Wasteful Welfare transactions:
Why basic income security
is fundamental (2005)

1 Introduction

As is the case in any other policy area, so too with policies to fight poverty and exclusion: policy makers and administrators need to take decisions on what to do and what not to do, including decisions concerning the selection of a universe of options from which policy choices are to be made. Before making (rational) decisions, we must be aware of the options at hand, as well as their costs and consequences. I take it as axiomatic that decision-making, as well as the choice of the range of choices, is costly. These costs come in numerous forms, beginning with the salaries of decision-makers, search and information costs, the risk of making ineffective, counterproductive or otherwise mistaken decisions, etc. The costs to which I refer are not the amount of money to be paid out to the recipients of transfers, but those incurred in running the apparatus that eventually makes these payments and establishes the relevant rules.

The cost of decision-making falls upon the decision-makers and those who are bound by their decisions. Apart from the direct budgetary program costs themselves, three kinds of costs (using a highly inclusive notion of the term) can be distinguished. First, the transaction costs that are involved in the decision itself, including the costs of its enforcement. Second, the costs or losses of those who have opposed the decision made and whose alternative proposal has been defeated. Third, the costs/losses of those upon whom the decision may impose burdens, obligations or constraints, and whose freedom of action it curtails. My thesis here is that many of these costs, losses and disutilities, not to speak of moral hypocrisies and irresolvable practical dilemmas involved in welfare policy (“as we know it”) can to a large extent be avoided through the introduction of an unconditional and universal basic income (BI). The argument that I am going to outline is to substantiate the claim that BI is not only a normatively attractive answer to issues
of distributive justice in the context of the labor market crises but is also the most efficient policy to fight poverty. BI is a policy that substantially economizes on the costs and various disutilities involved in traditional approaches to poor-relief and its administration.

How can a policy be “efficient”? Efficiency is increased whenever the same (or better) overall outcome is achieved with fewer resources spent in the process of its implementation. Note that even when a marginal loss in terms of intended effects/outcomes is the result of adopting a substantially less costly policy, the trade-off may be efficiency-superior. For instance, some tax laws are so complicated for the authorities to administer and to enforce (and for the taxpayer to understand and comply with) that abolishing them would involve savings which may be far greater than the resulting loss in tax revenues. (This loss, in its turn may well be diminished because taxpayers are no longer frustrated and alienated by virtually incomprehensible legal stipulations and, as a result, are now ready to comply with rules that have been made reasonably transparent).

The costs involved in political programs can be measured at three points. The most obvious is the administration of a program. These costs come in the form of offices, the wages of administrative officers, the costs of their training, the costs of settling complaints in court, etc. Costs come also in the less tangible form of the complaints, frustration, stigma and perceived loss of freedom experienced by clients in the course of interaction with officers. Second, before a program can be administered, it must be decided upon at the legislative level, which precedes administration and usually involves a time- and manpower-consuming process of gathering information, buying the resources that experts and analysts bring to bear upon the program design, exploring policy options, building coalitions, reconciling political conflict, etc. Third, and subsequent to the administrative stage, some programs at least must be implemented over time. The rights and duties of clients as determined through administrative decision must be continuously supervised, monitored and enforced, people must be “processed”, and overall program outcomes must be registered and evaluated as to their conformity with stated program objectives, a process that often results in a critical assessment of policy outcomes and a feedback into policy revision and reform.

While all these different kinds of costs (transaction costs, program costs, costs in terms of conflict, frustration and “process disutilities”) defy overall quantification, the argument that I will pursue relies on the possibility of making plausible estimates of “more” or “less”.