

9 October 2001

Unemployment

A federal election is to be held on November 10. Will unemployment be an election issue?

The community, according to recent polls, will say yes. The politicians, echoing their economic advisers, will say no, as the answer lies in greater economic growth.

In 1995 I stated: "Slowly, but surely, the community is being conditioned to live with long term high unemployment". Page 1 *Unemployment Forever?*

Six years later political correspondent Ian Henderson asks: "Why, if Australia's economic performance has been so wonderful, has our employment record been so poor? Why, if voters are as worried about jobs as they say they are, are our politicians apparently so untroubled by our dismal record on jobs? And why, if the labour market remains so weak, have our economic policy-makers failed to put the economy into overdrive in an effort to deliver more work for job seekers?" *The Australian*, 5/9/01

Why is it that after three decades of continuing high unemployment the community meekly accepts an unemployment rate of 7 per cent - seven per cent must be sacrificed in the interest of 93 per cent - and our political leaders can claim immunity from seeking a solution on economic grounds? Not only do they claim immunity, but they mobilise community support for using the seven per cent to hone their cost cutting skills.

The reality is that economists are apathetic about the social wellbeing of the unemployed. In turn the politicians are likewise apathetic, and so, it seems, is the community at large. There is wide spread acceptance that unemployment is an economic problem requiring an economic solution, and the only solution is higher economic growth.

By way of illustration, on Thursday September 27, the ABC radio programme "Australia Talks Back" looked at the problem of unemployment. The format of this program is that specialists in the field under discussion are asked to provide specialist knowledge and commentary, interspersed with comments from the general community. For the topic "unemployment" three specialists were invited - three economists. Their only answer to the problem was higher economic growth, and the program host agreed. No serious comment or discussion on the sharing of work, and of the moves towards a shorter working week. No looking ahead to possible solutions - merely navel gazing and the rhetoric of the 80's and 90's. Little wonder that the major political parties will do their utmost to stop unemployment becoming an electoral issue.

The Australian Democrats have recognised the need for a social solution to what is really a social problem with their proposal to introduce a first step towards work sharing along the lines of a shorter working week, but unfortunately they have muddied the waters by incorporating taxpayer funded maternity leave for the employed.

Why do economists inhibit consideration of social changes? Are economists autistic, (check with your dictionary) as suggested by the Post-Autistic Economic (PAE) Group formed initially in France, but now with a wide international following. The following is an extract from the most recent PAE Newsletter.

Economics needs fundamental reform and now is the time for change.

This document comes out of a meeting of 75 students, researchers and professors from twenty-two nations who gathered for a week of discussion on the state of economics and the economy at the University of Missouri - Kansas City (UMKC) this June 2001. The discussion took place at the Second Biennial Summer School of the Association for Evolutionary Economics (AFEE), jointly sponsored by UMKC, AFEE and the Center for Full Employment and Price Stability.

The undersigned participants, all committed to the reform of our discipline, have developed the following open letter. This letter follows statements from other groups who have similar concerns. Both in agreement with and in support of the Post-Autistic Economics Movement and the Cambridge Proposal, we believe that economic theory,

inhibited by its ahistorical approach and abstract formalist methodology, has provided only a limited understanding of the challenging complexity of economic behavior. The narrow methodological approach of economics hinders its ability to generate truly pragmatic and realistic policy prescriptions or to engage in productive dialogue with other social sciences. All economics departments should reform economics education to include reflection on the methodological assumptions that underpin our discipline. A responsible and effective economics is one that sees economic behavior in its wider contexts, and that encourages philosophical challenge and debate. Most immediately, the field of economic analysis must be expanded to encompass the following:

1. A broader conception of human behavior. The definition of economic man as an autonomous rational optimizer is too narrow and does not allow for the roles of other determinants such as instinct, habit formation and gender, class and other social factors in shaping the economic psychology of social agents.
2. Recognition of culture. Economic activities, like all social phenomena, are necessarily embedded in culture, which includes all kinds of social, political and moral value-systems and institutions. These profoundly shape and guide human behavior by imposing obligations, enabling and disabling particular choices, and creating social or communal identities, all of which may impact on economic behavior.
3. Consideration of history. Economic reality is dynamic rather than static and as economists we must investigate how and why things change over time and space. Realistic economic inquiry should focus on process rather than simply on ends.
4. A new theory of knowledge. The positive-vs.-normative dichotomy which has traditionally been used in the social sciences is problematic. The fact-value distinction can be transcended by the recognition that the investigator's values are inescapably involved in scientific inquiry and in making scientific statements, whether consciously or not. This acknowledgement enables a more sophisticated assessment of knowledge claims.
5. Empirical grounding. More effort must be made to substantiate theoretical claims with empirical evidence. The tendency to privilege theoretical tenets in the teaching of economics without reference to empirical observation cultivates doubt about the realism of such explanations.
6. Expanded methods. Procedures such as participant observation, case studies and discourse analysis should be recognized as legitimate means of acquiring and analyzing data alongside econometrics and formal modelling. Observation of phenomena from different vantage points using various data-gathering techniques may offer new insights into phenomena and enhance our understanding of them.
7. Interdisciplinary dialogue. Economists should be aware of diverse schools of thought within economics, and should be aware of developments in other disciplines, particularly the social sciences.

Although strong in developing analytic thinking skills, the professional training of economists has tended to discourage economists from even debating let alone accepting the validity of these wider dimensions. Unlike other social sciences and humanities, there is little space for philosophical and methodological debate in the contemporary profession. Critically-minded students of economics seem to face an unhappy choice between abandoning their speculative interests in order to make professional progress, or abandoning economics altogether for disciplines more hospitable to reflection and innovation.

Ours is a world of global economic change, of inequality between and within societies, of threats to environmental integrity, of new concepts of property and entitlement, of evolving international legal frameworks and of risks of instability in international finance. In such a world we need an economics that is open-minded, analytically effective and morally responsible. It is only by engaging in sustained critical reflection, revising and expanding our sense of what we do and what we believe as economists that such an economics can emerge.

But what of the other social sciences? Are there social scientists in areas such as social work, social policy, and sociology, who recognise the need for social action to provide a solution to the unemployment problem? If there are, then now is the time to speak up, but let's not hold our breath waiting for them to do so. Academics in these fields are hardly rushing to fill the void.

The 8th Annual Conference on Unemployment was scheduled to be held this month at Ballina, Northern NSW,

hosted by the Southern Cross University. Unfortunately it was cancelled through lack of support. One can readily point to apathy amongst the academics as the reason for the cancellation. But is it just apathy, or is there some disillusionment about the success or otherwise of the previous seven conferences? Is there finally some acceptance that they have nothing to offer, and are prepared to leave it to the economists, who in turn have nothing to offer?

As compensation, a virtual conference is being conducted via the internet, with opportunities for people to submit papers or to join in the discussion. For further information contact Toni Ledgerwood by email - tledgerw@scu.edu.au

Overseas news We are indebted to BIEN and USBIG for the following items and reports.

The First Congress of the U.S. Basic Income Guarantee Network: **FUNDAMENTAL INSECURITY OR BASIC INCOME GUARANTEE**, will take place on March 8-9, 2002 at The CUNY Graduate Center (365 Fifth Avenue between 34th and 35th Streets in New York City). The Congress will be sponsored by the Center for Social Justice of the SUNY School of Social Welfare at Stony Brook and the Cultural Studies, Department of the City University of New York.

The purpose of the Congress is to bring together a wide group of academics, policy analysts, students, activists, and others interested in exploring the merits of BIG. It will consist of a series of panels, discussion groups, and speakers and it will include an organizational meeting for USBIG. We invite proposals for papers and panels on topics related to the Basic Income Guarantee, including but not limited to the following:

1. BIG history: The movement for a Negative Income Tax or a Guaranteed Income in the United States and lessons for the future
2. The ethics of BIG
3. The politics of BIG
4. The Alaska Permanent Fund: the existing Basic Income Guarantee
5. The impact of a Basic Income Guarantee on civil society
6. The efficiency-equity tradeoff and the Basic Income Guarantee
7. The Basic Income Guarantee and the family: Effects on marital status, domestic violence, child poverty, and unpaid carework
8. The Basic Income Guarantee outside the United States
9. The labor market effects of BIG
10. Funding a Basic Income Guarantee
11. Substitutes or compliments? The relationship between the Basic Income Guarantee, government as employer of last resort, wage subsidies, the living wage movement, and other alternatives.
12. The problem at hand: recent trends in poverty and child poverty in the U.S. and possibility of increased employment insecurity in the next recession

Anyone interested in presenting a paper or organizing a session should submit a proposal.

. Electronic submissions are preferred and should be sent to Michael A. Lewis at [<mlewis@notes.cc.sunysb.edu>](mailto:mlewis@notes.cc.sunysb.edu)

Submissions can also be made by regular mail to:

Michael A. Lewis, Assistant Professor of Social Welfare, School of Social Welfare, Stony Brook University, Health Sciences Center, Level 2, Rm. 093, Stony Brook, NY 11794-8231.

The deadline for paper submissions has been set at December 8th, 2001 (3 months before the conference), but early submissions are certainly welcome. All those who submit abstracts will be notified by early January; those who submit early will be notified as early as possible. Keep an eye on the USBIG website [<www.usbig.net>](http://www.usbig.net) for information about registration and hotels, which will be posted soon. Submissions are already arriving from as far away as Europe and South Africa, and speakers such as Anne Alstott, Sumner Rosen, and Stanley Aronowitz have already been confirmed. A tentative schedule and with list of conference participants, titles, and abstracts will be posted on the USBIG website in December.

GENEVA, September 2002: Ninth Congress of the Basic Income European Network.

Preparation is progressing, under the leadership of Guy Standing, [<GuyStanding@compuserve.com>](mailto:GuyStanding@compuserve.com), co-chair of BIEN and director of the ILO's InFocus Programme on Socio-Economic Security, with the collaboration of Bridget Dommen-Meade [<bdommen@hotmail.com>](mailto:bdommen@hotmail.com) and Lena Lavinas [<lavinas@ilo.org>](mailto:lavinas@ilo.org).

SAMUEL BRITTAN, "In praise of free lunches." The (London) Times Literary Supplement, Aug. 24, 2001

In a review of two books on the Basic Income Guarantee, a well-known British author and columnist gave a strong endorsement to the idea. The following is an excerpt:

One of the myths of New Labour is that paid work is the answer to most social problems. There is no need to argue about the miseries that arise when people able and willing to work are not able to find a job that makes them better off than being on the dole. Nor need anyone deny that people have become disheartened and in the fashionable jargon felt socially excluded through lack of work other than dead end jobs. Some of these have had their self respect and whole outlook on life transformed by appropriate job opportunities.

But it is a fatal logical slide to move from here to insisting that as many people as possible should work for cash, even if that is not what they want to do or that is not the best way of using their enthusiasms and skills. The obvious vulnerability of current policies is in the pressure placed on unmarried mothers to take up paid employment when in many cases the most useful thing they can do would be to look after their children.

The issue is wider. The mistake of Karl Marx was to thunder against private capital and investment income. The problem with them is not that they exist but that too few of us have them. One of the great advantages of the old professional classes is that they had some personal funds on which to fall back and were not completely dependent on wages and salaries. This gave them a degree of independence in dealing with employers or clients as well as a nest egg on which to fall back on difficult times. Last but by no means least, it was possible for younger or more unconventional people to take time off before or during their careers to travel round the world, follow an artistic bent on a modest income, give their time and energy to good causes, or engage in a little riotous living. Unfortunately most defenders of market capitalism have chosen to ignore the existence of unearned income and shut their eyes to the ample evidence of its existence among affluent Americans as well as in the European upper middle class

THE SUPPLICY-TOBIN EXCHANGE

The Yale economist, Nobel laureate and father of the "Tobin tax" proposal, James TOBIN was among the very first academics to publish technical papers on the negative income tax in the late sixties. He himself favoured a non-means-tested variant of the negative income tax, which he called demogrant, and which he advised George McGovern to put on his electoral platform for the 1972 presidential election.

A US-trained economist and prominent member of Brazil's main left-wing party (PT), Eduardo Matarazzo SUPPLICY has been senator for the state of São Paulo for many years. In 1991, he presented a bill which, if passed, would have established a guaranteed income for all Brazilian in the form of a negative income tax. Many modest guaranteed income schemes have since been experimented at a more local level throughout Brazil, and have now been granted some federal backing.

Senator Suplicy is now preparing a new book ("The Exit is Through the Door. Towards a Citizen's Income") and to get some matters straight, he first wrote to Milton Friedman (see their exchange in BIEN's News Flash No 3, May 2000), and later to James Tobin. Following are extracts from Suplicy's questions (11 August 2001) and Tobin's answers (18 September 2001).

1. SUPPLICY: When was the first time you became acquainted with the idea of a guaranteed minimum income, either through a negative income tax or a basic income?

TOBIN: I first became interested in a basic income or demogrant in 1965 when I undertook to write an article for the journal Daedalus "On Improving the Economic Status of the Negro". This was for an issue devoted entirely to Negro problems in America, published as a book in 1966. This was a new subject for me, and I tried to generate a platform on my own without reference to existing literature. One of my several proposals was a universal demogrant of \$300 -- for everyone of course, not just Negroes-- and a negative income tax of 1/3. I drew the now familiar graph relating family disposable income to income, taking account of demogrant as taxed and regular income tax. I knew nothing of previous proposals of this kind. I was writing a pragmatic policy paper, not a scholarly article, and this proposal just seemed to me an obvious thing to do. This article was followed by

numerous papers in which I advocated this proposal, still in the pragmatic policy spirit. At some point I became aware of Friedman's proposal, but I thought it was confined to a negative income tax rate equal to the lowest income tax bracket tax rate, and that didn't seem to me to offer substantial help. I was not aware of proposals in other countries.

3. SUPPLY: To what extent did you take into account the critical views of the classical economists such as Adam Smith, David Ricardo, Thomas Malthus, and from another perspective, Karl Marx on the several forms taken by the "Poor Laws"? Take, for example, the observations made by David Ricardo in his chapter "On wages" in his "On the Principles of Political Economy and Taxation" (1817): "The clear and direct tendency of the poor laws is in direct opposition to the obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and whilst the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never failing demands for the public spheres. If by law every human being wanting support could be sure to obtain it, and obtain in such a degree as to make life tolerably comfortable, theory would lead us to expect that all other taxes together would be light compared to the single one of poor rates."

TOBIN: To no extent. I am more a pragmatist than a scholar. I have always been confident I could work fairly obvious things out on my own. Of course I understood Ricardo's point, even if I hadn't remembered his words, but this was an empirical question and I wasn't that pessimistic.

5. SUPPLY: To what extent, when proposing to institute a guaranteed income have you taken into account that it could have a wide support in the political spectrum?

TOBIN: I was afraid it wouldn't have much support at all. The politically active and powerful strata would be against it, and they would prevail. The people who might gain from it wouldn't vote and would share the bourgeois values of those better off.

6. SUPPLY: Which were the main authors and articulators of the Spring 1968 document that called for the National Congress "to adopt this year a system of income guarantees and supplements"? Could you please tell shortly about the history of this initiative?

TOBIN: This petition was formulated and circulated by a young MIT assistant professor who had been a student of mine at Yale. At this moment, in my vacation home I can't remember his name. Or the number of economists who signed it. I thought it was successful. But Friedman wouldn't join. That was a disappointment to the hope that this proposal might have wide nonpolitical and non-ideological support. This also confirmed my previous suspicion that Friedman's support of NIT was half-hearted.

7. SUPPLY: To what extent has the Earned Income Tax Credit (EITC) contributed to the purpose of eradicating poverty as well as of increasing the level of employment in the USA?

TOBIN: It was an anti-poverty measure, formulated to minimize incentives not to work. The general public was suspicious that the pure NIT would discourage work and didn't want to spend money with that effect. The NIT experiments were thought to have shown that a household's supply of labor would be diminished by demigrants. This effect was confined to secondary workers and it was neither surprising nor very large. But it had an immense effect adverse to the NIT. The EITC was the result,

8. SUPPLY: Has the EITC, especially after being expanded since 1993, contributed to the US having lower rates of unemployment until the year 2000? Why has the unemployment rate been increasing during the year 2001?

TOBIN: I don't think the EITC had much effect on unemployment rates. The decline in unemployment in the 1990s was largely the result of good macro policy, especially by Greenspan at the Fed, and some good luck. See Blinder and Yellen, *The Fabulous Decade*.

9. SUPPLY: Would the full negative income tax, as specified in Nixon's Family Assistance Plan of 1969, be more efficient for the purpose of eradicating poverty?

TOBIN: Yes, in my opinion, for diminishing poverty. Maybe not for reducing unemployment, but I think that's

mainly macroeconomics anyway.

10. SUPLICY: Would you please say how you developed and with whom the idea of paying a "demogrant" to all Americans, when George Mc Govern proposed it in the 1972 national elections? How much would the value of the demogrant proposed at that time be today in dollars? Why was the idea not so well accepted in that campaign?

TOBIN: The McGovern campaign proposal was prepared by me and Brainard and Watts, also Bulow and Shoven. The economist in general charge of the platform was the late Edwin Kuh. Unfortunately McGovern himself was not adept at numbers, and his political advisers, whose attachment to the Senator was very close from long experience, were jealous of us economists and didn't give priority to our proposal. No one who understood the proposal and its place in the budget accompanied the candidate on tour. The result was that in California McGovern looked bad when he couldn't respond to criticisms from his primary opponent Senator Humphrey and to jibes from the press. Nixon attacked him in the general campaign. Ironically Nixon, once elected, took Moynihan's advice and proposed essentially the same thing in the FAP. Ironically too, the Democrats killed that proposal, influenced by social workers etc who wanted a universal children's allowance without any NIT features, doomed because it was so expensive.

13. SUPLICY: Should we first start with very modest guaranteed income programs related to educational opportunities, or Bolsa-Escola programs, for the poor families to have the right to receive a modest complement of income as long as their children in school age are going to school?

TOBIN: I don't know. It sounds worth a try.

15. SUPLICY: Or should we institute a negative income tax program to all adult citizens so as to guarantee a minimum income to all?

TOBIN: I still favor that.

17. SUPLICY: Would you recommend Brazil to introduce a basic income as soon as possible for all the 170 million inhabitants?

TOBIN: I don't know Brazil well enough to venture a recommendation.

Following Paper The paper following this newsletter was prepared by Dr John Tomlinson, QUT, for the 8th National Unemployment Conference. This paper will be published on our website within the next few days.

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