Debate: "Toward a Basic Income Experiment?"
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Reasons for Launching a Basic Income Experiment

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My first claim in support of launching a basic income (BI) experiment is that even if policy makers or the public are not at all interested in a BI and prefer a move to more workfare-oriented social security, it would still be advisable to conduct a BI experiment that would provide the benchmark or baseline against which the results of all workfare-oriented experiments can be evaluated. Why? The *net* impact of special workfare-programs compared to existing schemes depends on the normal treatment (applying for jobs, following job counselling courses, etc.) of social security recipients. The evaluation must differentiate between the program's gross outcomes, such as the number removed from the dole, and its net impact, the number who did so because of the program. Thus, the net impact, which can be negative, is the difference between what actually happened (gross outcome) and what would have occurred anyway (under normal treatment). Since normal treatment varies between countries, regions, and even between cities,[1] it is hard to tell which workfare program is more effective. The outcomes

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[1] In the Netherlands, my home country, the provision of social assistance is decentralized to the municipal level. Each municipality has considerable discretion about how strictly to enforce the entitlement and compliance conditions. In addition, many run their own favoured special back-to-work programs.

of a BI-like experiment – e.g., a guaranteed minimum income[2] – would provide information about how recipients fare when they have no duties at all to go back to work.

Second, the BI proposal is highly controversial because it hits the "moral core" of the existent welfare state, which provides benefits conditionally, temporarily and selectively. Morally, BI is a big step for mankind. I think a radical idea such as a BI needs to be shown to work, in order to get it on the political agenda. Admittedly, BI might enter the political agenda in other ways: for instance, by making use of what is often referred to as "the Royal Way" (a straightforward explanation of BI to the electorate), or through implementation by stealth or "Through the Back Door" (e.g., through refundable tax credits, individualization of social security) (Groot and Van der Veen, 2000, pp. 197–223). A BI experiment provides another route.

Third, a major concern of increased welfare activation is how to avoid the problem of the working poor. A loss in compensatory justice is the price of activation policies, e.g., imposing sanctions on passive behaviour, limited duration of benefits, and compulsory jobs of last resort. The working poor in the USA are the inevitable flip side of an austere welfare system. If the welfare system in the USA were generous and easily accessible, employers would be forced to pay higher wages to those at the bottom of the labour market, because the fall-back position of workers would be better. In terms of Figure A1, a sufficient BI (point S) provides workers with a decent no-work option. The income and utility provided by the no-work option serves as a floor below which no one can sink. Even an excess supply of low-wage workers would force none of them to accept unpleasant jobs with low pay. Figure A1 also shows that for low-wage workers, all the way up to the break-even gross-income level of F, they will experience a net income improvement even if they slightly reduce their labour supply.

This brings me to the fourth reason for a BI experiment. As I have argued in my book *Basic Income, Compensatory Justice and Unemployment*, the favourite background circumstances for a BI, and also for a BI experiment, is high unemployment (see Groot, 2004, chapters 2 and 3). The social opportunity cost of any work disincentives under BI is lower, the higher the level of involuntary unemployment. The "free rider" has no cost to society if his job is taken by someone else equally equipped to do it. Why push people into paid work, if labour demand is the short side of the market? Also, if labour demand is the

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[2] A guaranteed minimum income experiment would test the effect of (un)conditionality, whereas a BI experiment would also test the effect of a lower withdrawal tax rate.

short side of the market for low-paid jobs, it is likely that no large differences emerge in labour market participation rates between experimental and control groups: the bottleneck is not the availability of people eager to work, but the availability of jobs.

Fifth, an experiment might reduce the radical uncertainty with respect to the economic feasibility of a BI scheme. At BIEN conferences, there are always a number of papers calculating the costs of BI. Whatever the results, I am never convinced, because they can by and large estimate only the static costs (that is, without taking on board all long-term behaviour responses). On the basis of theoretical and empirical microeconomic research something can be said about the direction of the expected effects of a BI scheme, but not about the scale of these effects. More serious is that economic theory does not yield unambiguous clues about what we can expect for the effect of BI on human capital accumulation, on low wage levels in the absence of minimum wage legislation and on female labour supply. Some economic models try to address this issue, the most recent being *Reinventing the Welfare State* (2005), a study of the Dutch Central Planning Bureau, but outcomes are sensitive to how the labour market is modelled and what model makers believe to motivate people. There are numerous factors at work that influence labour-supply decisions. One cannot hope to include all these factors simultaneously within the confines of an economic model. I agree with Barry (1997, p. 161) that: "no tax and benefit simulation, however conscientiously carried out, can make allowance for the changes in behaviour that would arise under an altered regime. A subsistence-level basic income would face people with an entirely different set of opportunities and incentives from those facing them now. We can speculate about the way in which they might respond, but it would be irresponsible to pretend that by cranking a lot of numbers through a computer we can turn any of that into hard science." In brief, there is no hard science concerning the effects of a BI scheme. Economic models can, at best, isolate the effects of a few of these factors. A limited field experiment may enable us to solve part of the puzzle, because the limitations of an experiment are of a different nature than those of economic models, whether theoretical or empirical. The main difference is that models rely on assumptions, whereas an experiment allows one to observe changes in labour market behaviour *directly*.

I hope this nonexhaustive list give some good reasons for a BI experiment. Still, it cannot be stressed enough that a BI experiment can only give partial answers to what we want to know (Widerquist, 2006). There are also at least three major shortcomings to a BI experiment. First, an experiment cannot show

the economy-wide effects. For instance, not long ago we saw a flourishing, yet unresolved, debate about the effect of the level of minimum wages on employment (Card and Krueger, 1995). Note that this debate is about the effect on employment of a small change in minimum wages. What is required here is an estimate of the effect of a complete elimination of minimum wages – in conjunction with the effect on human capital formation, the effects of the removal of the poverty trap and making the minimum income guarantee unconditional – on labour demand and labour supply that together will determine the new equilibrium values of wages and employment in the low-wage sector under a BI scheme. A BI experiment can never provide this information. Second, as will become immediately clear from Figure A1, high income earners (with earnings beyond F) cannot be included in the experiment: at the same level of gross earnings, they would be worse off under the experiment. This is a pity, because for them the combined effect of the negative income effect and the small substitution effect[3] might induce them to increase their labour supply. Third, an experiment would be of limited duration, which impairs the reliability of the effects on the labour supply if these are to be translated into a permanent unconditional scheme.[4] Fortunately, this last shortcoming can be overcome by making use of the *Win for Life* lottery results, as Marx and Peeters (2006) show. In these lottery games, winners receive a grant of €1000 per month for the rest of their life. In addition, it might be possible, contrary to a BI experiment, to compose among the winners, except for a small selection bias, a representative sample of the population. The first results of these natural experiments are very encouraging for a BI experiment.

Let me finish with the prospective groups to be included in the experiment. The first would be a group of social assistance recipients. This experimental subgroup would face the gross-net income trajectory SD, while the control subgroup would face SAC (and thus be subject to the poverty trap SA). The second group would be workers with gross incomes slightly below F. It would be interesting to include among this group a high number of working families with young children, since this is a group at risk, in the "rush hour" of life and in

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[3] The marginal tax rate for high-income earners will probably be close to the flat tax rate of a BI scheme. The only way to include this group is to give them a higher BI as a lump sum payment, at a level such that they will always at least break even in the event of there being no change in their labour supply.

[4] There are two opposite effects, depending on one's labour market status. A person with a steady full-time job might prefer to work fewer hours or to temporarily interrupt one's career, yet because the experiment has only a limited duration, such a shift might be too risky. As a consequence, the observed labour supply response will be smaller than that under a permanent BI. Those with a loose attachment to the labour market (e.g., women, teenagers) might plan temporary withdrawals from the labour market during the time the experiment runs. Here, the observed labour supply response would be greater than under a permanent scheme.

a time squeeze. They might show a high labour supply sensitivity (e.g., one or both parents may decide to work part-time, because the income loss of reducing working time along the line SD is smaller than along the line AD) coupled with an increase in time spent with their children. The third group would be disability recipients with disability benefits between S and the net income corresponding to F. For them, earned income will be taxed at the BI tax rate and their income will always be equal to the maximum of either the BI plus net earnings or their disability benefit if they were not in the experiment. The social assistance and disability recipient groups would both be endowed with vouchers to buy, on a voluntary basis, labour-market services (to improve their job skills, job counselling, etc.). In addition, the experiment could allow that they can use the monetary value of these vouchers as a wage subsidy to price themselves into jobs.[5]

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[5] To determine the monetary value of the vouchers, there are two possibilities. First, give the experimental subgroup the same per capita value as the money spent per capita on the control subgroup (in the form of monitoring cost, back-to-work job training, and so on). Second, if only a fraction (say $f<1$) of the experimental subgroup would make use of the vouchers, to equal the costs of the experimental and the control program, one may decide to give the experimental subgroup a voucher worth $1/f$. Admittedly, this second option would especially raise the difficulty that the outcomes would reflect the combined effects of a BI and of high-valued vouchers.

Appendix
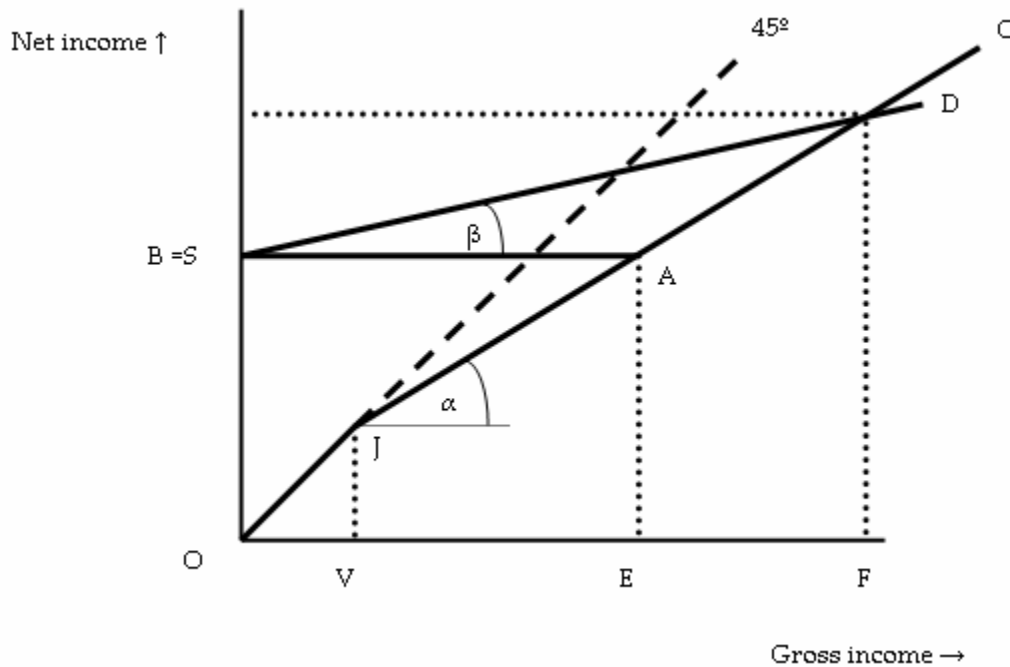
S	level of social-assistance benefit or BI
V	tax-free allowance
SA	poverty trap
F	break-even level of gross income
α	1 minus tax rate under conditional social security
β	1 minus BI-tax rate

Figure A1. Gross-net trajectory for conditional social security (SAC or OJAC) and BI (SD)

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