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Expert Comment

Income security and the quest for dignity in an unequal world

Fred Harrison

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Dialogue of Civilizations Research Institute gGmbH
Französische Straße 23
10117 Berlin
Germany
+49 30 209677900
info@doc-research.org

Income security and the quest for dignity in an unequal world

Fred Harrison

Summary

An increasing number of people are registering dissatisfaction with their lives by engaging in anti-social and self-harming activities. One remedy that is receiving increasing attention is the payment of a basic income to all citizens. This is intended to enhance personal welfare, by reducing dependency on forms of employment and lifestyles that people do not find fulfilling. But the unconditional and universal characteristics of a basic income (UBI), treating people as equals, cannot be met under the conditions that currently determine the distribution of a nation's income.

- UBI is an exercise in utopian thinking which distracts civil society reformers, and governments, from addressing the structural causes of deprivation, such as the bias in fiscal policy that discriminates against employment and earned incomes in favour of the owners of rent-seeking assets.
- Effective remedial action involves the restructuring of government revenue so that people are not penalised for working, saving and investing. By drawing revenue from socially-created rents, governments would liberate their citizens to engage in fulfilling forms of employment and life-styles.
- To achieve the best outcomes, the first step is for scholars to redesign their theoretical models to include the deadweight losses inflicted by governments on the market economy. This would provide the information necessary for people to mandate governments to undertake the necessary structural changes to the financial system.

Without the fiscal policies that nurture the Art of Good Governance, policy-makers will continue to rely on palliatives (which accommodate the flaws in their tax regimes) instead of the curative policies that make the Good Life accessible to everyone.

Introduction

Fundamental defects in current social models are painfully revealed by the erosion of dignity, of self-worth. The personal sense of failure is pervasive, and attributed to a variety of causes. This inspires proposals for alleviating the psycho-social traumas. One plan is for people to

be treated as equals by paying them an income that funds their basic needs. The sentiment has been formalised as an *unconditional and universal basic income* (UBI). The policy is promoted as an entitlement of all citizens, thereby removing stigma associated with the means-tested benefits received by low- or no-income families under the Welfare State model. People are treated as equals, whether they are rich or poor.

I will not explore the psychological dimensions attributed to this model of income distribution, for one reason: the policy cannot be implemented. It is not a cure for social ailments. At best, diluted versions might serve as a palliative, to moderate the pain felt by many people (as reflected in increasing rates of suicide in countries like Greece and the US). So, the question of whether the benefits of UBI may exceed the costs, when measured in terms of psychological or social status outcomes, is irrelevant. For economic reasons, the policy cannot be implemented.

The starting point for this enquiry is an awkward question. Given the scientific and technological innovations that have been made to advance people's capacity to meet their personal needs, which have yielded enormous productivity gains, why are the richest nations afflicted with alarming levels of material poverty and social despair? With all of the advances in medicine and psychology, why is there a serious deficit in the level of personal well-being (displayed, for example, by the extensive use of opioids)?

American doctors have given a name to the complex negative conditions that cultivate deep-seated discontent. They call it the 'shit-life syndrome', reports Will Hutton, the principal of Hertford College, Oxford (Hutton, 2018). There is no ambiguity about the medical evidence (Woolf et al, 2018). But awareness of the political roots of the psycho-physiological crises that afflict whole populations is almost non-existent.

To overcome these stresses, the UBI proposal is achieving political traction. This unconditional payment of a basic income for everyone is supposed to elevate the sense of well-being by extending choices over how to earn a living and how to allocate time between work and leisure. While the moral sensibilities of those who advocate the UBI cannot be questioned, the knowledge base that supports their proposal is so shallow as to render the notion theoretically, let alone empirically, incoherent. I shall start with the theory.

Ricardian rent theory

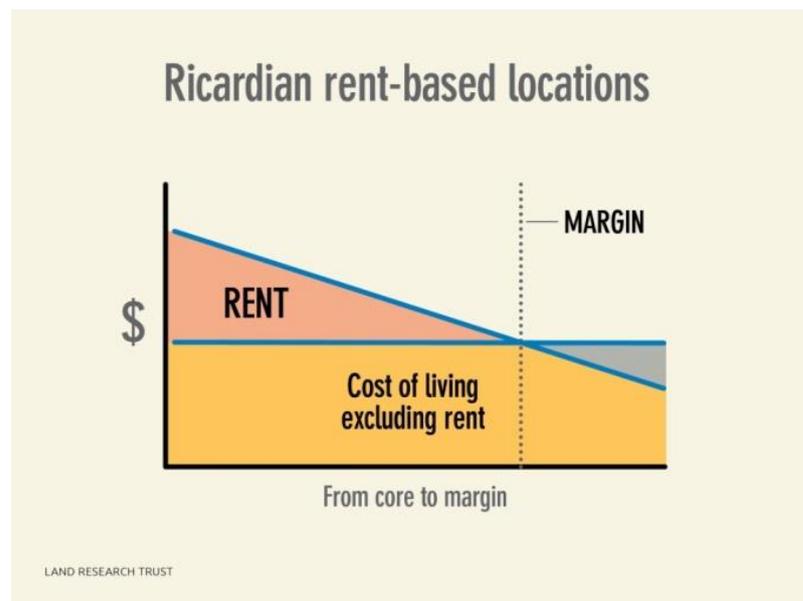
Why is it not possible for governments to redistribute, on an unconditional basis, a basic income to everyone? The answer is to be found in the way the economy operates. The

relevant elements of the model were formulated by David Ricardo in his *Principles of Political Economy and Taxation* (1817).

Ricardo, an English stock-broker turned politician, analysed the way in which the mobility of labour and capital tended to equalise the rates of wages and profits across the economic space. The income net of wages and profits surfaced as *economic rent*, which is the value attributed to the services rendered by land.¹

The dynamics of the land market are different. Unlike labour and capital, the supply of land is not elastic: urban and farm land is physically anchored in place, immobile. Competition, therefore, does not equalise rents across a jurisdiction's economic catchment area. Plots of urban land cannot be transported from areas of low productivity (where rents are low) to areas of high productivity (which command high rents). As a consequence, rents are concentrated at the core centres of the economy.

Figure 1

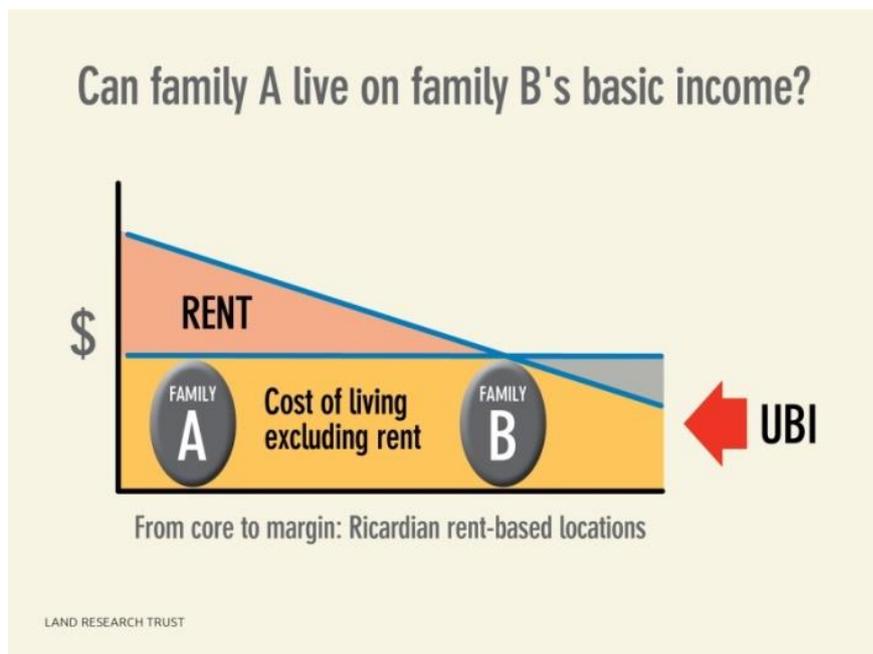


Locations at the furthest point from the centre were designated by Ricardo as the marginal areas of the economy. At the margin, people could occupy these locations and earn their living if they did not have to pay rent. This is illustrated graphically in Figure 1. Beyond the margin, aggregate productivity drops below what is needed to cover the costs of labour and capital. In these sub-marginal areas, land is left fallow, given over to the birds and the bees.

¹ In economic terminology, 'land' denotes all of the services of nature, including depletable resources such as oil and gas; minerals such as gold and cobalt, and even the aesthetic attributes of the landscape.

Now, with the aid of this framework we can address the implications of an attempt by government to grant an unconditional income to every family: If a government could raise the resources to grant a basic income to a family living at the margin, would that income be sufficient for a family living in high-density locations at the centre of the economy? The answer is obvious: No! The explanation is self-evident. Family B (in Figure 2) is faced with living costs in which the cost of renting a home would be very low (or zero). Family A, however, is confronted by housing costs that are extremely high. Thus, it is not possible to establish a basic income that is viable for all families across the economic space. So the *unconditional* and the *universal* characteristics of the UBI proposal cannot be met.

Figure 2



The theoretical objection to UBI is reinforced by the empirical evidence.

In Britain, Hermione Parker, a leading member of the Basic Income Research Group, explored UBI based on the tax policies and costs of living that prevailed in the UK in the 1980s (Parker 1984). She discovered one big difficulty, as summarised by her colleague Bill Jordan.

The main stumbling block that she encountered was housing requirements, and she was reluctantly forced to include a householder supplement to the basic income, and a means-tested housing benefit scheme, to

overcome the problem of extreme variations in housing costs (Jordan, 1985, 268).

The aspiration behind the UBI policy is uncompromising: “[P]rovide for all citizens a right to an independent tax-free income sufficient to meet basic living costs” (Jordan, 1985, p. 357). But we establish the utopian character of such a proposition when we find that it fails to survive the collision with economic reality. In this case, someone living in London would have to receive an additional means-tested sum of money that reflected the higher costs of residential property in the capital, compared with (say) rents in the north-eastern town of Darlington. So, the income is neither unconditional, nor universal. It ends up as yet another variation in the benefits (cash or kind) distributed by the Welfare State.

The crushing logic of taxation

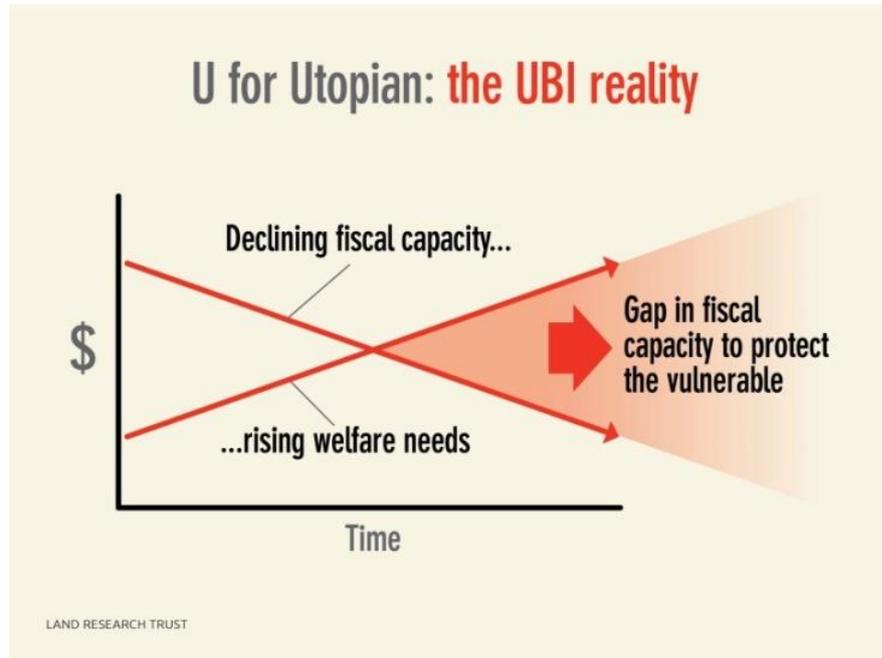
There is a further fatal problem with the UBI that is ignored by advocates like Bill Jordan.² They fail to factor into their analyses the impact of the fiscal tools employed by governments. Under the current tax regime, a basic income would have to be funded out of taxes that fall, in the main, on wages and on the profits of enterprises. Those taxes exact a price that is not quantified when legislation is enacted.

- Taxes imposed on wages or profits cause distortions to people’s behaviour. Those distortions change the *way* in which wealth is produced, the *quantum* of wealth that is produced and the *kinds* of wealth that are produced. These reactions are animated by the political choice of tax tools.
- The losses in wealth and welfare that result from the political choices stem from what is technically called the *excess burden* of taxes. The deadweight losses *may exceed the good that is supposed to be achieved* by government interventions in income redistribution, resulting in a net loss to society.

So, its choice of tax tools, a government may deepen the crises faced by its citizens. But no government in the world today takes the trouble to estimate (or to publish) the losses that stem from the way it chooses to raise revenue. The losses within OECD countries are enormous (Harrison, 2016, ch. 6). One outcome, which is relevant for the UBI debate, is illustrated in Figure 3.

² Jordan is currently Professor of Social Work and Social Policy at Plymouth University, England.

Figure 3



- Distortions caused by tax policies include unemployment, under-employment, tax dodging, and a whole menu of dislocations to the fabric of communities and to people's lives.
 - **Outcome:** an increase in the demands made by the population for relief under Welfare State programmes.
- As the tax burden is increased, to fund the population's growing needs, production is steadily corroded below the economy's productive potential.
 - **Outcome:** people's welfare needs rise at a faster pace than the capacity of government to collect revenue to fund its obligations.

These tendencies result in a growing gap between the two trends. The demand for welfare expenditure eclipses the capacity of government to collect sufficient tax revenue, as evidenced by the relentless growth of sovereign indebtedness. So when a crisis strikes, as occurred in 2008, governments are forced to proclaim the need for 'austerity'. This, in turn, reinforces the vicious downward spiral in the population's welfare.

It need not have been so

The process of degrading a nation's productive potential surfaces in political constraints which render notions like the UBI fanciful. This is a tragic outcome which informs us about the cruel nature of power at the disposal of democracies as they are administered today. But this state of affairs was not inevitable. Nor does it reveal an intrinsic flaw in democracy as a model for decision-making.

In the 18th century, the French Enlightenment revealed the parameters of the Science of Good Governance. Philosophers known as the Physiocrats explained that a nation's rents were sufficient to fund the state's financial obligations. It was not necessary, therefore, to tax the wages of peasants, or to distort trade through the imposition of tariffs. Adam Smith, the Scottish moral philosopher, travelled to Paris to study this model of governance. He endorsed it in *The Wealth of Nations* (1776), by highlighting the virtues of ground rent as the primary source of public revenue. He emphasised that revenue collected from a nation's stream of rents did not disturb people's behaviour; therefore, there would be no state-sponsored distortions to production.

If the Single Tax (as it became known) had been adopted, the capitalist economy that evolved in the 19th century would have been a qualitatively different creature to the one that offended the sensibilities of Karl Marx. Many new pathways to a more contented future would have evolved. One of them was proposed by Thomas Paine, the author of *The Rights of Man* (1791).

Paine was actively engaged in the revolutionary movements of both America (settlers against colonial Britain) and France (peasants against the monarchy and its landed aristocracy). The starting point for his proposals for constitutional reform, as described in *Agrarian Reform* (1797), was based on the claim that "the earth, in its natural, uncultivated state was...the common property of the human race...Every proprietor...of cultivated lands, owes to the community a ground-rent..." This was straight out of Adam Smith. Paine went on to propose that

....there shall be paid to every person, when arrived at the age of 21 years, the sum of £15...And also, the sum of £10 per annum, during life, to every person now living, of the age of 50 years, and to all others as they shall arrive at that age.

This was not a universal basic income, but a gratuity to young people (to give them a good start in life), and pensions for those who had reached the age of retirement, or who

suffered from disabilities.³ As for those citizens between the young and the old, they would be free to fulfil their aspirations by working for their living without being obstructed by the barriers erected by land speculators or rent-seekers. The negative activities of these two groups could constrain the value-adding economy for one reason only: the privileged fiscal treatment of rent in its privatised forms. Rent, when deprived of its social character, serves to obstruct (in a thousand-and-one ways) the self-fulfilling lives which people would otherwise be able to create for themselves (Harrison, 2012).

The ritual of pilot studies

The prospects that were possible under the Physiocratic socio-political model were still-born. Governments chose to alienate the socially-created value (rent) in favour of taxing people's privately earned wages and the profits from their savings and investments. This means that the economic boom/busts that followed cannot be blamed on 'market failure', which is a favourite scapegoat of mainstream academic economists. The economic crises that blighted the two centuries of industrialisation were structural in nature, the responsibility for which lay with the failure of governance. That this is not adequately appreciated may be explained, in part, by the failure of scholars. They enjoy the leisure and opportunity to examine economic models without the pressures faced by vote-seeking politicians. But they do not, in the main, contextualise economic models within the framework of government fiscal policies. This placed social reformers at a disadvantage.

One outcome is the persistent call for 'pilot studies' to test ideas, as if the evidence did not already exist. When social activists propose an idea that *sounds* good, politicians suggest a feasibility study! This is the case with the proposal for Scotland to adopt the UBI. The Scottish government has decided to provide tax-funded support for pilot studies. *The Guardian* reported this initiative with this summary: Four local authorities tasked with turning utopian fantasy into reality with backing of first minister and multi-party support (Brooks, 2017).

The Scottish government has not disclosed whether their taxes would inflict losses of wealth and welfare that exceeded the benefits that would accrue from the UBI. But we do know that, to help raise its revenue beyond 2019, the Edinburgh government proposes a

³ Other schemes, funded out of rents, include the one currently employed by the US state of Alaska. Every citizen receives a dividend from the state's oil rents. This annual distribution varies according to the price of oil. In 2015, the distribution was \$2,072 per person (\$8,288 for a family of four). The 2018 dividend was \$1,600; a nice windfall, but not sufficient to meet the specifications of a basic income.

new tax: a £2 a day levy on tourists. The tax is justified on the grounds that visitors make use of social infrastructure, so they ought to contribute towards the upkeep of those public assets. There are two responses to this argument:

1. Tourists spend money in hotels and restaurants, so they automatically add to the taxable revenue - rent - that flows through Scotland. These rents are available to fund the social infrastructure. That the government permits those rents to be privatised is not the responsibility of tourists: it is a political choice of the Edinburgh government.
2. The tourist tax, by deterring some visitors from travelling to Scotland, will reduce the total flow of revenue from tourism. Fewer people employed in the industry, and lower investment in capital endowments (such as hotels), will translate into lower aggregate income for Scotland.

Tourists cannot be held responsible for the shortfall in revenue experienced by the Scottish government. The Tourist Tax is a self-defeating strategy, and the attempt to offset the negative consequences of taxation with experiments like the UBI will not alleviate the stresses that are wilfully imposed on the population.

Why don't governments listen?

The absurdity of the Scottish government's flirtation with UBI is highlighted by the fact that two members of its council of advisers were Nobel laureate scholars who endorsed rent as the fiscally optimal method for raising revenue: Joseph Stiglitz, and (until his death in 2018), James Mirrlees. Mirrlees chaired a commission of enquiry into tax policy that provided extensive analysis of how the rent-as-public-revenue policy enhances the capacity of governance (Mirrlees, 2011, ch.16).

Stiglitz and his co-author Anthony Atkinson emphasised the economic significance of using rents to fund public goods in their textbook. This policy, they wrote,

...has been dubbed the 'Henry George' theorem, since not only is the land tax non-distortionary, but also it is the 'single tax' required to finance the public good (Atkinson and Stiglitz, 1980, 525).

Recent debates in the UK have stressed the need to reform taxation, but the participants fail to identify rent as the ideal basis of a new fiscal strategy. A few voices have been raised in favour of rent (see Box 1). But when the rent thesis is endorsed, it is never in

terms designed to inspire scientists in other disciplines, like sociology and social psychology, to explore how an enlightened fiscal system would empower people to adopt forms of behaviour that would enhance their well-being.

Box 1: The global tax reform debate

International financial institutions such as the Organisation for Economic Cooperation and Development endorse calls for an overhaul of tax policies (Toplensky 2019). But they do not highlight the policies that would deliver optimal outcomes. One result is confusion in the discussion on how to reform taxation. An example is provided by the debate on the need to reform property taxation in the UK.

Commercial competition from high-tech “platforms” such as Amazon is creating havoc for high street retailers. This has led to a call for fiscal relief, by abolishing the tax on commercial property. But Paul Johnson, director of the Institute for Fiscal Studies, has explained that while this may offer short-term relief, it would make little difference to the high street’s survival as the commercial heart of towns across the country. He points out the obvious economic consequence of cuts to property taxes on commercial premises: this would lead to higher rents, mainly benefiting the biggest landowners. Johnson affirms that “It would be much better to have a tax on the value of the land on which the business sits rather than the rental value of the property” (Strauss 2019).

A consensus in support of reform is needed, to secure a mandate for political change. The first step in that direction, however, is an inter-disciplinary exploration of fiscal policy to trace - and quantify - the impact of taxation on people’s health and wealth. Otherwise, chaos in policy-making will continue, as currently illustrated in Italy.

Two populist parties have created a coalition government in Rome. One of wants to implement a universal basic income. According to the economy minister (Giovanni Tria), their plans for a ‘citizens’ income’ would stimulate growth. But he conceded that this was a ‘largely experimental’ scheme (Johnson, 2019). Instead of grounding their policies in reality, based on the known facts, the Italian government wants to embark on what we may predict will be another futile exercise in utopian escapism. In the process, a nation that is locked into the economic doldrums will be subjected to an experiment that will ultimately fail to deliver improvements in the quality of people’s lives. This, in turn, will further intensify the loss of trust in politics.

At present, the only social system that would comprehensively fulfil people’s needs pivots on a book that was published in 1879! The author, Henry George, described how the socially significant crises, those that ruptured people’s lives, were traceable back to the way governments raised their revenue (George, 1879). George’s vision of the moral market was informed by the classical fiscal doctrines formulated by the Physiocrats and Adam Smith.

He explained how this would enable the market to operate as a partner in an inclusive social system that avoided the psycho-social traumas associated with capitalism and communism.

In the 19th century, the classical theory of rent was incorporated into the writings of utilitarian philosophers such as John Stuart Mill. But the profound social, psychological and ecological insights that flowed from the rent-as-public-revenue policy were not elaborated. Those authors buried the economic analysis so deep in their works that they failed to stimulate the attention that was needed to animate reality-based forms of social activism. The ensuing failure of imagination remains a feature of the economic literature in the 21st century.⁴

One outcome is the social restlessness that is disturbing politics in the high-income countries. Populist movements reject mainstream political parties, but they lack the policies that would improve on the performance of the elites whom they reject. Within this philosophical vacuum, social reformers resort to palliatives to alleviate the systemic pain that is inflicted on populations by their governments. This is a dangerous state of affairs which calls for a new Enlightenment. Reforms that are anchored in reality are needed, if our world is to avoid the dystopian prospects that loom on the horizon.

⁴ An example is Guy Standing's *Basic Income: And How We Can Make It Happen* (London: Pelican, 2017). The author is professor of development studies at the School of Oriental and African Studies in the University of London.

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