

Compensatory Justice and Basic Income

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1. Introduction

What is the most plausible and feasible conception of compensatory justice (CJ)? What conditions are required to achieve it? The general assertion of this article is that the more favorable the conditions under which people can freely choose their labor market careers, the more scope there is for CJ. More specifically, an economy with an unconditional basic income (BI)—one sufficient to cover the basic needs according to the prevailing standard of living—fulfills the conditions required from the (economist's) viewpoint of CJ and is better than a conditional system of social security with a guaranteed social minimum at the same or even a somewhat higher level. This topic is of interest for welfare state reform proposals in both Europe (characterized by high unemployment, modest income inequality, and generous social benefits) and the United States (low unemployment, high and increasing income inequality along with the rise of the working poor). If CJ is considered as an important ideal, then the present move from lax welfare to stringent workfare in both Europe and the United States is not the right way. In the same vein, to top up the income of the working poor by means of an Earned Income Tax Credit, as the United States does, or to give employers marginal wage subsidies to raise the demand for low-wage workers does not improve the bargaining position of workers toward employers and hence does not help to achieve CJ.

Sections 2 to 4 of this paper provide a brief outline of three different approaches to CJ, one economic and two philosophical. I argue that the economist's view is the most fruitful, but still incomplete, and that the two philosophical (the objective and the balancing) approaches are impracticable. The discussion on CJ is linked with the more general debate on social justice by means of mapping the relation between the favored conception of CJ to the Rawlsian maximin criterion. This is followed in section 5 by an enumeration of the more general conditions of CJ that must be met so that the market forces can do their proper work. Briefly, these conditions are free career choices, absence of *involuntary* unemployment, and a readily accessible and socially acceptable minimum income fallback position for everyone. It is shown that a BI scheme, because of its unconditionality, is much more conducive to the ideal of CJ than a conditional scheme of social security. Section 6 elaborates the link between CJ and parasitism. The most serious obstacle to the acceptance of the BI proposal is the parasitism objection: A BI allows some able-bodied citizens to free-ride on the productive efforts of workers. However, absence of parasitism and CJ are mutually conflicting, and to allow parasitism

can be seen as a price worth paying to secure CJ. Conclusions can be found at the end.

2. The Economist's View on Compensatory Justice

Most people think it is fair that work of low status that is stressful, monotonous, or dangerous is rewarded with higher incomes than jobs that have similar requirements in terms of abilities and training but better working conditions. This idea of CJ is as old as modern economic science itself. Adam Smith, the founding father of this idea, described how "the whole of the advantages and disadvantages of the different employments of labor and stock must, in the same neighborhood, be either perfectly equal or continually tending toward equality" (Smith 1982, 100). The theory of compensating or equalizing wage differentials, as its name indicates, predicts that wage differentials between jobs with similar requirements are such that the sum of monetary and nonmonetary compensation is equalized.

According to Smith (1982, 101), "The trade of a butcher is a brutal and an odious business; but it is in most places more profitable than the greater part of common trades." He adds that "executioner is the most detestable of all employments." These may seem *prima facie* cases of CJ, but it is not as straightforward as at first sight it may seem. It is possible to fill all positions for butchers (or executioners) without any need for compensating wage differentials if there are enough workers who love to be a butcher though the great majority hates it. In a competitive labor market it is perfectly conceivable that the reward for the butcher's trade is even less than the rewards for other, comparable jobs (see Rees 1975, 340). In this sense, compensatory payments can be considered a kind of wage premium paid for scarce preferences, analogous to wage premiums paid to workers with scarce skills: compensatory payments are just (implicit) market prices determined by labor demand and the preferences of the workers. In general, the need for compensating wage differentials for different jobs in an economy with a high degree of division of labor is much less when preferences are heterogeneous instead of homogeneous.¹

Since the whole idea behind compensation is to redress utility losses engendered by unpleasant working conditions, it is not unfair that butchers do not receive a compensatory payment. They may well see the remuneration for their labor as a fair day's wage for a fair day's work. At the same time it is efficient to allocate workers with matched preferences to these jobs.² It is fair (and necessary in order to elicit the desired supply of workers for these jobs) to compensate those extra workers needed on the margin for the suffered disutility only to the extent that the number of matches of certain jobs with workers with matched preferences falls short of the number of workers required. However, since equal work is paid equally, workers with 'matched' preferences receive a rent, whereas workers at the margin do not. The workers on the margin do not have matched preferences, since they are prepared to accept the job only if it pays a compensating wage differential. The rent component of the wage is thus the difference between the actual wage received and the wage that would be necessary to induce a worker, given his next best

alternative, to take the job. Although one may find this rent component unfair, it is an inevitable by-product of the principle of equal pay for equal work. If equal pay for equal work is not considered unjust, then these 'compensatory' rent payments are also not unjust.

The size of the rents received by workers with matched preferences is in a quantitative sense not as important as it may seem at first sight. With a reasonable degree of heterogeneity of preferences³ and a highly diverse job distribution, as is the case in modern economies, the equilibrium compensating wage differential for a particular job is much lower than the average wage premium that would be required if we were to average the compensatory payments needed for *each* worker to take this job. One can think of the average compensatory payment as what would result if we were to pick out persons from the labor force at random and ask them what compensatory payment they need to prefer this job to their next best alternative. Because of the heterogeneity of preferences and the division of labor, and the matching of workers to jobs, the market will pay much less. The allocative efficiency of the market thus minimizes the volume of compensatory payments, and therefore also the volume of rents obtained by the nonmarginal workers. Moreover, although the rents do not count as a social welfare loss, because they are income for workers with matched preferences, a violation of the conditions of CJ will generate *real* social welfare losses, for instance, if we were to force at random workers from the labor force (such as the unemployed) to take up the butcher's trade against the equilibrium compensatory payment. Therefore, not only from the point of view of equity (the equal pay for equal work principle), but also from a welfare and efficiency point of view, it is very important that CJ prevails.

According to the above analysis, the economist's principle of CJ is the principle that each marginal worker's pay should exactly compensate for the welfare difference between the job and the next best alternative. The relevant alternative is defined in terms of the set of jobs for which the worker is *readily* employable (e.g., being appropriately skilled) rather than the set of jobs for which the worker is *potentially* employable (e.g., if he had chosen an entirely different educational career).⁴ It is precisely this restriction (readily instead of potentially) that allows the economist's principle of CJ to be compatible with noncompensatory skill-based wage differentials (that is, insofar as they do not genuinely compensate for training costs and efforts to acquire these skills). Contrary to the balancing view on CJ (see section 4), which requires low (high) pay for (un)attractive jobs, wage differentials based on morally arbitrary factors such as talents and powers are not removed.⁵ This is because the principle of CJ underlying the theory of compensating wage differentials does not seek to eliminate all kinds of noncompensatory wage differentials.⁶ For instance, talent-based wage differentials and wage premiums for scarce skills may exist along with compensatory wage differentials.

The large number of empirical studies on compensatory payments illustrates that economists have no difficulty in understanding what CJ is about.⁷ These studies show that CJ plays an important, though limited, role in explaining wage rates. However, they do not sufficiently emphasize that the occurrence and the level of compensatory wage premiums are strongly

dependent on (market) conditions, and on the fallback position of workers. If the best alternative for a worker doing an arduous job is destitution (having no real access to another and better job), then he may still prefer to take it rather than face destitution. Yet destitution is an unacceptable alternative, hence not adequate to serve the demands of CJ. Therefore, the levels of compensatory payments will vary with the level of minimum wages, the rate of unemployment, the generosity of and the eligibility conditions on social benefits, etc. This lacuna is taken up in section 5.

3. The Objective Approach to Compensatory Justice

The objective approach tries to determine the need for compensating wage payments by relying on the possibility of making more or less objective judgments or by reaching a consensus about cases in which compensatory payments are required. Baker (1992) proposes to “set each occupation’s rates of pay according to what the typical person (defined by mean or median or mode) would consider to be an adequate level of compensation” (109) or, which amounts to more or less the same, “begin by making a list of the kinds of consideration egalitarians will want to bear in mind in thinking about compensation (‘matters of compensation’) and then apply this list to particular occupations to establish levels of compensation” (110). As with needs, Baker tries to reach the same consensus or background agreement about ‘matters of compensation’ and their proper levels of compensatory payments.⁸ According to Baker’s proposal, a butcher would be entitled to the average required compensatory payment, even if all workers who actually were butchers liked their jobs.

However, the analogy between special needs that require extra resources and special objective or intersubjective assessed burdens that require compensation breaks down. Extra resources for needs are given to the handicapped in order that they may attain the same standard of living as other persons, whereas compensation is “an inherently ‘welfarist’ concept . . . the idea is one of supplying something (usually, though not necessarily, money) which is supposed to provide a source of utility equivalent to that lost” (Barry 1992, 135). The difference between the entitlements of needs and burdens is that the first refers to the objective costs to regain as far as possible normal functioning (not to compensate for the disutility suffered from the handicap), whereas the latter refers to a monetary compensation equivalent to the utility loss experienced by workers for what they see as unpleasant job attributes. The amount of extra resources for special needs depends on objective costs, whereas the amount of compensation depends on the preferences of workers. Baker wishes to compensate according to the average preference, or some objective standard of burdens determined by a majority communal judgement, but in doing so he has to face two problems. First, with a high degree of division of labor, the number of ‘matters of compensation’ would be endless. Second, even if this number were limited, there would be an enormous difference between the established objective compensations (if consensus could be reached at all) and the subjective cost of job burdens because preferences are heterogeneous. The objective approach is therefore impracti-

cable⁹ (because it requires an insurmountable amount of information on working conditions in different jobs to establish the basis upon which consensus must be reached), and it would be inefficient (because it does forego the welfare and efficiency gains of leaving the determination of compensatory payments to the market). Baker's proposal would make more sense if both jobs and preferences were homogeneous and in the absence of a labor market (for instance, in a primitive economy). However, with a high degree of division of labor and a strong heterogeneity of preferences, a well-functioning labor market will reveal in an efficient way where compensatory payments are required. This is only the case if the conditions required for CJ are met, so that the market forces responsible for achieving a state of CJ can work unhampered.

4. The Balancing Approach

The balancing view on CJ objects primarily to the phenomenon that the most attractive, secure, and pleasant jobs are usually well paid, and the most tedious and insecure work is as a rule badly paid. Instead, those of this view would like to see the wage distribution be the other way around, namely, that wage differentials reflect nonmonetary disadvantages among jobs. Typical for this approach is that it takes the ideal of CJ as a balancing principle of just income distribution, not allowing that more capable workers in well-paid jobs have better working conditions than less capable workers in low-paid jobs. In the economist's view on CJ, "workers with greater earning capacity would 'spend' some of it on more on-the-job consumption. This is the fundamental reason why low paying jobs tend to be the 'worst' jobs" (Rosen 1986, 671).¹⁰ Contrary to what the balancing approach requires, even if all conditions of CJ according to the economist's view are met, it will be observed that CJ does not lead to a kind of balanced equilibrium of pleasant jobs with low pay and unpleasant jobs with high pay. If working conditions are normal (luxurious) goods, which can be priced, bought, and sold, it implies that when earnings go up, the demand for better working conditions will (more than) proportionally rise. Part of the total pay package takes the form of holidays, fringe benefits, emoluments, pension plans, job security, promotion opportunities, and other indirect rewards.

My criticism of the balancing approach is twofold. First, seen from the economist's view on CJ, it carries the message too far: only under very restrictive assumptions will wage differentials fully reflect job (dis)advantages and (dis)amenities. This pattern emerges only in the imaginary case of homogeneous preferences, identical talents and skills, and a perfect market, so that competitive wages are exactly the mirror image of the nonpecuniary (dis)advantages (see below). As soon as the assumption of identical skills and talents is removed, scarcity payments will determine relative wages along with compensatory payments (which in turn can be seen as a payment for scarce preferences).

Second, there is no institutional design available under which this kind of CJ can be achieved (to be sure, the unfeasibility of the balancing view is not an objection to its conception of CJ). Carens (1985) connects the concep-

tual issue of what CJ is with the institutional issue of how to achieve it: “the theoretical ideal of compensatory justice cannot even be adequately articulated without reference to a particular model of how that ideal should be institutionalized” (46). After this statement one would expect a discussion of the conditions or institutions required for implementing CJ,¹¹ but Carens turns his attention to the first issue: how CJ would fare under ideal circumstances in which all would work against individual-specific transfer earnings (and consequently each would give voluntarily to the treasury the rent received), what ought to be compensated (sacrifices, burdens, efforts, risks, training costs), which metric to be used, and discussion about finding a method to determine how much these compensations need to be.

Here Carens addresses the problem of the positive correlation between wages and working conditions: “In the real world . . . people vary in natural talents and in the skills they are able to acquire, and competition is far from perfect. Indeed, in existing markets it is probably fair to say that the worst jobs tend to be the worst paid and the best paid jobs offer far more than could ever be justified on compensatory justice” (1985, 56). Carens acknowledges that a large part of the actual income distribution is not determined by only CJ, that is, that a large part of the income inequalities are noncompensatory¹² and that the attempt to reverse the positive correlation into a negative one is bound to come into sharp conflict with the demand for efficiency. If wages must reflect compensations, they will reflect burdens, efforts, overtime work, and so on, but not rewards for scarce talents or skills or differing (marginal) productivities of workers. Untalented, hard workers would receive a higher wage than talented workers who take it easy, despite the higher productivity of the latter. This trade-off balancing CJ and efficiency is rightly stressed by Carens, and his rough conjecture is that “the most satisfactory way of institutionalizing the ideal of compensatory justice would be to try to equalize incomes as much as possible (within the constraints of efficiency)” (40). The problem of the balancing approach therefore is that the implementation of this ideal would cause prohibitively high efficiency losses. These efficiency losses would reduce the resources available to improve the (fallback) position of the least productive workers who have the least attractive jobs.

For this reason, I propose to achieve CJ by providing a decent fallback minimum income unconditionally to all. This being only one determinant of the income distribution among others (factors like different talents, (marginal) productivities and scarcities, and adequate provision of special needs), it can be supplemented with other criteria of a just income distribution (e.g., maximin equality; see below). The price to be paid for this more modest strategy of CJ is that the view that all income inequalities must be compensatory in nature has to be dropped and that the problem of the positive correlation remains.¹³

In the following section I will defend the view that the most important element in the institutional framework designed to attain CJ is to provide a decent minimum income guarantee unconditionally (that is to say, a socially acceptable no-work option) to all citizens. Note that to some extent a generous level of BI (or NIT) nicely fits the maximin rule of income distribution.¹⁴ With both maximin and BI, the noncompensatory payments (reflected in

the—remaining—positive correlation between jobs and rewards) would be considered justified as long as they have the effect of raising the level of BI provided to all.

5. The Conditions of Compensatory Justice: The Role of the Social Security System

So far we have scarcely paid attention to the influence of the institutional framework of the economy on CJ. The importance of a properly functioning labor market has only been mentioned, and nothing very specific has been said about the impact of alternative systems of social security on CJ. This section discusses the importance of the type of social security on CJ.

As a beginning, consider the following rather lengthy statement of Mill:

[I]t is altogether a false view of the state of facts, to present this [the view of Adam Smith cited in section 2 above] as the relation which generally exists between agreeable and disagreeable employments. The really exhausting and the really repulsive labours, instead of being better paid than others, are almost invariably paid the worst of all, because performed by those who have no choice. It would be otherwise in a favourable state of the general labour market. If the labourers in the aggregate, instead of exceeding, fell short of the amount of employment, work which was generally disliked would not be undertaken, except for more than ordinary wages. But when the supply of labour so far exceeds the demand that to find employment at all is an uncertainty, and to be offered it on any terms a favour, the case is totally reverse. Desirable labourers, those whom every one is anxious to have, can still exercise a choice. The undesirable must take what they can get. The more revolting the occupation, the more certain it is to receive the minimum of remuneration, because it devolves upon the most helpless and degraded, on those who from squalid poverty, or from want of skill and education, are rejected from all other employments. Partly from this cause, and partly from the natural and artificial monopolies, . . . the inequalities of wages are generally in an opposite direction to the equitable principle of compensation erroneously represented by Adam Smith as the general law of the remuneration of labour. The hardship and earnings, instead of being directly proportional, as in any just arrangement of society they would be, are generally in inverse ratio to another. (Mill 1968, 383)

Obviously, the conditions for CJ were not met when Mill wrote this passage. No compensatory payments were made because some workers (the most helpless, degraded, destitute, unskilled, otherwise unemployed) had no real choice (they had to take what they could get). Is Mill's observation still valid today? I think most people have some idea of the hardships endured by most workers in Mill's day and of the harsh kind of Poor Law regime in the nineteenth century. The social benefits today, both in absolute and in relative terms, for unemployed, sick, disabled, elderly, and poor citizens (and children) are much more generous than they were in the Victorian era. The

improvements made with respect to CJ are indeed related to the rise of the welfare state, that is, with the institutions under which the market economy now operates. In what follows I will describe a number of factors that are important for CJ and evaluate the effects of the present conditional system of social security, compared to the imaginary case of a BI system, on CJ.

Free educational and occupational choice, and free entry to and free exit from jobs, are institutional conditions for CJ that immediately spring to mind. Normally free educational and occupational choice is subsumed under the heading, and discussed in the context of, freedoms or basic liberties. The argument here is not that free career choices are an essential component of our set of liberties—they definitely are—but that they are required from the point of view of CJ. Since we do not fully know workers' preferences, or their heterogeneity, or the (dis)advantages that job attributes offer to workers, we must leave the allocational problem of slotting workers to educations and jobs to the free traffic on the labor market. Some trainings or jobs may temporarily offer more than average returns compared to similar trainings or jobs. This will be a short-term phenomenon if the relevant conditions of CJ are met: "If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments" (Smith 1982, 100).

Ever-changing conditions on the labor market, with some industries declining and others expanding, put a lot of pressure on the educational system to provide the required supply of skilled workers. Unless workers with different educational backgrounds can easily be substituted one for another, it presupposes a kind of perfect foresight of students to make the right choices. A BI facilitates the retraining of unemployed or dissatisfied workers. If, by chance, one occupational group is short in supply, it will be easier for workers (or the unemployed) under a BI scheme to redirect their labor market career in this direction by schooling. They can quit their present jobs and live from their savings and the BI during the time needed to qualify for some other job. The BI may serve as a long-term device for facilitating this condition of CJ, whereas under conditional social security one is usually not entitled to social benefits while engaged in formal schooling or training.

The condition of full employment is more controversial and complicated. One might expect better chances for CJ in a state of full employment than in a state of involuntary unemployment. I think that the main reason why one is inclined to think that the income distribution emerging in a perfect market with equally talented workers but differing tastes is fair is because markets clear under perfect competition, and no unemployment results. Each worker can then truly balance the package of the wage and nonmonetary (dis)advantages attached to one job with that attached to other jobs. Employers are forced to pay positive wage differentials for job attributes for which workers with matched preferences are in scarce supply.

The perspectives for CJ become worse with long-lasting and large-scale unemployment. Most welfare states have to face the problem of high unemployment, and this will probably still be with us in the near future. The unemployed may prefer to do disagreeable work at low pay rather than remain

unemployed and see their skills atrophy. The extent to which the demands of CJ are violated under these circumstances depends strongly on the generosity of the social security system. It depends not only on the level and duration of unemployment and social assistance benefits, but also on the conditions for receiving them.¹⁵

5.1 Compensatory Justice and Conditional Social Security

Crucial for the degree of CJ that is achieved is that all the present social benefits are not unconditional. One must really be sick or disabled, young or old, poor or involuntarily unemployed to be entitled to one of these social benefits. The duty to work is one of the cornerstones of the present social security system. A system of work- and learnfare of the type toward which the present system of social security is moving is largely based on this duty. A really conditional scheme cannot do without the principle that able-bodied adult citizens have a duty to work. Against the right to a social benefit, there is a duty to accept labor. Graduates and dissatisfied workers cannot ask for social benefits simply because they prefer being unemployed for some time rather than employed. At most, one can qualify for a social assistance benefit for which one has to pass a means-test. However, a great majority of the employed fail to pass the means-test because of what they have saved in the past. Those workers who can pass the means-test do not receive the full amount of social assistance, because when they have left their job voluntarily, benefits are cut for a limited period. Thus the income of the fallback position for workers who do not have immediate access to another job, and who have an amount of savings higher than permitted to become entitled to a social assistance benefit, is zero. For those who could pass the means-test, the income of their fallback position is positive, but less than the level of social assistance benefit, which is already at the social minimum. Whether one can pass the means-test or not, making oneself unemployed because of dissatisfaction with the total pay package of the job is not a very attractive option.

The other alternative is to look for a job elsewhere. However, if some employers on nonclearing segments of the labor market are not forced to pay compensatory payments for particular job attributes, other employers in the same or neighboring segments are in the same position and are not forced to do so either. This may explain why all supermarkets pay more or less the same wage rates and offer more or less the same conditions of employment to their cashiers and shelf-stockers. So, although competition among workers for jobs and among employers for workers will result in CJ on those segments with no excess supply of qualified workers (comparable to the degree of CJ that would result in a state of full employment), it does not lead to CJ in those segments for which there is an excess supply of workers. In summary, we may expect CJ only in those segments where the labor market clears. Where it does not, CJ depends on whether workers have ready access to an acceptable alternative.

The position of the unemployed differs depending on whether they receive a non-means-tested unemployment benefit or a means-tested social assistance benefit. The level of benefit would function as an important mech-

anism for forcing employers to pay compensatory payments if workers were entitled to benefits for as long as they wanted. However, the duties, threats and stigmas imposed on social security recipients actually precludes this kind of CJ. The unemployed face a serious penalty for refusing jobs offered by job centers, since part of their social benefit will be curtailed. The work-test, if really applied, reduces the power of the unemployed to ask for compensatory returns for unattractive labor. Employers can use the threat of potential cuts in social benefits to keep wages low. Moreover, in as far as the unemployed feel stigmatized and humiliated because of receiving social benefits, the utility attached to the unemployment status is lower than it would have been if stigmatization and humiliation were absent (as is the case under a BI regime), and they therefore have less credible power to ask for compensatory payments, since their fallback position is worse.

An austere workfare scheme, imposing really severe conditions on social security eligibility and penalties on nonparticipation in schooling programs and (unpaid) social services, fares even worse in this respect. It worsens the position not only of the unemployed, but also of all other low-wage workers. Employers of low-wage workers know that the alternative for a worker is an austere workfare regime, and this worsens workers' terms of negotiation. Increased labor supply of the unemployed, combined with worsening terms of negotiation of low-wage workers, exerts a downward pressure on wages. This may result in an increase in wage inequality, the opposite of what is required for CJ.

As previously argued, conditional social benefits have their shortcomings for achieving CJ. Minimum wage and employment conditions legislation may provide a remedy. Unfortunately, seen from the perspective of CJ, both strategies have their own drawbacks. Firstly, minimum wage legislation under conditional social security can be taken as a signal that the conditions of CJ are not fully met. The need for minimum wages suggests that the fallback position of low-wage workers is not strong enough to let wages on this segment of the labor market be determined by demand and supply forces. Minimum wage legislation ensures that each worker can earn a living wage.

Secondly, minimum wages are nondiscriminatory between low-paid bad jobs and low-paid pleasant jobs. Some jobs may attract enough workers even if the wage is below the minimum wage. Since the minimum wage legislation acts as a binding constraint in some segments of the labor market, labor demand for these jobs is lower than what it would have been without the constraint, and workers with these jobs may receive a higher wage than required on compensatory grounds. This indiscriminatory nature of minimum wages between good and bad jobs is in sharp contrast to both the widespread dispersion of workers' preferences for jobs and the widespread dispersion of job attributes. Whether jobs and job attributes are attractive or not is in the last resort a subjective judgment. Under a BI there is no need for minimum wage legislation, since workers are protected already by means of the free access to a BI.

Finally, protecting workers under a conditional scheme, either by making the social benefits more generous or by raising the minimum wage, may have important adverse effects on the level of employment. Raising the

means-tested benefit enlarges the poverty trap, whereas an increase in the minimum wage makes it more difficult for employers to offer profitable employment for low-productivity workers. Both measures have a positive effect on the rate of unemployment, and this has, *ceteris paribus*, a detrimental effect on CJ.

Legislation on conditions of employment can play only a limited role. Workers may lack complete information about the dangers of working in a polluted environment or working with materials harmful to health. It is very important to protect workers ignorant of these risks against these hazards. However, the need for *comprehensive* legislation becomes much less pressing under a BI regime. Much more can be left to the forces operative on the labor market. There is no need to have legislation on the (social security) rights of flex-workers, the number of vacation days, working hours, compulsory retirement, etc. All these issues can be left to the market, since the BI provides each potential worker with substantial bargaining power against employers. Slotting workers with a high preference for labor into jobs with a long working week and few free days in return for higher pay not only is efficient, but also is compatible with the demands of CJ if this preference is scarce in supply. In short, if a decent fallback income is provided to everyone, one has the option to make the labor market really flexible.

5.2 *Compensatory Justice and Basic Income*

It appears that, because of its unconditional nature, this *prima facie* case of the BI for CJ depends to a large extent on the level of BI. The primary role of a BI for the attainment of CJ is to ensure that unemployment is an acceptable alternative without distorting competitive forces on the labor market for low-wage labor. I will assume that this level is not higher, and perhaps is somewhat lower, than the present level of the social assistance benefit.

By providing a BI unconditionally, the income and utility¹⁶ that potential workers derive from this no-work option serves as a floor. Provided the level of the unconditional grant is around subsistence level, all labor supplied is supplied voluntarily. The no-choice position, which was of paramount importance in Mill's statement, and is of paramount importance for the absence of CJ, is eliminated. With a substantial BI around the level of the social minimum, or even somewhat below this level, nobody is forced to accept a job because of severe poverty. The phenomenon of excess supply for, say, low-skilled, unpleasant jobs can no longer be a real obstacle for CJ, since the low-skilled workers have the option to refuse such jobs until they are better paid to compensate for their unpleasantness, or until their conditions of employment are improved. The damaging effect of the reserve army of unemployed on CJ implicit in Mill's statement is blocked.¹⁷ Indeed, one of the likely effects of a switch towards a substantial BI is either a rise in the net income of workers with unappealing, routine work, or a significant improvement of the employment conditions in these segments of the labor market, or both, depending on the costs to be incurred in each alternative by employers in order to recruit enough workers.

In Mill's statement there is a clear reference to the limited choice open to those who are least productive. With a BI, the range of choices open to those with the lowest earning capacities becomes wider: "the less valuable one's talents, the more one will gain, in terms of opportunities for fulfilling occupations, from an increased BI. If your earning power is low, there may be only very few occupations that will give you a subsistence income with no BI or a low one. With a substantial BI, your choice will be far greater because you need less income, if any, to reach subsistence" (van Parijs 1995, 124–25). The BI can be used by low-skilled workers as a wage subsidy to price themselves into (interesting) jobs.

Still, wage inequalities under a BI scheme will partly, perhaps even largely, be determined by differences in talents and by the relative scarcity of some skills compared to others. Despite the higher relative wages to be paid by employers to elicit enough labor supply for unpleasant jobs, noncompensatory payments will persist. Even if all conditions of CJ are met, the positive correlation between earnings and nonmonetary advantages will remain, although certainly less than observed by Mill, and probably also than we observe today. However, it is likely that this positive correlation is less strong the higher is the level of BI, since the high-income earners are net contributors to the BI scheme, whereas low-income earners are net recipients.

6. Compensatory Justice and Parasitism

Compensatory payments for any job are strongly dependent on potential workers' best alternatives. For those without a job under a BI scheme, the fall-back position is largely determined by the level of the BI. However, to abstain altogether from work and to live from the BI is seen by many people as parasitic. Even more important is that labor income, in contrast with the BI, can be interpreted as a compensation for giving up leisure time.¹⁸ If we want to advocate a BI for reasons of CJ, should we not begin by pondering what the compensatory nature is of the BI itself? If someone receives a BI and does nothing in return, can we still maintain that the BI is compensating for something?¹⁹ I will try to defend the BI against this objection in relation to CJ by means of two independent arguments. First, CJ and absence of parasitism are mutually conflicting ideals in times of unemployment. Second, using a neutral work ethic, expressed in slogans like "Those who do not work shall not eat," "You can't expect something for nothing," and "There's no such thing as a free lunch," it can be argued that, *from the viewpoint of CJ*, only the *involuntarily* employed have reason to complain about the voluntarily unemployed who choose to live off of others' labor. It can easily be shown that the position of these involuntarily employed will improve by the switch from a conditional to an unconditional regime.

With full employment we can have both absence of parasitism and CJ. Unfortunately, one cannot have both absence of parasitism and CJ at the same time in a state of unemployment. These are mutually conflicting ideals. Absence of parasitism (no improper use of social benefits) can be reached only by means of a duty to work and the corresponding potential threats of cuts in social benefits, as in a conditional scheme of social security. However, the

stronger these duties and threats are applied to the (willing and unwilling) unemployed, the weaker their terms of negotiation against potential employers and the less scope workers have to command compensatory payments. The absence of a threat of a cut in social benefits, and the absence of a duty to accept work under the BI scheme, strengthens workers' fallback position, but the price to be paid is that of parasitism. It is not that we have to make do with the parasitism argument, but that we have to realize that the struggle for a state of no-parasitism in times of unemployment, in order to reduce improper use of social benefits, has its social cost in terms of less CJ. We saw in section 2 that the social welfare loss of allocating workers to jobs at random, instead of leaving it to the market's allocation process,²⁰ is considerable. Unemployed people who are forced to take any job offered, as it is under a strictly applied duty to work, are more or less at random allocated to jobs.

The above argument points to a trade-off between CJ and absence of parasitism. The second argument tries to weaken further the parasitism argument. It first restricts the number of workers who have reason to complain about parasites on compensatory grounds. Although all workers sacrifice leisure when working, only for a part (the involuntarily employed) is this sacrifice not fully compensated. Next it shows that these workers will gain from a switch from a conditional welfare state to a BI scheme.

The tenability of the assertion that to work is a duty and that parasitism is wrong rests on the strength of the belief that labor is a sacrifice. If all of us would like to work, irrespective of the income, a duty to work would be pointless. In this case the problem would not be to push willing workers, but to provide enough jobs. The rationale behind the duty to work from a CJ point of view is that work is a sacrifice, and labor income the compensation. However, many workers do not see their job as a complete sacrifice. Labor is not always *labour*. Many enjoy their work, even if only because of its intrinsic value. Even when they do not always enjoy their work, the wage they receive does more than compensate the sacrifice the work entails. Many unemployed do not see work as a sacrifice either, but as a privilege, due to the intrinsic worth of work and to the higher income. Workers for whom work is not a sacrifice, or for whom the sacrifice is more than compensated by the wage, have no moral right to demand sacrifices from those unemployed through no fault of their own, who also want a job because of the privileges it provides. Still, those for whom work is a real sacrifice, the *involuntary* employed rather than the voluntary employed, have reasons to complain about the voluntary unemployed who choose to live from others' labor. The involuntary employed are morally in a privileged position to demand that the neutral work ethic be respected.²¹

It can easily be shown that a BI will particularly improve the position of this group of involuntary employed.²² The involuntary employed are those who hold jobs either that have a low intrinsic worth or for which the wage offered does not compensate for the associated sacrifice. One of the consequences of the implementation of a substantial BI is that the relative wages of unattractive work compared to attractive work must rise in order to induce recipients of a BI to accept these jobs. They will also have more bargaining power to demand better conditions of employment, such as job rotation.

Finally, low-wage workers will be net recipients under a BI regime (whereas they are net contributors under conditional social security, because they pay taxes and do not receive a benefit), whereas those with a high earning capacity and for whom work is attractive will be net contributors. If those with the lowest-paying jobs also have the least attractive jobs, then this redistributive effect of a BI is fair insofar as the rationale underlying the neutral work ethic rests on the premise that working entails a sacrifice.

To conclude I want to give two further considerations related to parasitism and CJ. With an equal social minimum, the balancing budget tax rate of the BI scheme is far higher than the average tax rate of a conditional scheme with categorical benefits. The question arises of whether it is fair to tax workers with a high preference for consumption over leisure in order to finance a BI scheme. Elster (1989, 215) sees this as unjust: "People who chose to work for an income rather than to live in a commune on the universal grant would have to pay higher taxes in order to support those who took the other option. They would think, correctly in my opinion, that they were being exploited by the other group." To this objection that a BI amounts to exploitation²³ of those with a strong work ethic by those who are work-shy, the advocates of a BI may answer the following: One's work ethic is a private affair. It is one preference among others, like one's preference for high consumption. These preferences do not have any a priori claim that the institutional framework of society must be such that their satisfaction is made more easy than competing preferences.²⁴ Only the *average* work ethic is a relevant variable for any kind of social security system, because social security must be financed by means of the contributions made by those who perform paid work. If a (substantial) BI turns out to be economically unfeasible, then this would indeed tip the balance in favor of conditional social security. Suppose a BI scheme is feasible—at a level at which enough persons want to convert leisure time into additional money income on top of their BI by means of paid labor. Then the trade-off between absence of parasitism and CJ arises. To insist on a conditional scheme to do justice to the disgruntled workers who feel a duty to work, not wanting to live off others' labor, foregoes the advantages of a BI scheme in terms of CJ.

The optimal-taxation literature shows that with a universal grant or BI, some part of the labor force will not perform paid labor because of low earning capacities. This is simply because if marketable skills are of little value on the labor market, the sacrifice (the effort and time one has to expend) when taking up paid labor is not compensated for by the intrinsic and extrinsic value of paid labor. Admittedly, it is a big step to go from the intuitive view that every able-bodied, nonaged citizen has to incur some sacrifice to earn a living, for example, by giving up leisure time, to the view that those for whom the sacrifice is too large in comparison with what they can receive in return are not obliged to do so. Nevertheless, it is widely known that in a conditional scheme with a high withdrawal rate and a duty among recipients of social security to accept job offers, there are a large number of recipients who are unwilling to cooperate (that is, to take a job as soon as possible). Seen from the point of view of CJ, this unwillingness may partly be explained by the fact that in such a conditional scheme the requirements for CJ are not fully

met, which implies that for certain groups the sacrifice of taking up paid labor is not duly compensated.

7. Summary and Conclusions

In the economist's view on CJ, only the workers on the margin are exactly compensated in welfare terms for their loss of utility compared to their next best alternative, whereas all nonmarginal workers (perhaps liking their jobs) are being overcompensated. This outcome is, however, more efficient than what would follow from an objective or balancing approach to CJ. The chief criterion to be used to assess whether the conditions of CJ are met or not is whether people have the real choice or no other choice when they take a job. Having a real choice requires an acceptable alternative. If workers lack the real freedom of choice, the prospect of CJ is threatened. The best guarantee for CJ is a decent fallback position readily accessible to all. According to this view, with the emphasis on the required conditions, it is easier to make comparisons of CJ between different schemes of social security than to measure the degree of CJ.

It has been argued here that although the objective and balancing approaches may have coherent conceptions of CJ, they are infeasible and impracticable. The economist's view on CJ is the most practical conception of CJ: CJ is achieved when each job's rate of pay exactly compensates the worker on the margin for the disutility suffered compared to her next best alternative. However, this criterion is incomplete, since it leaves out what the alternative is and disregards the other conditions that are required to achieve CJ. There can still be a blatant violation of CJ if the alternative or fallback position (and hence workers' bargaining power) is weak. It suffices to say that the alternative must be socially acceptable. Full employment is usually a sufficient guarantee, and involuntary unemployment the primary threat, to CJ. The duty to work, the need to resume work as soon as possible, the threat of a cut in benefits, and the stigmas attached to benefits under a conditional scheme are factors that are very likely to impair the conditions of CJ or hamper the market forces that bring about CJ. The more the present welfare state is moving away from generous welfare provisions towards an austere workfare scheme, the more serious this danger becomes. The advantage of a BI scheme is that by providing unconditional access to subsistence income to all, without means- or work-test, it precludes coercive pressure on the (un)employed to take jobs at rates of pay below what would be required on grounds of CJ. This has far-reaching consequences for the degree of CJ that can be attained in the end: although the positive correlation between good jobs and pay levels is not eliminated, it will probably become much lower.

Notes

¹ Adam Smith implicitly relied on the assumption of homogenous tastes. For instance, Rees (1975, 339–40) writes that “[t]here is one important respect in which Smith's theory about the agreeableness of jobs now seems to be incomplete. He writes throughout as

though all workers had identical tastes—as if what is disagreeable to one is disagreeable to all. . . . Smith lived in a society which by present American or even present British standards was culturally quite homogeneous. In such a society the assumption of uniform tastes is quite natural. . . . In a more diverse culture, this assumption of naturally uniform tastes may be less relevant.”

²See Rosen 1986, 642: “In contrast to the standard market paradigm, where the identities of traders is [*sic*] immaterial to final outcomes . . . with whom and for whom one works is generally of considerable importance for achieving efficient labour allocations . . . the labour market must solve a type of marriage problem of slotting workers into their proper ‘niche’ within and between firms.”

³There cannot be compensatory *rent* payments if preferences are homogenous, since all workers then have equally (un)matched preferences for any type of job.

⁴In section 5, I argue that the set of options describing the relevant alternative should include a socially acceptable and readily accessible fallback.

⁵However, the pattern of market wages would reflect the negative correlation between attractiveness of jobs and pay levels if everyone has equal talents. Unequal talents and scarcity-based wage premiums thwart this outcome.

⁶In this respect the principle of CJ underlying the economist’s view is far less comprehensive than those of the other two approaches.

⁷For instance, Hersog and Schlottmann (1990, 469) estimate the implicit price for a work-related fatal injury at between \$1.7 and 2.3 million.

⁸ “[T]his degree of background agreement does not represent identical preferences but only a shared belief that a certain set of differentials constitute a set of reasonable levels of relative compensation with respect to a reasonable list of objective benefits and burdens” (Baker 1992, 111).

⁹Admittedly, if an approach proves impractical, this does not show that it is (conceptually) wrong.

¹⁰This statement makes clear that the economist’s view on CJ, here represented by Rosen, does not require that earnings exactly balance nonmonetary disadvantages.

¹¹Although Carens (1985) acknowledges that a well-functioning market is one of the most important institutions for achieving CJ: “Compensatory justice has a powerful intuitive appeal which can be captured and expressed by pointing to our strong sense that, whatever distribution of income would emerge in a perfect market among individuals with equal abilities, that distribution would be fair” (67). As outlined in section 2, the important role of the market in achieving CJ is that it provides a mechanism for bringing about implicit prices for (un)desirable job attributes, for allocating workers to jobs (to solve the marriage problem of allocating heterogeneous workers to the right jobs), and therefore for minimizing the amount of compensatory payments required.

¹²The paradigm example given by Carens is the income of superstars. In Borghans and Groot 1998, it is shown that these superstar wages are indeed largely composed of rents due to monopolistic power of number-one positions in media-activities.

¹³The fact that “most income inequalities are not compensatory but additive in the sense that they add to the advantages in working conditions, intrinsic interest, and so on” (Carens 1985, 65) is a problem only if all income inequalities must be compensatory in nature. Workers with greater earning capacity will always ‘buy’ more in terms of good working conditions than workers with a low productivity level, for the same reason that they are living in more comfortable houses.

¹⁴For the link between maximin and BI, see van der Veen 1991, chap. 2, and van Parijs 1995, secs. 4.1 and 4.2.

¹⁵According to Rees (1975, 339), “The higher the level of liquid assets of the unemployed and the stronger the system of unemployment insurance or other forms of income maintenance, the weaker the tendency for the unemployed to take disagreeable jobs at low wages. However, it should still be true that compensating differentials will be best observed in periods of full employment.”

¹⁶The lower is the utility level of the no-work option, the less employers have to pay potential workers to bring them up to that level (technically, their reservation wage will be lower).

- ¹⁷ A remarkable difference between a conditional and unconditional scheme of social security is the meaning of full employment. Under the first it must be interpreted as full voluntary and involuntary employment, whereas under the latter it can only be full voluntary employment. In the conditional scheme the government cannot (or should not) tolerate a situation in which some are voluntarily unemployed while receiving social benefits. However, in the unconditional scheme it is perfectly imaginable that some people may prefer to remain unemployed while living from the BI only.
- ¹⁸ On the same footing, the unemployment benefits can be interpreted as the compensation for being involuntarily unemployed because no jobs are available and for which one has paid insurance premiums in the past.
- ¹⁹ An elaborate and positive answer is provided by van Parijs's (1995) justification of a BI. A BI partly reflects the per capita value of scarce external means of production, whether natural or produced, plus the per capita value of scarce job assets. In a just society, as defined by van Parijs, every citizen is entitled to at least a BI equal to the sum of these per capita values.
- ²⁰ That is, slotting workers with more or less matched preferences to these same jobs by means of price signals.
- ²¹ High-paid workers with interesting jobs may nevertheless object: from the perspective that just because they like their job and earn a lot, whereas others do not like their jobs, earn much less, or are unemployed, it does not follow that it is legitimate to tax part of the income of the former and to transfer it to the latter group. This conclusion would follow only if one requires that sacrifices are exactly mirrored by monetary rewards (this balancing approach is rejected). How much each one earns, and how much one likes to work, is irrelevant if there is full employment against market-clearing wages. However, this view is rather problematic if labor markets do not clear. Then there will always be some involuntary unemployment (e.g., due to efficiency wages, or to collective wage bargaining) while those who work receive higher than market-clearing wages.
- ²² Winners can also be found among the now involuntary unemployed if they can find paid work more easily under a BI regime (e.g., due to the absence of a minimum wage and the possibility to use the BI to price themselves into a job), among low-income earners (e.g., due to the redistributive effect of a BI), and last but not least, among those with a high preference for leisure (e.g., the parasites).
- ²³ Note that this exploitation objection is subtly different from the parasitism objection mentioned above. In the latter, the reciprocity-based duty to work (those who can work should not be entitled to social benefits) is at stake, whereas in the former the lower standard of living of workers in virtue of supporting the parasites is involved.
- ²⁴ This may seem strange given the important role of preferences in CJ according to the economist's view. However, in this view no particular preference has an a priori claim on compensatory payments, since which preferences turn out to be scarce depends on overall demand and supply conditions.

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