

Leading economists promote guaranteed minimum income

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‘A basic income for all as a share of the country’s gross national income will empower weak groups and enhance Productivity, say Kalle Moene and Debraj Ray. Credit: Ola Sæther

Inequalities are increasing globally. Millions of people work for an income that does not provide them with a living, and welfare states and trade unions are under pressure. A basic wage that increases in line with economic progress can reverse this development, according to two

leading economists.

A guaranteed minimum income such as the citizen's wage provides security for all. Might it be possible to design schemes in such a way that they also lead to positive economic and social development?

The issue is a topical one. The citizen's wage is hotly debated in both rich and poor [countries](#). Last year, Switzerland held a referendum on the introduction of the citizen's wage, and Finland plans systematic experiments this year. India is also cautiously testing versions of the scheme.

The debate has supporters and opponents at both ends of the political spectrum. Some wish to dispose of cumbersome [welfare state](#) schemes; others believe that there is a greater need for resources to be used for other purposes, such as health and education. While yet others want temporary support schemes that are phased out with increased national wealth, some argue that only wealthy countries can afford a citizen's wage.

Development bonus in all countries

'Experience worldwide indicates a pressing need for new and simpler methods of income distribution,' says Kalle Moene, director of ESOP – the Centre for the Study of Equality, Social Organization and Performance at the University of Oslo, and his Indian-American colleague, Debraj Ray, who is affiliated to the Centre.

The two economists argue for a different alternative – guaranteed minimum income as a development bonus:

'We propose a minimum income for everyone as a fixed proportion of gross national income – Universal Basic Share (UBS). The scheme can

thereby be introduced in all countries, poor as well as wealthy. It would function in India equally well as in Norway.'

They point out that UBS can also stand for Universal Basic Services and in Norwegian the same acronym is used for Development Bonus. No contradiction exists between these.

in the form of cash payments can act as a stimulus to UBS in services. This type of development bonus can boost support for the welfare state. It provides strong incentives for further growth, equality and efficiency, as well as for consensus and social cohesion,' Moene emphasizes.

Debraj Ray is considered to be one of the world's foremost economic theorists and development economists. He was awarded an honorary doctorate by the University during its bicentennial year in 2011. A few weeks ago he visited Oslo.

'In India there is an ongoing political debate about introducing a basic income for all. This is interesting, because India is a poor country. How can India afford something like this? It is worth noting that the Indian government already hands out huge sums in inefficient subsidies. Now many [people](#) are advocating for the state to use these resources more effectively by giving the money directly to citizens. However, this gives rise to a new problem, namely that the payments are diluted by inflation.'

Not a fixed sum

Kalle Moene and Debraj Ray have known each other for more than 30 years, and have researched, taught and travelled together in Europe, the USA and India. They have long been discussing how to achieve a guaranteed minimum income scheme that not only helps the poorest in society, but also encourages economic improvements. To achieve this, the payment should not consist of a fixed sum of money, in their opinion, but rather depend on the gross national income.

The two economists envisage that 10 to 12 per cent of gross national income should be set aside for a universal basic income. In India, this sum of money must be shared among just over 1.2 billion people, and each person will then receive a wage that corresponds to the current poverty line, which in Norway would constitute approximately NOK 90 000.

'The whole point is to link the payments to the country's income level. This has three important implications,' Ray tells us. 'Firstly, the poor receive an amount that is independent of personal income. Secondly, the amount paid is automatically linked to inflation. Thirdly, people have no need to fight for the authorities to adjust the amount to keep pace with the growth in the national income.'

'Why are these proposals being made now?'

'The keywords are: unemployment, inequality, globalization and automation in manufacturing. Those who own the robots rule the world. With UBS as a guaranteed income, ordinary people also have ownership rights to the robots and therefore are given more power. This applies not only to robots, but to all types of technological progress that augments income. The universal basic income gradually increases as technological development forges ahead. The scheme means that everyone shares in the prosperity.'

'Will the payment of this basic wage replace other welfare schemes?'

'No. The proposal is that this should come in addition, so people themselves can use normal political channels to vote on the adjustments they want in social policy. The basic income that we propose can also be implemented as part of the welfare schemes, and can be provided in the

form of services or cash. The point is to share, and that it is a fixed minimum amount.'

Moene points out that the welfare state is under attack in most European countries. Many countries have welfare schemes that are often considered demeaning and shameful. A guaranteed development bonus as a base will make it unnecessary to formally limit these schemes; they will in any case disappear as gradually no one will qualify any longer to receive them.

'UBS has obvious similarities with other welfare state schemes. Although the share is not specified, a kind of obligation exists in welfare states where the schemes are linked to the growth of the country's revenues, as in Norway. The bonus element of the guaranteed basic income provides an even clearer association.'

Sound economy, common sense

With the universal development bonus, everyone has an interest in increasing the country's revenues. For example, in Norway everyone receives something in return when wage moderation is used to maintain competitiveness on the world market. This common interest is built into the system when everyone receives a share of the national income.

'Many countries are currently undergoing major restructuring, and a development bonus provides everyone with a share of the profits from this. The result is a redistribution that promotes productivity,' the two economists emphasize.

For example, there are many good reasons to reform the informal sector of the economy in developing countries where the work is unregistered and the working conditions are not regulated by contract and law.

'With UBS, everyone can receive a share of the surplus by reforming the degrading working conditions. The entire population will thus have a greater wish to formalize their employment conditions and to register their work – thereby increasing the registered national income of which people receive a share.'

Ray and Moene point out that every country needs a sensible economic policy.

How are politicians persuaded to set the right priorities? Simply by giving ordinary people a development bonus from the results of correct prioritization, which gives people an interest in voting for politicians who prioritize correctly, and in organizing themselves in line with broad social interests in society.

'Likewise, people can exert pressure to ensure beneficial investments in infrastructure, provided that everyone shares in the improvements – and in the economic growth. In India, only three per cent of the population completes a tax return, and only one per cent pays taxes. Setting aside one-tenth of the national income to provide a basic income for everyone, creates a strong political pressure to broaden the tax base and to formalize economic activity. This political commitment would be popular. Far more people would pay taxes and contribute to the common good. The development bonus encourages collective rationality.'

Strengthening the trade union movement

Debraj Ray and Kalle Moene point out that for a long time a comprehensive trade union movement succeeded in protecting low-income groups. These collective organizations, however, are now being undermined in one country after another.

'A UBS scheme may reverse the trends, and perhaps create new

organizations. When everyone acquires a stronger interest in the overall economic development – across businesses, sectors and regions—they can gain from coordination and collective organization.'

'If we get something without having to work for it, won't we prefer to stop working?'

'That concern is probably groundless. Studies of the welfare state show the opposite. When people are given an economic basis to rely on, they tend to work more, not less, than before. While they are seeking a job, it is easier for them to acquire new skills by training and schooling, and to be choosy to find the job that suits them,' Moene asserts.

Ray maintains that the scheme is important for every country, but most of all for developing countries.

'Rich and poor countries alike stand to gain from globalization, but within each type of country there are winners and losers. Globalization means that people in wealthy countries can lose out because they must compete with countries that have cheap labour. People in poor countries, on the other hand, must compete with countries that have more and better capital. Poor countries import advanced technology products that are capital-intensive. Wealthy countries import low-technology products that are labour-intensive. Workers in both types of countries need a redistribution among winners and losers – hence a UBS – but for rather different reasons.'

Giving power to the powerless

The two economists are concerned with the opportunities that the guaranteed minimum income scheme provides to vulnerable groups. The majority of poorly paid jobs are performed by workers without much education and power. They cannot protest against poor conditions for

fear of losing their jobs.

'Guaranteed minimum incomes can prevent some of this. The powerless are empowered. They gradually become stronger as the economy's income grows. Their work capacity increases, and they no longer lag behind in development.'

'How effective is the scheme in limiting poverty?'

'A universal grant for everyone is not necessarily the best way of reducing poverty. The best way is to target the benefits, but that may be impossible due to incentives, corruption and administrative costs. In this situation we must turn to what economists call second-best solutions. We believe that a universal development bonus is a wonderful second-best solution,' Ray emphasizes.

'Moreover, universal schemes are more politically popular,' Moene adds. 'The benefits that go to the poorest groups in society are actually highest when they go to everybody in a universal manner. This is an important lesson. It means that universal welfare programs have political support from a large portion of the middle class, which would not have been the case with more targeted programs.'

Used as leverage

Moene maintains that guaranteed minimum incomes as a fixed share of the national income may be a good supplement to the UN's social development goals.

'One proposal could be that all countries in the world commit to the distribution of a specific share of the national income to all their inhabitants. A commitment of this nature would also bolster UN

Sustainable Development Goals no 1: End poverty in all its forms everywhere, and no 10: Reduce inequality within and among countries.

'Think of it as an aspect of human rights: they are universal; it is shameful not to comply with them; countries monitor each other; there is a strong feeling of commitment; and groups in each country can use the international agreement as leverage in their own country.'

Ray and Moene point out that slogans such as 'First development, then distribution' are based on promises that are seldom kept. Economic development is an unending process, and redistribution can always come later – and preferably as late as possible.

'The acceptance of a certain level of inequality today affects the political possibility to distribute income and wealth tomorrow. It is no secret that economic development creates economic and political interests that reinforce the current distribution. High inequality generates little support for sensible redistribution.'

'It's urgent!'

Debraj Ray and Kalle Moene believe that the introduction of new methods of redistribution is urgent.

'If we are correct in our assertion that a [basic income](#) for all has clear social benefits for society by empowering weak groups and enhancing productivity, it is important to implement the scheme. As inequalities become greater and a small minority has become super rich on new technology and uneven development, it is difficult to do much.

Postponement only means that possible benefits of the scheme are lost, and people are deprived of the advantages they might have had,' they warn.

'When everyone receives a development bonus – in the form of a guaranteed minimum [income](#) – we may also see political change in the direction of better health, schooling and other public services to cover people's needs,' Ray and Moene emphasize.

'Every country needs continuous redistribution – and the development bonus contributes to this.'

Provided by University of Oslo

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