

# DEBATES

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## DEBATE ON EXPANDING SOCIAL CITIZENSHIP

Critiques and reply regarding Schmitter, P. C. and Bauer, M. W.  
'A (Modest) Proposal for Expanding Social Citizenship in the European Union',  
*Journal of European Social Policy* 11 (1): 55–65.

### 1

#### From Euro-Stipendium to Euro-Dividend

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Do we need to rethink fundamentally the way in which trans-national solidarity is organized within the European Union? Yes we do, and Schmitter and Bauer's essay is therefore most welcome to get this rethinking going, not with grand or vague wishes, but with a modest and precise proposal. Is their Euro-Stipendium (ES) the best way forward? We believe not, partly because of some design defects that can be corrected at the cost of some complications, but also partly because of a more fundamental defect whose correction requires jumping straight away to what Schmitter and Bauer view only as the possible end point of a gradual development.

#### Havoc in the incentive structure

According to Schmitter and Bauer, the ES should be introduced as a lump sum of €1,000 a year paid to every European citizen classified as 'extremely poor'. In the first phase, restricted to EU15, this category should include all individuals whose (household-adjusted) disposable incomes amount to less than a third of the EU's (annual) average income, i.e. €5,295. Falling below this threshold entitles one to the full ES. Getting above it entails its total withdrawal.

One unavoidable consequence of this scheme is that low-income households would face effective marginal tax rates of over 100

percent once they reach the poverty threshold, in an income range that grows proportionally with household size. To illustrate, take the case of Artemis, who lives on her own and whose total pre-ES disposable income consists in a social assistance benefit of €5,200. She is entitled to an ES of €1,000, which boosts her income up to €6,200. Suppose she finds a part-time job, which allows her to increase her pre-ES disposable income to €6,000: she then gets above the threshold and sees her ES removed. Although she earns €1,000 more than she did before, her post-ES disposable income falls by €200, which amounts to an effective tax rate of 120 percent, even on the assumption that her national income tax and social security systems are such that the €1,000 she earns are free of taxes and contributions. The impact is likely to be even worse if Artemis is, say, the single mother of one child, as her exceeding the threshold would then entail the loss of two ESs.<sup>1</sup>

Given the structure of the scheme, there is bound to be a range of incomes – which will be the broader, the higher the level of the ES and the larger the household – within which all financial incentives to work or save more are destroyed. How crowded this poverty trap is likely to be depends on the distribution of disposable incomes. In Schmitter and Bauer's proposal, as one moves from EU15 to EU22 or EU27, the level of the ES and hence the depth of the trap remain unchanged, but the threshold of eligibility sinks (from €5,295 to

4,506). As a result, the proportion of people likely to be affected by the trap will shrink in the richer countries, but the figures cited in the appendix suggest that in the poorer new-comer member states a huge proportion of the population will be stuck in it.

How can we prevent Schmitter and Bauer's scheme from wreaking havoc in the incentive structures at the bottom of the income distribution, which some national governments have painstakingly started to design so as to make them less dissuasive? The answer is evident: by fashioning the ES so that it is gradually phased out as the household's pre-ES disposable income increases, instead of being abruptly cut off at a certain threshold. Unavoidably, this would involve a more differentiated and thinner spreading of whatever resources are allocated to the scheme, and would come at the expense of the initial proposal's attractive simplicity.

### A shaky floor

Schmitter and Bauer propose to establish a common threshold for eligibility throughout the EU, defined by reference to the EU's average income. This cut-off point would change annually to track per capita income in the previous year, whether due to fluctuations within the existing limits of the EU or due to the entry of new EU members. The fact that per capita EU income may go down as a result of either of these factors implies that, despite an unchanged pre-ES income, some poor households may suddenly fail to satisfy the eligibility condition and see themselves deprived of their entitlement to the ES. The creation of such insecurity towards the bottom of the income distribution is a most unwelcome feature of Schmitter and Bauer's proposal.

As far as dependency on internal fluctuations is concerned, a solution is not hard to come by. It consists of relating the ES cut-off point to the average EU per capita income in, say, the previous 5 or 10 years. As long as one

can bank on a long-term upward productivity trend, the annual substitution of the latest per capita income figure for one that is 5 or 10 years older should guarantee a slow but secure increase of the level of real income below which one qualifies for the ES.

Obviously, the insecurity that results from new entries cannot be handled in the same way. But it is pretty clear that something should be done about this as well. For it is, to say the least, rather bizarre that much of the economic cost of admitting a comparatively poor country as a new member state should be borne by a section of the poorest households in the older member states, namely those who suddenly find themselves stripped of their entitlement to the ES as a result of their unchanged pre-ES disposable income now exceeding a third of the EU's new per capita income. The resulting insecurity for ES claimants in the old member states could easily feed a xenophobic anti-enlargement populist rhetoric. If only to avoid this additional obstacle to the admission of new members, it would therefore be wise to connect the cut-off point to an index of European prosperity that would not be affected by enlargement in this direct way, for example by choosing straight away a fixed percentage (which could be more than a third) of GDP per capita in EU27, without waiting for all, or indeed for any, of the candidate countries to acquire member status.

### Country gaming

Schmitter and Bauer's proposal also suffers from a more fundamental defect which cannot be mended by tinkering at the margin. A trans-national transfer scheme which is, like the ES, targeted at households with a level of post-national-tax-and-transfer disposable income below some threshold unavoidably penalizes those countries which – with a given GDP per capita – have more effective anti-poverty policies. This is both *unfair* – it

rewards those member states with the least inclusive welfare states – and *counterproductive* – it provides national governments (which are still in control of the main instruments of income distribution) with an incentive to neglect the poor. This is a serious objection, whose incentive side Schmitter and Bauer did anticipate. To counter it, they offer two suggestions.

One simply consists in forbidding what they call ‘gaming’ by member states, i.e. opportunistic changes in national or local policies, designed to take advantage of the new scheme by increasing the number of individuals satisfying the eligibility condition. But how could the relevant European authority identify the policies which it should sanction? These cannot be the policies *motivated* by the objective of taking advantage of the new scheme, for social and fiscal policies are bound to be chosen in the light of many considerations, and the desire to cheat is most unlikely to be explicit. Nor can culpable policies be identified by analysing their *effects* on poverty levels, since the latter will always reflect the complex interaction of many factors, only some of which are under the government’s control. The proposed solution therefore appears to have to rely on presumptions which are likely to trigger endless controversies, especially as it does nothing to alleviate the unfairness side of the objection: why should a member state be sanctioned if all it does is bring its institutions in line with those of other member states, which happened to be such that they could take greater advantage of the ES scheme from the start?

The second suggestion consists of neutralizing the member states’ incentive to game by stipulating that the total level of gross transfers to any particular country (ES + agricultural and structural/regional funds) should remain unchanged. This provides no long-term solution either, as it would generate unsustainable distortions. Depending on the poverty figures, the farmers and disadvantaged regions of some countries will be lavishly or stingily treated, since the part of the

funds allocated within each member state for agricultural or regional purposes will vary according to the budget that needs to be mobilized by the ES. A central reason why Schmitter and Bauer’s proposal is attractive is that it channels net transfers automatically to the least favoured areas. The second anti-gaming device they suggest would destroy this central feature of their proposal.

### Two real solutions

Yet it is not unusual to have two levels of power involved in anti-poverty policy, and there are ways of articulating them so that gaming by lower-level units is kept within bounds. The conventional way consists of co-payment by the two levels. For example, the EU could conceivably introduce a right to the ES for anyone under the threshold, but require the relevant member state to pay half of the €1,000. Individual governments would then retain a strong incentive to shape employment and social insurance in such a way that few end up ‘extremely poor’.

An alternative way of achieving a sensible incentive structure is suggested by Schmitter and Bauer when they indicate that the ES could be extended to a growing proportion of the European population through a gradual increase of the relative level of the eligibility threshold, until it is converted, ultimately, into a basic income paid to all. At the end of this process, gaming of the sort feared by Schmitter and Bauer would obviously be eradicated. Whatever each member state, region or local authority does for its poor would then come on top of the floor provided by the ES and would run no risk of reducing the number of its beneficiaries. If this is Schmitter and Bauer’s long-term goal, we have no deep disagreement with them. But because of the perverse incentives and distortions that would plague their scheme, as explained above, over the long, possibly endless transition period during which only part of the population

would be entitled to the ES, we believe there is a more promising alternative path.

### A Euro-Dividend

Schmitter and Bauer propose introducing a uniform ES of €1,000 throughout the EU and gradually increasing the threshold up to which it is paid until all citizens are covered. What about paying a Euro-Dividend (ED) to *all* EU citizens *from the start*, though at a lower average level and at levels that are differentiated according to the cost of living in the various member states? The ED would be, say, €1,000 in those countries in which the cost of living is highest, lower elsewhere, with an upward convergence as immersion in a single market makes general price levels converge.

Despite this differentiation, the gross cost of a universal ED would necessarily be substantially higher than that of a means-tested ES. This additional cost would need to be picked up through a higher GDP-based contribution by member states or, more imaginatively, through a common energy tax.<sup>2</sup> National authorities could be given some scope in determining the best way to administer the benefit. Some countries may for example choose to deliver it in the form of a refundable tax credit, or to subject it to some participation condition. Needless to say, the increased gross cost would not be reflected in a correspondingly higher net cost to each country's taxpayers, as the latter would all receive the (henceforth universal) benefit.

Differentiation of the level of the ED according to the cost of living in each country will smooth the shock of both the substitution of individual transfers for regional and agricultural funds and of the entry of comparatively poorer new member states. Compared to what would happen if the ED were uniform, a larger share of the net transfers will go to those areas that will suffer most from the scrapping of existing subsidies. The immediate net cost of expanded membership

to the taxpayers of current EU members will also be less, and hence less of an obstacle to the admission of new members, without this being unfair to the latter, and in particular to their poorest citizens, since the (average) purchasing power conferred by the ED would be the same everywhere.

Providing such differentiation is allowed, a modest universal ED provides a sound and feasible alternative to Schmitter and Bauer's ES in the service of the same fundamental objectives. A persuasive case for it would no doubt require the tightening of a number of bolts, and greater effort to clear the common confusion between the net cost and the gross cost of a redistributive scheme. But some of its key advantages should be clear enough. As the ED scheme works without an eligibility threshold (every citizen is entitled to the benefit), it avoids the havoc in the incentive structure that was depicted above. For the same reason, it does not require a common operational definition of income in all member states – a highly sensitive question which the various national tax and transfer systems solve in quite different ways. Last but not least, it offers the best tangible expression of the material benefit – the dividend of durable peace and unhindered economic exchange – which the EU is supposed to bring to *all* its citizens.

The EU's cross-border transfer machinery is about to face unprecedented challenges. Bold, innovative yet realistic thinking is urgently needed if one is to make positive use of the opportunities which impending crises will create. Schmitter and Bauer's modest proposal is an exploratory step in the right direction. Our modest suggestion for improving it is another one – we hope.

### Acknowledgements

This paper was prepared within the framework of the inter-university research project PAI P4/32 'The New Social Question' funded

by the Belgian federal government's Prime Minister's Office (Scientific, Technical and Cultural Services).

## Notes

- 1 We are here assuming, on the basis of Schmitter and Bauer's paper (in particular Note 5 and the Appendix), that the ES is paid at a uniform level to all individuals entitled to it, but that entitlement derives from membership in a household whose total pre-ES disposable income, divided by a coefficient that appropriately reflects household composition, falls short of a third of per capita disposable income. Hence, we interpret for example the statement that 'there were an estimated 9,929,524 persons in EU-15 who earned less than one third of average income for the unit as a whole' as referring to the number of people living in households whose household-size-adjusted disposable income after national taxes and transfers is less than this amount.
- 2 About 10 years ago, Genet and Van Parijs estimated that an ED of €100 per month for every EU resident aged 18 or more would require, keeping the volume of energy consumption

unchanged, a tax of €425 per ton-oil equivalent (toe) on all energy uses of oil, gas, coal and electricity. This amount was far above the EU's average level of taxation on these uses of energy at the time (about €100 per toe), but close to estimates of the environmental cost of such uses by various groups of European experts. Abstracting again from any effect on consumption among EU member states, net losers and net gainers from the scheme would be about the same as (then) with the existing social funds, but the net transfer to the net gainers would be about 14 times as much as under the social funds. See Genet (1991), Genet and Van Parijs (1992). Obviously, this sort of estimate would need updating and refining, but it gives an idea of the magnitudes involved.

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## 2

### The trouble with the Euro-Stipendium

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If the intention of the editors was to re-launch the 'Debates' section of the *Journal of European Social Policy* with as much stylistic elegance and intellectual audacity as possible, they could not have chosen a better vehicle than the paper by Schmitter and Bauer. The authors put forward a rather ingenious proposal which they present as the answer to a variety of problems, from the reform of CAP in view of eastward expansion, to the legitimization of the EU in the eyes of its citizens through a bold social policy initiative. The trouble with their proposal is that it is bound to introduce new (and arguably more serious) distortions in place of the ones it aims to correct.

The stated aim of the proposal is 'to embody the EU's commitment to social citizenship with a policy that is "European" in scope and substance, and "transparent" and "simple" to administer'. The authors claim that it would be 'a far less controversial (and more controllable) expenditure than to extend even a revised (and hence resented) version of existing agricultural and regional policies' to the new EU members, and that 'direct payments of this sort are easier to monitor and probably more likely to generate widespread support for the EU itself'.

Leaving aside the authors' rather excessive hostility to the CAP and the structural funds,

there can be little quarrel with the intentions of their proposal. The introduction of a recognizable EU social benefit would undoubtedly strengthen European social policy, it would contribute to the creation of a supranational identity based on social citizenship and incidentally would enhance the image of the EU itself. The question is: Would the Euro-Stipendium deliver?

The answer must be unequivocally negative. There are two reasons for this. On the one hand, the proposed Euro-Stipendium is essentially a means-tested benefit, and as such it suffers from the typical defects of that class of social transfers. On the other hand, as a 'federal' policy in a policy area ruled by subsidiarity and national idiosyncracies, it leaves plenty of scope for 'moral hazard' or, as the authors put it, 'gaming' on the part of member states.

As is well known, means-tested benefits present difficulties of a *political* nature (they are more vulnerable to a 'welfare backlash' than universal or social insurance benefits), of an *economic* nature (they reduce the incentives to work and create 'poverty traps'), and of an *administrative* nature (they are far costlier and more subject to error than other types of transfers). The injection of a cash transfer equal to approximately 25 percent of the poverty line aimed at a large proportion of a country's population would have the effect of provoking resentment and causing behavioural responses on the part of non-recipients.

To start with, optimal taxation theory (and common sense) would stipulate that no recipient should be made better off than a non-recipient as a result of the Euro-Stipendium. To avoid that, the benefit would have to be 'tapered off', as income rose above the threshold, rather than simply withdrawn (which would increase the complexity of the scheme). Moreover, if the benefit were reduced *pari passu* (i.e. Euro for Euro), then incentives to work would simply disappear over a rather wide income range. Besides, individuals (and, probably, whole countries as well) would have a strong incentive to report incomes just below the eligibility threshold.

A glimpse into the practical difficulties involved is offered by the authors themselves in a rather revealing (if slightly over-optimistic) note:

Needless to say, the existence of such a policy presumes that the national member states all have the capacity to identify the revenue of their citizens and denizens and to transfer funds to them. Moreover, all governments would have to share certain conventions in the calculation of earned and unearned income, formal and informal work etc. (Note 6, p. 64)

One need not be a national accounts expert nor a social administration specialist to realize that such a 'presumption' is wildly inaccurate, and destined to remain so for the foreseeable future. Even if member states wished to collaborate closely with the EU (on which more below), they would need to have at their disposal such extensive administrative capacities (not to mention intimate knowledge of their citizens' life circumstances) as the region's former authoritarian regimes could only dream about.

The 'moral hazard' argument rests on the assumption that member states would be tempted to reduce their anti-poverty effort, on the grounds that this would simply make their citizens less eligible for the Euro-Stipendium. Although clearly this has not escaped the authors' attention, the response they offer is deeply unconvincing:

Here, the solution is to get [member state governments] to agree in advance not to change existing policies in an opportunistic fashion. The *quid pro quo* would be that these national or subnational policies (as well as any new ones) would not be included in the calculation of eligibility for the ES. Nothing would prohibit governments from pursuing poverty alleviation schemes of their own, provided these policies did not affect who would be eligible for the ES. (p. 58)

Readers wondering just how governments would come to such an advance agreement and how eligibility rules would account for the effects of national anti-poverty policies can be forgiven for thinking the arrangements involved unworkable (if not downright perverse).

Can then nothing be salvaged from this thought-provoking proposal? Well, in principle there is nothing wrong with an EU social transfer that avoids the twin perils of means-testing and moral hazard. Given the current political climate, the introduction of an EU basic income remains the stuff of political science fiction. Nevertheless, categorical transfers with the desired features can be easily designed and rather more realistically proposed.

By way of illustration: one such transfer could be a flat-rate 'European Birth-Grant' to mothers of newborn babies, irrespective of income, provided they legally reside anywhere in the EU. The total cost of a substantial EU-27 birth-grant of €5,000 would amount to 40 percent of the combined cost of agricultural subsidies and structural funds (in 1997), benefiting over 5m families. A less extravagant birth grant of €1,000 could be financed with a saving of only 8 percent on existing EU policies. With an eye on political opportunities, the scheme could be presented as faithful to the spirit of the Lisbon Summit: a worthy contribution to the aim of eradicating child poverty by 2010.

### 3

#### Dividend, Birth-Grant or Stipendium? A reply

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The critiques by Philippe Van Parijs and Yannick Vanderborght (VP&V) and Matsaganis of our proposal to introduce a Euro-Stipendium to all citizens and denizens of the European Union living in extreme poverty are welcome. They contribute significantly to our intention of opening a debate with regard to the prospects for enlarging social citizenship within the EU. We share some of the concerns raised and accept some of the 'modest suggestions' they have offered; which is not to say that we agree with all the criticisms they advance.

Let us start with the by now familiar argument that nothing except a basic income provision for everyone – a Euro-Dividend (ED) in the words of VP&V rather than our Euro-Stipendium (ES) – would offer a satisfactory solution. We do agree that the ES could eventually be turned into an ED – or, to call it by its true name, into an (embryonic and very

modest) unconditional basic income for everyone living within the European Union (Genet and Van Parijs, 1992; cf. Van Parijs 1995; 1997; 2000). However, given the non-democratic character of EU politics and the non-state nature of the EU polity, there is simply no realistic chance of getting such a policy accepted in the near future (Schmitter, 1997). This is a perfect illustration of the French proverb that *le meilleur est l'ennemi du mieux*. By holding out for the best possible solution, one obviates the possibility of introducing a marginal but significant improvement.<sup>1</sup> Insisting right from the start on a universal ED misjudges the present state of the EU in two ways. It overestimates its ability to serve as a 'cross-border transfer machinery' (VP&V) and it underestimates the time and other political resources that would be needed to convince a sufficient number of policymakers and their constituencies of the superiority of an ED.<sup>2</sup>

This is not to say that such efforts are doomed forever to be unsuccessful. Our argument is rather that the pressure generated by impending enlargement, the cap on the expansion of 'own resources' and on member contributions and, most recently, the catastrophic consequences of encouraging intensive corporate agriculture have opened an unprecedented window of opportunity. But this window is only large enough for modest and incremental policy changes to stand any chance of entering. If there were basic income schemes already running successfully in several member states, now might be the right tactical moment to press for their Europeanization. Given that this is not the case, we argue that it is more realistic to push for innovation where there exists already a manifest and bold commitment, i.e. to eradicate 'extreme poverty' throughout the EU.

VP&V make four arguments for improving our original ES design. The first two concern the crude nature of the cut-off point at which extremely poor persons either do or do not qualify for the ES. The third deals with an ethically questionable 're-distribution effect' among the poor of different countries. The last one (which is shared by Matsaganis) focuses on the incentive that the ES gives to member states to reduce their own national efforts at fighting poverty.

### The cut-off point

VP&V point out that if the ES were to be applied in the way we envisage, some households may fail to qualify from one year to another, either because their disposable income slightly increases or because – due to EU enlargement – the threshold of less than a third of average disposable income would diminish and they would find themselves suddenly and unexpectedly above this level.

Certainly, these are very disturbing potential effects. They would have to be addressed and we think that VP&V offer some excellent suggestions. Our primary concern was rather

to insist upon two other contentious, but prior issues: first, that an ES of about €1,000 per annum for all individuals living in 'extreme poverty' within the EU15 can be financed at no additional cost simply by redistributing already available financial resources used for existing programmes; and, second, that such a scheme would even be viable in an enlarged EU of 22 or 27 members. In order to get across our point quantitatively, it was necessary to use a simple and transparent calculation of sums. Once the member states – present and future – agree in principle that such a redistributive scheme is both normatively desirable and financially feasible, we would be delighted to accept VP&V's suggestions for minimizing insecurity by replacing the crude cut-off point with a phasing-out mechanism, and for basing the eligibility conditions on an average of the EU's per capita income over a longer period.

### Redistributing among the poor?

A third – and closely interconnected – objection of VP&V concerns our proposal to establish a common and unique threshold for eligibility defined exclusively by reference to the average income for the entire EU. For us, this feature of the ES was absolutely essential since it expressly recognizes and embodies the equality and solidarity of European social citizenship. Another possibility would have been to define 'extremely poor' purely on the basis of national instead of EU average incomes. This seems to be what they would prefer. The obvious problem with our suggestion is that, if a 'poor' country joins the club, a sizeable segment of the poor in the older member states would have to 'pay' (indirectly) for the newcomers. Because of the lower eligibility threshold generated by the entry of poorer countries with many more persons in extreme poverty, those previously eligible in the richer 15 member states would find themselves stripped of their entitlement to the ES.

However, one of the main reasons we proposed a *Euro-Stipendium* was precisely its potential to shift resources gradually (and, hopefully, consensually) towards the new member states – and, to do so in much more efficient and justifiable fashion than by merely continuing the existing CAP or Structural Funds. Only by basing it on a Europe-wide calculus would the ES have the desired effect of encouraging medium-term convergence towards a ‘Social Europe’. The ED proposal of VP&V would do much less to correct for these very sizeable differences in initial endowment, and would in any case only provide a very modest level of benefits to the entire population of the EU, including giving a rather large aggregate sum of Euros to upper and middle-class persons, who are quite likely to discount heavily the value of such a marginal ‘benefit’. For most recipients, we suspect, the net contribution to their sense of European citizenship would be negligible.

We do share their concern about the probability that the ES would ‘disinherit’ some proportion of those living in extreme poverty in Western Europe, and we recognize that this raises issues of fairness and political viability. Therefore, we welcome their suggestion to connect the ES level of eligibility to an ‘index of European prosperity’ that would not be directly and suddenly affected by enlargement but would still guarantee a degree of ‘social convergence’ over the longer run. It would seem sensible that poor people in relatively rich countries should remain temporarily eligible, even when they have more than a third of the EU average income at their disposal. Again, however, we are reluctant to endorse any policy that could be used by national governments to deflect attention from their obligation to ensure a decent level of living for their citizens.

### Gaming by national authorities

Both VP&V and Matsaganis worry a great deal about ‘moral hazard’. No one would

deny that any social policy will provide an opportunity for ‘gaming’ – whether by governments, individuals or firms. Neo-liberals, of course, routinely invoke such a danger as an argument for doing nothing, except to let imperfect markets and unscrupulous firms produce a different level and distribution of moral hazards! VP&V do not go so far; Matsaganis, however, seems far too sanguine about the absence of moral hazard in existing EU agricultural and structural policies.

We quite explicitly mention the likelihood of ‘opportunism’ but we are much less concerned about the magnitude of the problem it poses and are confident that it should be possible to put together the right mix of ‘carrots and sticks’ to get the national politicians and administrators to implement the scheme fairly and correctly. What our critics fail to acknowledge is that the *Euro-Stipendium* would be firmly embedded in an existing set of institutions as part of the *acquis communautaire*. This means that any ‘opportunistic’ responses by a member state would be monitored by the Commission, other member states, innumerable social movements and interest associations, and even individual EU citizens. Any of these agents would have an incentive to denounce infractions before the European Court of Justice – and its jurisprudence has been quite clear in defending the supremacy and direct effect of EU law. Moreover, there is good reason to assume that the European Parliament would assume a supervisory role with regard to issues involving additionality. It has shown a marked propensity for increasing its political clout by denouncing infractions of EU directives – for example, in the context of previous EU initiatives to fight poverty and increase citizens’ rights (Bauer, 2000; European Parliament, European Commission, and Council, 2000).

VP&V’s suggestion of a co-payment obligation by member states in the financing of the ES might be a good idea. As far as the EU15 is concerned, this should not be problematic because the Structural Funds and CAP already require national co-financing. Redirecting EU

resources from structural and agricultural policies towards the ES would release national resources for just such an effort – unless, of course, those governments were to choose to subsidize farmers and regions out of their own national funds. If not, the monies saved could even be used to ease the cut-off problem discussed above.

Matsaganis's Birth-Grant (BG) proposal to give a lump sum of about €5,000 to all newborn babies in the Union has the advantage that it is 'simple' and 'easy to administer'. However, this is gained at the expense of 'social and political efficiency' since relatively rich parents in the old as well as in the new member states (also) benefit. We accept that there are good and particular reasons to target children in the fight against poverty, but if the children are not poor and their parents can afford to pay for their maintenance, what are the grounds for asking EU15 middle-class citizens (who in general have low reproduction rates) to finance such a policy? Furthermore, what happens if reproduction rates in Eastern Europe keep on declining? They could, if one believes the predictions of demographers, soon undercut those in Western Europe. A BG would then redistribute resources 'westward' and thus have the opposite effect of our original intention. Moreover, the ES would be paid to all individuals in poor households (including dependents), resulting in a substantial level of child support – and one that would come in regularly and not just at the moment of birth.

In sum, making the ES successful is – as we see it – a matter of the right mix of incentives as well as rules. In this context, all four 'modest suggestions' of VP&V are without doubt valuable improvements of our proposal and we gratefully acknowledge them. Why we still prefer our Stipendium to the Dividend or the Birth-Grant should be clear from the above. Can Matsaganis absolve his BG from the 'peril of moral hazard' on the part of member states that he claims the ES will inevitably face? Do VP&V really think that, in the context of intensified struggle over

national contributions to the EU budget, member states would adopt an ED whose 'gross cost would necessarily be substantially higher than that of a means-tested ES'? Even more far-fetched in our opinion is the proposal by VP&V that these countries should establish a common energy tax to finance an eventual ED – especially in the context of increasing international competitiveness and energy costs.

We do concur with our three critics that it is time 'to offer a tangible expression of the material benefit' that the EU brings to its citizens. Precisely because of the 'unprecedented challenges' the EU is now facing and will face increasingly in the future, we prefer a modest and focused effort to compensate those citizens and denizens in extreme poverty – regardless of where they live and how long their country has been a member of the club. Moreover, the cost of this policy can be controlled relatively easily and there is no manifest need to make major changes in EU finances to pay for it. We could not agree more with Van Parijs that 'while a defensible long-term vision is important, precise proposals for modest, immediately beneficial and politically feasible steps are not less essential' (Van Parijs, 2000: 15). A universal ED may well constitute such a long-term vision and a generous subsidy for each newborn child may well be worth trying in the medium term, but we remain convinced that the Euro-Stipendium could be just the sort of innovative measure that is 'modest, immediately beneficial and feasible'. Such a policy would give to the EU for the first time in its history a warrant to enter into a direct and rewarding exchange with a substantial proportion of its citizens, and would do so in a manner that redistributes resources efficiently and effectively to individuals in manifest need and to countries that are about to enter the process of regional integration with a substantial handicap. As an expression of social citizenship, it would be far more European than the alternatives proposed by our three critics.

## Notes

- 1 Which is not to concede that the basic income supplement is itself without problems – problems that would only be compounded in a polity on the scale of the EU and with its quite limited capacity for expressing solidarity across such a heterogeneous population. See White, 1997; Krebs, 2000; Michel, 2000; Sturn and Dujmovits, 2000.
- 2 An example of how difficult, painstaking and time consuming it may be to win over the citizenry is ironically given by one of our critics in a report over the Belgium ‘Vivant’ initiative (Vanderborght, 2000).

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