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## A Swedish-Style Welfare State or Basic Income: Which should have priority?

*Barbara R. Bergmann*

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The Stakeholding and Basic Income proposals (Ackerman and Alstott, 2001; Van Parijs, 2001) both involve taxing large amounts from some citizens to finance large cash payments to all citizens. I take the major aim of both to be to make living standards more equal than they otherwise would be, to reduce individuals' dependence on the labor market, and to provide more choices, greater opportunities, and more security, particularly to those who happen to be born to low-income parents. While these are desirable ends, I am going to argue that, for people holding progressive views, a Swedish-style welfare state, with state provision of a long list of expensive services, plus targeted cash payments to those in special circumstances, has higher priority. As an analysis of the Swedish budget will show, we cannot do both at current levels of per capita income. A generous welfare state is currently incompatible with large universal cash payments because of the problems that accumulate as the rate of taxation is pushed to very high levels. The time to consider introducing Universal Basic Income in each country is after the establishment of a well-funded welfare state. It could then be phased in slowly, as productivity rises and the labor needed to produce a given level of Gross Domestic Product (GDP) falls.

The funds that Universal Basic Income or Stakeholder grants would require currently have alternative uses that are of higher priority. In particular, there is a class of "merit goods" – goods and services that it is in the public interest that every citizen have access to – that are best provided universally by government. Cash payments that are targeted toward people in particularly needy circumstances might also have higher priority than Basic Income or Stakeholder grants. These

include children's allowances and unemployment insurance, and above-subsistence-level pensions to the elderly and to the disabled. There is a practical limit to the portion of the GDP that can be taken by taxes. If the list of merit goods and targeted cash payments that progressives would have good reason to endorse is long and expensive, then at current levels of GDP little or no taxing capacity may be left over to finance the large cash payments required by the Basic Income or Stakeholder schemes. Which goods deserve to be placed in the class of merit goods, what targeted cash payments are of high priority, how much it would cost to provide these things, and what the limits of taxation should be taken to be are, of course, issues that need explicit discussion.

If the list of merit goods is taken to be short and the cost (plus the cost of other government functions and cash payments to those in special circumstances such as old age or disability) are well inside the taxation limit, then their provision need not interfere with the financing of a sizeable Basic Income or Stakeholder scheme. But if, as I shall argue, the list of such goods is taken to include those currently provided to citizens of the most advanced welfare states, such as Sweden, then there will be little or no room for sizeable universal cash grants at current per capita income levels.

Apart from the problem of finance, there are other disadvantages to the near-term all-at-once adoption of these schemes. The disincentives to work they entail would make the taxation problem even more acute. Under present conditions, they probably entail retrograde effects on gender equality. They would reduce the power of parents *vis-à-vis* their teenage children.

The Stakeholder proposal has severe disadvantages beyond those which both cash grant schemes share. The most obvious is the possibility that a not insubstantial portion of the citizenry would put large sums of money to uses that most people, quite reasonably, would not want to subsidize out of public funds raised from taxpayers: Gambling, drugs, alcohol, fancy cars and clothing or jewelry. The Stakeholder proposal would be likely to cause dissaving, and a reduction in the capital stock below what it otherwise might be.

In the United States, it makes political sense for progressives to put their limited energy toward advancing welfare state provisions before attempting to sell Basic Income. Even with the ascendancy of the right wing in the US, it is possible to add government-provided services to the budget, as the debate about drug benefits for the elderly suggests. It is likely to be more feasible politically to add to the list of government-funded goods and services than to institute and

maintain a program of large cash payments to all citizens, since waste and reduced work effort are the probable result of such payments. Both in terms of politics and in terms of human needs, putting the achievement of Basic Income ahead of the achievement of the welfare state is putting the cart before the horse.

## MERIT GOODS

We label a good or service a "merit good" when (a) we decide that everyone who is in a position to utilize it should have access to it and (b) when, in the absence of government provision, there are people who would not or could not acquire it on their own. The decision that all should have access to a good may be based on expected benefits to society, or on humanitarian considerations, or some combination of both. The worry that at least part of the population will not buy a sufficient quantity and quality of a high-priority good out of their own income will most often arise in the case of a good that is expensive relative to households' income, which may totally preclude some from buying it, or might force them to make inordinate sacrifices of even higher-priority goods if they are to buy it. The worry may also arise from a paternalistic judgment that households will not choose the right thing.

Obviously, different individuals will have different lists of merit goods. The extreme libertarians of the Cato Institute would have an empty list. But most people would have at least some things on their list. Here are mine.

### *Schooling*

The most obvious case of a merit good, and one that is in effect recognized as such by liberals and most conservatives alike, is elementary and secondary schooling. Even those conservatives in the United States who would like to see many or most children educated in privately run schools do not question that the public purse should pay for at least a major part of the cost of that education. Schooling is a merit good because (a) it is perceived as something no child should be denied, for the child's own sake, for the economy's sake and as the foundation of the kind of social and political life we desire, and (b) because we have good reason to fear that some parents would fail to provide it in the quality and quantity deemed necessary.

Nobody would contemplate reducing or eliminating the government's funding for schooling and distributing the funds to the

citizenry as a cash grant that could be used for anything the recipient chose.<sup>1</sup> Thus, including an item on your list of merit goods entails your deciding that it has higher priority for the funds it requires than a cash grant that would cost the same amount.

Schooling also illustrates an important issue relating to quality. Low-quality and high-quality schooling are really two different services, and it is high-quality schooling that is clearly the merit good we should aim for. That quality is not currently provided in many countries. In the United States, higher salaries for teachers, which would allow for a far more rigorous process of teacher selection and training, would be a necessary condition for more adequate quality, as would reduced class size, better provision for dealing with disruptive students, and more funds for schools with a high concentration of students needing special services. Such quality-enhancing reforms might well require a doubling of current education budgets.

### *Health care*

A second obvious candidate for merit good status is health care, including access to dental care and pharmaceuticals. Most developed countries do provide this on a universal basis, and therefore treat it as a merit good. However, as in the case of schooling, there is a quality issue that needs to be attended to. In Great Britain, people with painful and disabling conditions must wait years for medical treatment, and older people are excluded from certain treatments. Britain's current Prime Minister, who in his first four years of office did not find his way clear to allocate enough money to put the health service on a decent footing, has proposed establishing a Stakeholder scheme, awarding considerable sums of money to healthy people in their early twenties. This would be a truly feckless policy. The situation in the United States is even worse, with 40 million people with no health insurance. To be campaigning for a program of large cash payments in a country where this is the case would be a striking inversion of priorities.<sup>2</sup> Another quality issue that needs addressing is nursing home care for the disabled elderly.

If better schooling and high-quality, timely health services were the only goods judged to be "merit goods," then we might well have room for greatly expanded cash grants. However, there are arguably others with higher priority than cash grants.

*Childcare*

A family with two pre-school children in the US needs to spend \$12,000–20,000 a year to buy care in a childcare center. School-age children with working parents need after-school care, and recreation programs during the summer. Many parents buy relatively cheap “informal” care of probably inferior quality and safety, but even that takes a big share of the income of low-wage parents. A program offering free, universal care would cost upwards of \$120 billion a year; a program with co-payments from higher-income parents might cost \$60 billion. If the very low salaries currently provided to childcare workers were to be improved, an additional 20 percent would be added to the cost.

While a generous Basic Income allowance might be used to pay for childcare, families with pre-school children who used it that way would be living at a considerably lower standard than other families. Government provision of child care as a service allows families with pre-schoolers to live at the same standard as those of the same income who do not need to buy care. Moreover, the Basic Income grant would do nothing to upgrade childcare quality. Most parents would spend much of it on other things. The provision of childcare would significantly raise the standard of living of low-wage families with children, as the money they currently spend on care could be used to buy other things.

*Free or partially subsidized college expenses*

Nobody with the ability to take advantage of higher education, including graduate education, should be precluded from doing so by financial considerations, as many are now.

*Mental health care*

The large number of homeless people testifies to the need for more residential facilities for people with mental problems. Previously provided facilities were of low quality, and that contributed to the indifference of the public toward closing them. The community-based mental health facilities that were promised in their place never materialized. We should be providing treatment on demand, much of it residential, for drug, alcohol, and gambling addiction. For those not needing care in therapeutic facilities, generously subsidized access to pharmaceutical and talking therapies should be provided. Parents

with children with developmental deficits and people taking care of parents with Alzheimer's need special help.

*Decent housing*

The United States currently has a program helping low-income people with their housing costs. It works on the principle that families should not have to spend more than 30 percent of their income for housing. But the program is not an entitlement, so limited appropriations allow only a small percentage of families eligible for this kind of aid to receive subsidies. In an adequate welfare state, the program would be fully funded.

*Public transportation*

Public transportation requires at least partial subsidization. Greater provision would slow global warming, reduce sprawl, preserve green spaces, save energy, revitalize city centers.

*Social work services*

Far more generous funding of child protection services would be desirable, as well as services that work with troubled youth, released offenders, and people with trouble managing their family lives or finances.

*Basic income would not ensure the private purchase of merit goods*

One thing to notice about the menu of merit goods I have outlined is that the Basic Income and Stakeholder schemes would not by themselves ensure the provision of any of these things to all citizens. Unless a well-developed welfare state were established first, those people who currently lack these kinds of merit goods, as many do today in the United States, would remain without them despite their Basic Income grants. While under such schemes lower-income citizens who took jobs would be more affluent than they are now, and many would (as they do now) fail to buy health insurance, suffer with poor quality public schools, send their children to low-quality care, fail to get the mental health treatment they need, live in slummy dwelling units, and so on.

Most of these goods and services are very expensive, relative to income, and the boost that Basic Income would give to the income of low-earners would not suffice to ensure that everybody would choose

to include them in their household budget, or indeed could do so. The situation would be even worse for those who chose to refrain from paid work. In the case of many of these merit goods, such as high-quality education and health insurance, the failure of a family to include them may be without obvious immediate negative consequences to the family, so the temptation to exclude them will be high.

Under a welfare state, with the provision of all of the merit goods I have listed, plus cash grants to citizens with special needs, even those with jobs with a relatively low wage would have access to the basic goods and services needed for a decent standard of living. If instead we provide only the Basic Income and few or no merit goods beyond education, then many will still lack important ingredients of decency.

### THE PROBLEM IN FINANCING BASIC INCOME

If one agrees that it is a high priority to provide a substantial and expensive list of good quality merit goods to all citizens, then Basic Income or Stakeholder's payments, if adopted, must be in addition to the provision of merit goods, not instead of such provision. Is this possible under current conditions? One way to consider this question is to look at Sweden's welfare state, which provides most if not all of the merit goods listed above. We can then ask whether it would be feasible for Sweden to tack a Basic Income scheme on to its existing budget. Relevant magnitudes are shown in Table 7.1.

Table 7.1. *Distribution of Swedish Gross Domestic Product, 2000 (percent share).*

Consumption expenditure by households:	51%
<i>financed by income from wages and other personal after-tax income</i>	32
<i>financed by government cash benefits to households*</i>	19
Consumption expenditures, public sector*	26
Non-consumption portion of GDP (investment, net inventory change, net exports, other):	23
<i>financed by public sector*</i>	15
<i>financed by private sector</i>	8
TOTAL GDP	100%
total public sector (sum of * items)	60%

Source: Calculations based on data from the Swedish Ministry of Finance.

Government revenue in Sweden totals 60 percent of GDP, as compared with about 30 percent in the United States. Of this, Swedish government cash payments to households with special characteristics (old-age pensions, payments to the disabled, unemployment insurance, child allowances, paid parental leave, etc.) take up 19 percent. Another 26 percent of GDP goes for the purchase or production of goods and services provided by government to citizens. These include the kinds of merit goods I listed in the previous section, as well as services like garbage collection, defense, policing, inspection, administration, etc. The remaining 15 percent of GDP in the government's budget is used to finance items considered to be fixed capital investments, such as roads and other permanent structures.

Consumption expenditures by households amount to about 51 percent of Swedish GDP, of which, as we have seen, 19 percent of GDP is financed from government cash payments. The remaining 32 percent of GDP that households spend for consumption is financed by the wage and property income that is left to households after they pay their taxes.

Adding a Basic Income to the Swedish budget would require large cash payments to the sizeable body of people not currently receiving any such payments from government, namely the citizens who are not unemployed, not retired, without young children, not disabled, etc. Sending a check equal to a poverty line income to every adult between the ages of 20 and 65 would take about 15 percent of the GDP of a country with a per capita income such as that of Sweden or the United States.<sup>3</sup> Some of those currently receiving cash payments from government would receive more than they now do under a Basic Income scheme. It is unlikely that any would receive less.

Assuming that no diminution is desired in public sector consumption expenditures, the funds to finance the additional cash payments to households would have to come from an increase in government revenue. The precise amount required would depend on the characteristics of the scheme that was adopted, including the extent to which the current cash payments to households in special circumstances were discontinued or diminished. However, the amount of the increase could not be small, and the reward in terms of after-tax income that came to those participating in production would be considerably lowered.

A Basic Income in a country with a welfare state as developed as Sweden's would have to be financed by a shift of funds from the first category in Table 7.1 to the second.

For example, if an extra 15 percent of GDP were added to cash payments by government to households, those extra funds would have

to be taxed away from households' wage and property income now devoted to buying consumer goods, now 32 percent of GDP, leaving households just 17 percent of GDP as their net reward for their participation in the production of the entire GDP.<sup>4</sup> That could hardly be tolerated.

So at present levels of per capita GDP, we must choose between the list of merit goods and cash payments for those in special circumstances (the welfare state) on the one hand, and the Basic Income scheme on the other. You cannot have both. Some compromise might be possible – a smaller Basic Income combined with a stripped-down list of merit goods. Those who advocate the Basic Income scheme should indicate which of the menu of merit goods they propose to do without.

If we choose to develop the welfare state first, then at a later date, as productivity growth occurs, it will be possible to use some of the additional resources to phase in universal cash payments. However, it is not necessarily true that in the near future such payments would be judged to be the best use of the additional resources generated by growth. Additional or better quality goods that might be provided by government, and greater payments to citizens in special situations might take priority. Sweden, for example, currently has plans to augment the welfare state they already have by increasing subsidies for child care from their present level.

However, we may reach a stage where people feel content with the already achieved list of government-provided goods and special needs cash grants. Then as the economy grows, the absolute level of spending on them could be maintained, but that would amount to progressively smaller percentages of GDP being spent that way. Some of the additional income could be distributed as a tax-financed uniform payment to all citizens. These payments could start small and grow over time.

#### PROS AND CONS OF THE WELFARE STATE

Those of us who favor giving merit goods priority over Basic Income have to face the fact that like any other human system, the welfare state is subject to problems and abuses. A government service that starts out as adequately financed may through time be allowed to deteriorate through a failure to continue to allocate sufficient resources, as the case of the British health service shows. The distribution of government expenditures may unduly reflect the clout of certain parts of the electorate (the elderly, for example), or be the

result of energetic lobbying by small self-interested groups, rather than the result of a rational assessment of needs based on humanitarian considerations.<sup>5</sup>

Lack of competition may cause public authorities to produce a narrow range of unattractive goods and services, which poorly meet the needs and tastes of the population. In the United States, there is a tendency for government-provided goods to be unevenly distributed. Less resources go to public schools in low-income neighborhoods than to those in higher-income neighborhoods. The corps of civil servants that administers programs may grow to excessive size and become dictatorial, inefficient, dilatory, and corrupt, tendencies that were in full flower in the Soviet Union. All of these possibilities certainly exist. The experience of France, the Low Countries, and the Scandinavian countries suggest, however, that these tendencies can, at least in certain contexts, be overcome. It is certainly simpler to administer a Basic Income scheme than it is to see to the production of a whole raft of government-provided services, or for government to fund and supervise the provision of such services by private firms. But these countries have shown that high quality government provision is possible.

#### WORK INCENTIVE AND GENDER ISSUES

For many of its adherents, a major attraction of Basic Income is that the guarantee would allow those who wished to refrain from working at a paid job to do so. If a sizeable Basic Income benefit were to be introduced, and significant numbers were to decide to do without earned income, the supply of goods and services traded for money would suddenly fall. Yet the number of claimants on that supply would stay the same. There might be an increase in the amount of unpaid work, but the net effect on the average standard of living would most likely be negative. Per capita consumption and per capita income would fall. Presumably, only people working for wages would pay income and payroll taxes, and so a reduction in their numbers would reduce tax revenues, just as the need would be arising for increased tax revenue to finance the Basic Income grants.

The fewer people there are to pay taxes, the higher must tax rates be to achieve any particular amount of revenue. The higher the tax rate on earned income, the less the reward from working for pay. This looks like a vicious circle: Fewer working for pay, causing lower tax revenues, requiring an increase in tax rates, causing fewer to work for pay, and so on.

Van Parijs discusses at some length the possibility that Basic Income provision could be structured so as to make work for pay rewarding, by keeping the marginal tax rate low. However, even at a zero tax rate for the lower income ranges, the "income effect" of receiving a sizeable cash grant will reduce the incentive to take a paid job.

A second, even more serious effect, and one that would probably be fatal to continuance of the scheme, if not to its adoption, would be resentment of those publicly supported with no special circumstances like disability or old age to justify that support.<sup>6</sup> For better or worse, the activity of supporting oneself through paid work is now a requirement for respect in Western society, for rich and poor alike. Being a non-jobholding person supported by the paid work of other family members still brings respectability, but not full respect, as men's and women's roles in the economy become more alike. Being on the public dole without having some disability that justifies it brings no respect whatever.

One frequently mentioned aim by proponents of Basic Income would be to allow parents to stay home with young children. Under current cultural conditions, the vast majority of those who would do that would be women. As Ingrid Robeyns (2000) argues, a withdrawal from the labor force by many women would be likely to reverse at least some of the progress that women have made in status and wages in the last half of the twentieth century. Many if not most employers have come to see women as likely to be continuous labor force participants, not inevitably destined to leave the workforce, and therefore as people worth training, worth putting into jobs leading to promotion, worth considering for promotion. This kind of progress would be reversed if a higher proportion of women withdrew from the labor force when their first child was born. For this reason, the full-blown implementation of Basic Income schemes in the near future should not appeal to those for whom gender equality is an important goal. Perhaps in the future, economic, housekeeping, and parenting activities will have become less differentiated by gender. Then Basic Income would affect the behavior of both sexes more equally, and would have lost its anti-equality effect.

A final problem with Basic Income would be a loss of power over children by their parents. If children's payments were large enough to allow them to live apart from their parents (perhaps with other teens), parents might be under pressure to let teenagers live separately on "their own" money. The availability of Basic Income for life would make the prospect of taking up a career less attractive, and reduce some teens' educational efforts. For modern parents, getting children

through the teenage years without major damage is difficult enough now. Basic Income might well make it a nightmare. This is not a problem that is likely to diminish through time.

## CONCLUSION

At current levels of per-capita income and production, there is no room in the budget for both the Swedish welfare state and Basic Income. One must choose one or the other to do first. The fully developed welfare state deserves priority over Basic Income because it accomplishes what Basic Income does not: It guarantees that certain specific human needs will be met. Both the welfare state and Basic Income reduce inequality of condition. But the welfare state does so with greater efficiency, because it takes better account of inequalities due to differences in needs. If I need an expensive operation and you don't, giving both of us a Basic Income grant will not go far to make our situations more equal. Only the provision of health services has the chance of doing that.

People on the left, who have limited energy, should in the immediate future concentrate on achieving provision of a satisfactory menu of government-provided merit goods. When this has been accomplished, then will be the time to consider starting to phase in Basic Income. If through time the capital intensity of production and productivity rise, then as a result the demand for labor may shrink.<sup>7</sup> A progressively lower labor force may become desirable, and Basic Income grants may be the best way of distributing an increasing share of the national income. But in the near and medium-term future, in a country like the United States which is very far from providing a decent list of high priority merit goods, Basic Incomes' attractive features don't trump extending the guarantee of merit goods to all citizens.

## NOTES

1 I am not, of course, suggesting that the proponents of cash grant schemes would favor doing this, or that doing it would be necessary if we were to want to fund a cash-grant scheme. I am merely trying to demonstrate that publicly funded schooling has higher priority than cash grants.

2 Nobody would consider it sensible to say that we could make sure everybody had health insurance by distributing even large cash payments.

3 I have used American magnitudes to estimate this. The poverty line income for an individual under 65 was \$8,959 in the year 2000. There were

162.6 million people between 20 and 65, and GDP was \$10,000 billion. The calculation is roughly applicable to countries like Sweden that have similar levels of per capita GDP to the United States.

4 I am ignoring here the amount of wage and property income that households use for investment that is presumably included in the 8 percent of GDP the private sector uses to finance such expenditure.

5 "Tax expenditures," the tax breaks to particular groups, are also pertinent.

6 The resentment shown in the United States in the last few decades against those single mothers receiving cash welfare grants predicts the state of public opinion under a Basic Income scheme. Single mothers' welfare payments were considered to be justified, at least by some, on the grounds that they were doing valuable work by taking care of their own children. But that justification did not prevent vitriolic and eventually successful attacks on the system of cash welfare grants, attacks that were probably supported by a majority of American voters. Those without children who wanted to depend on public support would not even have that justification.

7 A rise in productivity through time is by no means guaranteed forever. A big rise in demand for the kinds of personal services that cannot be assisted by capital goods is possible, reducing the ratio of the value of output to labor.

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# The Effects of a Basic Income Guarantee on Poverty and Income Distribution\*

*Irwin Garfinkel, Chien-Chung Huang,  
and Wendy Naidich*

## INTRODUCTION

A universal demogrant, credit income tax (Garfinkel, 1983), or, to use the current term, a Basic Income Guarantee (Van Parijs, 1992, 2001) is a universal cash benefit paid to all citizens. Entitlement is based only on citizenship. The same benefit is paid to all regardless of income, wealth, or work history. Benefit amounts vary only with age.

Advocates of BIG stress different justifications, including promotion of freedom, increased economic efficiency, and reduction in poverty. For example, Widerquist and Lewis (1997) in good Rawlsian fashion assert that the ultimate goal of social policy is to reduce poverty to the greatest extent possible, and go on to argue that Guaranteed Income "is the most efficient and comprehensive method to attack poverty" (1). Research supports this claim. Programs aimed directly at poor people via income-testing have done little to alleviate poverty (Burtless, 1994). These programs create strong disincentives to work in the legitimate labor market, are stigmatizing, and promote divisions among population groups rather than solidarity (Garfinkel, 1982). Non-income-tested programs, on the other hand, have been highly effective in lifting people out of poverty as well as

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