservation of Virginia Antiques.

Murray, Charles. 1984. *Losing Ground*. New York: Basic Books.

Reynolds, Brigid, and Sean Healy. 1995. *An Adequate Income Guarantee for All*. Dublin: The Justice Commission, The Conference of the Religious of Ireland.

Saving, Jason L. 1997. "Tough Love: Implications for Redistributive Policy." *Economic Review*. Federal Reserve Bank of Dallas. Third Quarter.

Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Random House, Inc.

Thayer, Frederick C. 1997. "The Holy War on Surplus Americans: Soviet Dogma, Old-time Religion and Classical Economics." *Social Policy*. 28, no. 1 (Fall).

Tucker, Robert C. (Ed.) 1978. *The Marx-Engels Reader, Second Edition*. W. W. Norton & Company, Inc.

White, Stuart. 1997. "Liberal Equality, Exploitation, and the Case for an Unconditional Basic Income." *Political Studies*. 45, no. 2 (June).

Van Parijs, Philippe. 1992. "Basic Income Capitalism." *Ethics*. 102: 465-484 (April).

Van Parijs, Philippe. 1995. *Real Freedom for All: What (if anything) can Justify Capitalism*. New York, Oxford University Press.

Widerquist, Karl and Michael A. Lewis. 1997. "An Efficiency Argument for the Guaranteed Income." The Jerome Levy Economics Institute Working Paper No. 212.