

Basic Income at the Heart of Social Europe? Reply to Fritz Scharpf

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No nonsense. This is the tone of Fritz Scharpf's contribution. This is the language which basic income supporters must be able to grasp — and willing to hear. At least if they are not to degenerate into a motley assembly of soft-minded do-gooders. If they are not to be ruthlessly driven into the margins by a harsh, uncompromising reality. If they are instead to help shape the future in accordance with their visions of freedom and equality. Not through relentless, repetitive preaching. But by means of the resolute and astute action which they must aim to inspire and guide, but will never successfully steer unless they adopt the no-nonsense attitude advocated and practised by Fritz Scharpf.

GOALS: MORAL INTEGRITY

No nonsense, first of all, about goals. Fritz Scharpf “consider[s] mass unemployment, forced inactivity, and the exclusion from the processes of social production, a much greater challenge to the moral integrity of Western European societies than the frustration of leisure preferences”.

So do I. Indeed, it is the plight of the excluded Scharpf has in mind, not the whims of Malibu surfers, which has been driving me all along, first in my interest in, and next in my advocacy of, an unconditional basic income.¹ But beware: the implied conception of the “moral integrity of Western European societies” need not grant any intrinsic superiority to paid work over so-called “leisure”. Nor does it need to be inconsistent with formulating the ultimate objective in terms of freedom. For exclusion from paid employment and all associated material and non-material advantages is clearly a major impediment to many people's real freedom to do whatever they might wish to do with their lives.

However, if “real freedom for all” is, as I believe, the best interpretation of “moral integrity” as an overarching aim — rather than, say, enlisting people into labour as much as reasonably possible —, then the way in which access to a job is meant to be secured to all is of utmost importance. For if freedom is what matters, a strong presumption directly follows in favour of ways of helping people into jobs that give the least well equipped among them (or the least well connected or the least lucky) the widest possible range of choice among the jobs — full-time and part-time, waged and self-employed — they might want to take up. This presumption does not quite amount to an endorsement of an unconditional basic income, but it makes the latter a strong candidate as a component of the optimal package.

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To sort out the exact place one feels compelled to give to freedom, all things considered, in one's overall conception of social justice, or of a society's "moral integrity", one cannot avoid entering explicitly the realm of ethics and political philosophy. It does not follow that anyone claiming to express a competent opinion on the shape social policy should take — indeed, more generally, on the direction public policy should go — should be required to be a professional political philosopher. But there are a number of policy issues on which some normative thinking is indispensable, and one of them is employment policy.

An apt choice of the means requires a clear mind about the goals. To choose the most appropriate strategy against unemployment, it is not enough to know that employment is important, but also to sort out why it is. Far from excluding it, a sound "no-nonsense" attitude towards goals requires that one should pause to reflect on them. And once this is done, once "reflective equilibrium" is reached, I am not sure much would remain, at this level, to mark off Fritz Scharpf's views from mine.

INSTRUMENTS: INCENTIVES AND OPPORTUNITIES

No nonsense, next, about the choice of instruments. For a mixture of factual and normative reasons, Fritz Scharpf leaves out of consideration a large set of common proposals for fighting unemployment — lowering the level of unemployment benefits, for example, or expanding aggregate demand, or reducing maximum legal working time. Rightly so. I have no serious issue with this exclusion, nor therefore with Scharpf's no-nonsense focus on the remaining short list of instruments, the use of each of which he regards as a potential improvement upon the status quo and definitely as a more adequate measure than an expansion of means-tested social protection: (1) a negative income tax, (2) a universal basic income, (3) a (US- or UK-type) earned-income tax credit, and (4) a reduction of employers' social security contributions on low wages (or a direct subsidy to the employers of low-wage workers).

Leaving aside, for the moment, the question of political feasibility, which of these instruments should be preferred? Either (1) or (2), Scharpf replies (as I understand him), with a likely preference for (1) over (2): "basic income programmes, most likely in the form of the negative income tax, might indeed provide the most effective and efficient solution to the twin problems of poverty and unemployment". Why (1) or (2), rather than (3) or (4)? Presumably because (1) and (2) incorporate the basic income guarantee in the absence of which poverty cannot be seriously tackled, whereas (3) and (4) need to be combined with the usual means-tested social assistance. Why (1) rather than (2)? Because a negative income tax has "the explicit purpose of increasing the incentives and the opportunities for gainful employment rather than for financially secured inactivity".

Fritz Scharpf does recognise (fn1) that, through an appropriate choice of parameters, (1) and (2) "can be made to generate similar incentive structures". But a difference remains, in his eyes, sufficient to vindicate the superiority of (1) over (2): the two proposals "emphasize different justifications and are designed to optimize the achievement of different purposes". From the viewpoint of a no-nonsense assessment of instruments, these are somewhat perplexing remarks. Why should we care about the "explicit purposes" of various measures, what they are "designed" to do or what justifications they "emphasize"? The relevant no-nonsense question is simply whether or not one of the schemes, whatever its stated purposes, can actually be expected to "increas[e]

the incentives and the opportunities for gainful employment” more than comparable variants of other schemes would.

If this is the key question, a preference for (1) over (2) might still be justified. But it is unclear why it would. The potential formal equivalence between a negative income tax — understood, as it usually is, as a refundable lump-sum tax credit — and a universal basic income (or demogrant) has been pointed out from the very beginning of the academic discussion on the subject. For example, in their classic 1967 article, James Tobin and his co-authors note this equivalence between the demogrant version (with the option of waiving the automatic payment for those who do not expect to be net beneficiaries) and the tax credit version (with an advanced payment on request to those who expect to be net beneficiaries). They next express their own preference for the former over the latter, on the ground that the former is likely to be better at effectively reaching the poor: “The declaration method imposes the burden of initiative on those who need payments; the automatic payment method places the burden on those who do not want them. It may be argued that the latter are more likely to have the needed financial literacy and paperwork sophistication.”²

But even as regards the incentive to look for and take up jobs, the demogrant version arguably possesses the decisive advantage of reducing the uncertainty to which vulnerable people expose themselves when taking up a paid activity. For under the demogrant’s “automatic method” — unlike the negative income tax’s “declaration method”, part of a claimants’ income will keep flowing from the same source whatever happens, with near-total certainty.³ Even for the specific group concerned, this potential advantage may de facto prove insignificant. Or it may be more than offset, for example, by collective bargaining responding less stiffly to redistribution by means of a negative income tax than by means of a demogrant.⁴ Possibly. But these are surely the terms in which the no-nonsense approach needs to be phrased, not in terms of the purposes explicitly assigned to each policy by its proponents. To compare rival proposals, one will have to use the most relevant data and the most appropriate analytical tools available in order to make the best possible guesses about their respective likely consequences if they were to be implemented or about their respective actual consequences once they have been. A harder task, no doubt, but, I am sure Fritz Scharpf will agree, the right task for the debate to take on, of course on the background of reflectively chosen goals.

POLITICAL FEASIBILITY: NATIONAL SOLUTIONS

Or at least part of the task. For a no-nonsense approach does not only need to think hard about goals and instruments. It also needs to think hard about what conditions need to be fulfilled for the best instruments to be politically feasible, or indeed about what the best remaining instrument might be once the politically unfeasible ones have been filtered out. Here we enter the specifically European dimension of the social policy debate, a dimension about which I have found Fritz Scharpf’s earlier writings particularly illuminating and congenial.⁵ The no-nonsense news, in this area, is not good. Here it is.

All proposals in the set which Scharpf (rightly) favours over the status quo have one important feature in common: they all imply an increase in the progressiveness of the overall transfer system in such a way that low earners end up with a higher income than before.⁶ But what if one of the member states of the EU introduces such a policy in the context of a single market with a growing mobility of capital, consumer demand and skilled workers? True, for the time being, mobility is still low enough for the economic feasibility of such national moves not to be in doubt. A sufficiently resolute government

should be able to take advantage of this slack, and to credibly dismiss as part of a dishonest scare campaign, the claim that any major increase in net transfers towards low earners would dangerously rock the boat. A no-nonsense view of political feasibility, therefore, should not preclude advocating a vigorous use of one or more of the instruments mentioned above. But it does require one to look ahead, to anticipate in time, without exaggerating its immediate relevance, a growing tension, whose irresistible political exploitation could soon become a painfully binding constraint.

For a higher net taxation of high earners (or their employers) will tend to put off the carriers of increasingly crucial human capital.⁷ The lower net taxation of low earners, on the other hand, will not only make double sure the country keeps its least productive workers, but will also make the country more attractive for low-skilled immigrants, whether from other EU countries or from the outside world, in search of a better place to settle. The very success of the various policies considered in fostering the expansion of permanent low paid jobs (many of which may well enjoy a net subsidy, taking all aspects of collective consumption into account) will thus create a sucking effect on poorly productive workers.⁸ Combined with the deterrent effect on net contributors, this pressure, if sizeable enough, will make it unwise for any member state to try it alone.⁹ Or at the very least, it will make it irresistibly easy for people opposed to it for any reason to brandish so effectively the risk of unsustainability that those advocating significant steps in this direction, indeed even those who will want to do no worse than now in this respect, will be in for a tough political ride.¹⁰

How can the rise of these predictable constraints be halted? I cannot see how this could be, as elliptically suggested by Fritz Scharpf, through the introduction — arguably desirable for other reasons — of a clearer institutional separation between redistributive and social insurance schemes (on the Dutch, as opposed to German, pattern). Nor can I see how this could be through the reduction of the visible tax burden that would result from introducing, on the Swiss pattern, means-tested user charges (for education, for example) or means-tested public contributions to a compulsory health insurance package. For either the phasing out of the benefit operates steeply at the bottom of the wage scale, in which case the unemployment trap of standard means-tested assistance is deepened, and the objective of fighting unemployment is sacrificed. Or the phasing out operates more smoothly and reaches higher earners, in which case it amounts again (compared to a more universalistic status quo) to an increase in the effective net taxation of the high-earners, through the withdrawal of benefits they previously enjoyed, and the constraint of “tolerable” taxation is presumably not better met.¹¹

POLITICAL FEASIBILITY: HARMONISATION

Any serious hope of loosening the constraints that stem from fiscal and social competition in a single market must lie in a co-ordinated action on a higher scale, i.e. in “social Europe”. Harmonisation in a strong sense is not very promising, if only because, as Scharpf emphasises here and elsewhere, the structures and levels of social protection are too different in the various member States. One could, however, envisage something very general and supple, but nonetheless firm enough, such as Scharpf’s interesting suggestion of a requirement that no country should be allowed to deviate (by too much) from a ratio of social spending to GDP which would increase as GDP per capita increases. But apart from technical difficulties, there are, it seems to me, two fundamental stumbling blocks that undermine the political chances of such a proposal.

First of all, think of two countries with family support schemes which affect identically the disposable incomes of identically situated families, one through cash benefits and the other through (refundable) tax credits. This plainly illustrates how arbitrary it would be to only take explicit expenditures into account. Some tax reductions and exemptions will also have to count. But clearly not all. Not a tax reduction conceded, for example, to expatriates or to innovating businessmen. But if such discrimination is made among tax expenditures, why not also among explicit public expenditures. Can family allowances to affluent households count, for example, or expenditure on higher education, which more than proportionally benefit people who are likely to come from and are even more likely to move into comparatively affluent income categories? Though convenient, because of the relative ease with which it can be measured, the ratio of social spending to GDP is therefore far too crude an indicator of a country's redistributive performance for it to perform the job assigned to it.

Something more sophisticated — and complicated — could conceivably be designed to provide a better proxy for this redistributive performance. One might think, for example, of some measure of the gap between pre-tax-and-transfer and post-tax-and-transfer lifetime income inequality. But both the cruder indicator and the more sophisticated one meet a second obstacle. Both the level of social spending of one country and its redistributive performance, as measured by such an index, may be higher than those of another, despite the fact that, for any given distribution of income, its tax-and-transfer institutions would redistribute less than those of the other country. This can easily happen simply because the pre-tax-and-transfer income distribution can be more equal in the former country than in the latter. And since the level of pre-tax-and-transfer inequality is at least partly under the control of a country's institutions — its educational system, industrial relations, inheritance laws, etc. —, it would seem wrong to castigate a country whose redistributive performance is comparatively poor because its primary incomes are comparatively equal. Something more sophisticated still could be thought up, but we would then have moved a very long way from the simple, easily intelligible, readily verifiable, uncontroversial index which would have had some chance of being accepted by member states as the basis for a binding, firmly enforceable rule.

POLITICAL FEASIBILITY: THE EURO-DIVIDEND

If this path is no good, then perhaps it is not too early to start thinking about something that sounds more radical, but may in the end prove more realistic. Instead of trying to harmonise the various national systems, be it only in order to block a race to the bottom, should one not start building a EU-wide interpersonal transfer system? The ambition cannot and must not be to erect a EU welfare state that would replicate the structure of national welfare states. There are good reasons, not only for regarding this as unfeasible, but also as undesirable.¹² Being far less under pressure, the insurance component of the national welfare states does not require urgent protective action. The focus should rather be on “the more important issue of establishing a Europe-wide social minimum” (Scharpf, last al.). Especially if the EU expands into central and eastern Europe, this will require “major additional expenditures, that would not be feasible without financial support from the Union” (ibid.).

What form should this income guarantee take? According to Fritz Scharpf (ibid.), “it might be necessary and possible to avoid the work disincentives inherent in the present social-assistance programs of the richer member states”. A.B. Atkinson (1998: 146) emphatically agrees. A means-tested minimum income guarantee, he ar-

gues, is definitely not the way forward for social Europe. Not only for the general reason that it unfairly penalises the work of poor households more than anyone else's, but also for the specific reason that a European-wide minimum "has to be based on a benefit that is simpler than means-tested social assistance".¹³ The alternative, which Atkinson favours, is a universal basic income that would replace all income tax allowances, but not social insurance benefits. After conceding that, "despite finding supporters in all political parties, the scheme has not got close to being introduced", he expresses his conviction "that, in order to secure political support, it may be necessary for the proponents of basic income to compromise — not on the principle of no test of means, nor on the principle of independence, but on the unconditional payment." (ibid., 148). He therefore proposes, also at the European level, a "participation income", a universal basic income for all those who satisfy some minimal participation condition (not just full- or part-time paid work, but also education, care and voluntary work). He is aware that the question of how to interpret this broad participation condition may prove even trickier at the European than at the national level.¹⁴ Nonetheless, he believes "that such a Participation Income offers a realistic way in which European governments may be persuaded that a basic income offers a better route forward than the dead end of means-tested assistance." (ibid. 149).

I have no problem with such a strategy. Nor should, I believe Fritz Scharpf, given his concern to work out a compromise around which like-minded people could gather. As argued above, once goals are suitably clarified, I doubt much disagreement will remain at that level. Once instruments are evaluated in terms of their actual or likely consequences for the achievement of these goals, the universal floor favoured by Atkinson and others (including myself) dominates negative income tax schemes, or the combination of earned income tax credit (or a fortiori other forms of employment subsidy) and existing means-tested assistance.¹⁵ Finally, once the new European context is taken into account, Fritz Scharpf's insightful analysis of political constraints itself leads, step by step, to the radical idea of a EU-wide universal basic income. There is no reason to expect this path, to which the exploration of dead ends has led us, to be easy to tread. And compromises there will need to be at every stage. One of them is on the so-called "counterpart", on the idea of subjecting the right to the basic income to the fulfilment of some socially useful activity. For reasons stated by both Atkinson and Scharpf, there is no doubt that subjecting a universal basic income to such a condition would increase its immediate political chances.

Hence, without neglecting the potential that still exists and must keep existing at national levels, let us pay serious attention to this Euro-dividend for all "active" European citizens. Let us work out a precise scheme that credibly offers, at the same time, a strong brake on fiscal and social competition between member states and a decisive contribution to solving Europe's unemployment problem. Let us find ways of persuasively presenting it as what it is: not a mega-welfare state, not a substitute for national welfare policies, rather a floor under them all that will enable them to survive more easily and to do a better job. Let us map in detail the transition path, how the adjustments will most smoothly be done in the EU budget and in national tax- and-benefit structures. Let us get ready for when the strains created by the co-existence of a single currency and separate governments will make themselves felt, for when the need to stabilise populations will become more acute, for when European decision-makers will be looking for a realistic way of preserving and developing, under unprecedented conditions, something they claim to be a central component of the European project: "social solidarity" .

Wishful thinking? Perhaps not if goals are lucidly stated, if instruments are appropriately assessed, if political constraints are properly understood. Not, in other words, if Fritz Scharpf's welcome invitation is taken seriously, if his no-nonsense approach is consistently, tirelessly practised.

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Notes

¹ See, for example, the final words of my *Why surfers should be fed*: "As often happens, the conclusions reached for the hard cases really matter only because of the *a fortiori* claims they warrant. While futile if it had no implication beyond Malibu surfers and their likes, the argument of this article, if correct, derives its practical importance from its direct relevance to the fate of an affluent society's unskilled workers, its excluded youth, its dependent housewives, its double-shift parents, its long-term unemployed. By challenging their resignation, by providing their revolt with intellectual backing, by immunising their demands against a number of misguided or ill-intentioned objections, it may effectively help them to successfully stake their legitimate claims." (Van Parijs, 1991: 131)

² Tobin & al. (1967: 23).

³ As repeatedly pointed out, for example, by Bill Jordan & al. (1992) and Thomas Piketty (1997).

⁴ It may not be ludicrous to suppose that visible take-home pay, rather than the workers' disposable incomes, is what Trade Unions are most concerned about in wage negotiations. But if some negative income tax and some demogrant scheme perform identically in terms of disposable incomes, the latter is bound to perform far worse than the former in terms of visible take-home pay. For unlike the tax credit, the demogrant is not incorporated in the pay check, but paid separately. If this is the case, wage moderation is likely to be harder to achieve, and employment may accordingly suffer. There are of course many "ifs" in this argument, but their critical evaluation is the sort of stuff the no-nonsense approach must consist of.

⁵ See e.g. Scharpf (1994; 1996a; 1996b; 1996c)

⁶ This fits in with Scharpf's (1999: §3.2) most striking conclusion from a systematic comparative analysis between a country's employment performance and the structure of its transfer system: there appears to be a significantly negative impact of proportional forms of taxation (consumption tax and social contributions) on employment levels, while there is little effect of progressive taxation (in particular the income tax).

⁷ This is not a matter of increasing compulsory contributions yielding corresponding insurance-based benefits, in the form of pensions, sick leave or unemployment benefits. Growing mobility may put somewhat greater pressure on such transfers (because of enhanced adverse selection), but there is no comparison, as Atkinson (1998: 143-44), for example, emphasises and as Scharpf is well aware, with the increased pressure on the non-insurance-based, ex-ante-redistributive aspects of Europe's welfare states.

⁸ See, for example, what Krause-Junk (1996) regards as the most crucial objection to negative income tax proposals of the type advocated by Joachim Mitschke (1985; 1995): As wages would no longer need to cover subsistence, neither employers nor Unions will be under the same pressure to keep jobs productive,

and Germany will become a low-productivity country, with a combination of low wages and Bürgergeld that will be particularly attractive for poorly skilled immigrants from Southern (and soon Eastern) Europe.

⁹ For those who dread this inflow of poorly productive labour power, the threat should be worse if the attraction is the prospect of (henceforth profitable) low-productivity jobs, rather than that of benefits. For claimants can, more easily than workers, be kept away by ad hoc rules or by the social assistance administration's unwelcoming attitude.

¹⁰ There may perhaps be some hope of hiding the net subsidies to low-paid work, probably greater in the case of NIT, EITC or reduced social security contributions than in the case of a universal basic income. Hence, presumably, one source of Scharpf's lower assessment of the latter's feasibility

¹¹ Two provisos are in order. Firstly, if the phasing out for higher earners affects selectively those provisions which disproportionately benefit households with children (family allowances, childcare, education), sustainability may be hardly affected. For households with children arguably tend to be less mobile than childless households (and the less mobile, the greater the loss from the phasing out of these benefits) and hence less able to issue credible threats of leaving, in the emerging globalised context. Secondly, political feasibility may not only be affected by the political use of the risk of economic unsustainability caused by excessive net taxation, but also by the political use of the perception of gross taxation. In this respect, the phasing out of a benefit may be less damaging than a higher explicit marginal rate, just as a funding of the basic income by the value added tax (e.g. Duchatelet, 1994; 1998), by energy taxation (e.g. Genet, 1991; Robertson ed., 1998), or indeed by (non-inflationary and de-privatised) money creation (e.g. Huber, 1998; 1999) would have an advantage, in this respect, over the income tax, even though it also essentially amounts to reducing the purchasing power of relatively high income earners.

¹² I develop the reasons behind this normative undesirability in Van Parijs (1999).

¹³ See Schmitter (1999) for a radical proposal of a means-tested European minimal income. See Van Parijs (1996) for an argument against it along lines similar to the one taken by Atkinson (1998).

¹⁴ Note, however, that, even if the implementation of the condition is pretty much left to the discretion of national governments, there would be no perverse incentives of the sort generated by a centrally funded but locally administered means-test. With a means-tested guaranteed income funded at the European level, national or local governments would systematically find it in their political interest to disregard some potential recipients' means (and hence to compete with each other in terms of how lax an interpretation they give to an insufficient-means condition). But with a counterpart-tested guaranteed income, they would not have a similar incentive to disregard the failure to perform some socially useful activity (nor therefore to compete with each other in terms of how lax an interpretation they give to a participation condition).

¹⁵ Even if, as in all reasonable short-term variants, the universal basic income or negative income tax is not a full substitute for social assistance, it always implies a significant reduction in its level, whereas EITC does not since by itself (unlike universal basic income and negative income tax) it grants no benefit whatever to non-workers.