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## **CLUES AND LEADS IN THE DEBATE ON BASIC INCOME IN THE NETHERLANDS**

**Loek Groot and Robert van der Veen**

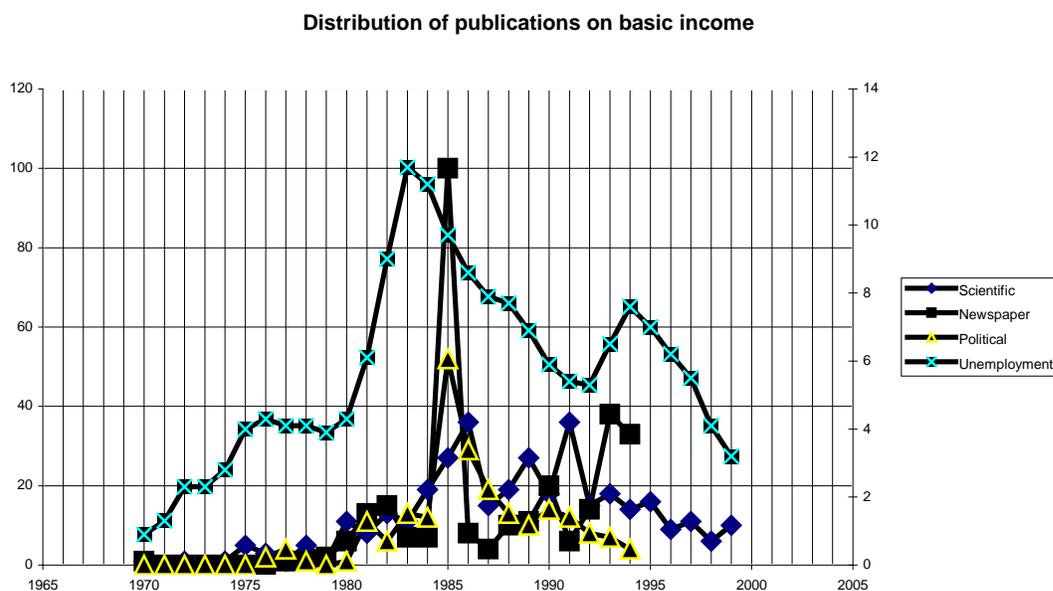
### **INTRODUCTION**

This is an account of the political significance of twenty years' worth of discussions around the theme of unconditional basic income in the Netherlands. In the Introduction, the question was raised of whether basic income has ever been on the 'political agenda', and what the chances are of its eventual introduction. We start out by briefly summarizing our findings. Basic income entered the arena of public debate as an ethically inspired reform proposal, to make available the social minimum income unconditionally to all Dutch citizens, for emancipatory reasons in a climate of relative abundance. Political interest in the idea, however, has proved to have been largely dependent on the rate of unemployment. The basic income idea gained a broad social appeal as an alternative socio-economic strategy, when major unemployment hit the country in the early eighties. But the literature we reviewed shows that the fate of basic income has also been determined by a lack of acceptance of its most radical feature: strict unconditionality with respect to work. Public discussions have always strongly focused on this aspect ('the decoupling of work and income'). Thus, proposals for a basic income openly defended in this radical form have never been able to mobilize any lasting political support in the Netherlands. Less far reaching versions of partial basic income (meant to replace only part of the social minimum in unconditional form) have fared somewhat better in terms of political acceptance, but have been rejected in the end as well, probably due to their association with the radical thesis of 'decoupling'.

After the Dutch economy began to pick up from 1987 onwards, and unemployment decreased just as spectacularly as it rose four years earlier, public discussions of basic income underwent a major change of context. Instead of being put forward as a full-fledged institutional alternative, basic income specifically came to address the exclusion of marginalized people, where 'exclusion' was understood as income poverty and lack of employment chances. In this context, the argument for unconditional subsidies was mainly located in its inclusion effects, both by boosting employment at levels under the minimum wage, and by allowing precarious workers to share at least minimally in the benefits of an affluent society. This change in emphasis meant that basic income was now discussed as an instrument for re-inserting the lowly productive members of the labour force, rather than making everybody independent from toil. The change followed the main tunes in the socio-economic debate: firstly, during high unemployment, the scaling down of previously generous Dutch benefits in the no-nonsense retrenchment of the eighties, and secondly, as the employment situation drastically improved (the 'Dutch miracle' of the nineties), the recognition of long-term exclusion at the bottom end of the labour market, as a result of the poverty trap.

What needs to be shown in our story, is how proponents of basic income have had to

adapt their arguments to changing circumstances and new climates of opinion. As a first step, Figure 1 records the numbers of almost 900 publications from 1970 to 1994 onwards, distinguished in three categories: *political*, *scientific* and *press* documents.<sup>1</sup>



**Figure 1. Number of publications on basic income and unemployment rate, 1970-1999.**

From Figure 1, it appears that the basic income theme is discussed since 1975. The intensity of the debate reached its all-time high in 1985. At face value, the number of press and political documents show a strong positive correlation with the development of the unemployment rate, although both were at a rather low level in 1983-84, when unemployment was at its peak level of almost 12 percent. However, the peak in 1985 in both series reflects the discussion following the publication of the WRR government advisory report *Safeguarding Social Security* in 1985. Likewise, the second peak in the series of press documents, in 1993, reflects the response to the launching of another government advisory document by the Central Planning Bureau, *Scanning the Future*, at the end of 1992.

Reviewing the large number of publications in these three categories, one can safely say that between 1985 and 1994, basic income has been prominently on the political agenda in a *broad* sense. That is, the idea regularly figures in platforms, seminars, journals and other fora and is regularly discussed. However, for basic income to be on the political agenda in a *narrow* sense requires more than being an item of public discussion. It would require at least that basic income be included in the program of a major political party, or that government advisory boards officially consider basic income to be a possible avenue of reform. In such cases, being on the political agenda means that other political actors are obliged to take a position on the issue. Using this criterion, basic income has figured on the political agenda in the narrow sense only three times: First, as mentioned above, in 1985, following *Safeguarding Social Security*; secondly, in 1992, when the idea was taken up in one of the scenarios of *Scanning the Future*; and finally, in 1999, basic income entered the political agenda as a component of the Ministry of

Finance's Tax Reform 2001, without, however, being mentioned as such. Nevertheless, hidden away in a major overhaul of the Dutch tax system, a refundable tax credit equivalent to a small partial basic income was proposed and passed by parliament in February 2000. Pending the definitive stage in the first Chamber, then, this small basic income will probably be implemented in 2001. The general tax allowance will be substituted by an individualized negative income tax amounting to one eighth of the net minimum wage, or one quarter of the assistance benefit of a single person. As a result, every person who is eligible for tax (all adults except students) is entitled to a refundable tax credit of €1507 annually. The lesson to be drawn from this silent implementation will be discussed later on, after our chronicle of the main lines of the Dutch debate.

Before presenting this chronicle, however, it is helpful to know what the introduction of a full basic income would require in the Dutch context. Basically, this is rather less of a major operation than it might be in other countries. From the mid-seventies onwards, the Dutch system of social security is two tiered. The first tier covers universal provisions of general assistance and flat-rate social insurance, up to a wage indexed social minimum (defined as the income covering the basic needs of a family, exclusive of child benefit, at the level of the net minimum wage). The second tier consists of wage-related worker insurance against unemployment, sickness and disability. The old age pension, which is part of the first tier, is made available to every Dutch citizen, on sole condition of residency, while child benefits are granted to all families with children under 18 years of age, without means testing. The introduction of a 'full' basic income - at social minimum level - would thus involve replacing the provisions of general assistance, social insurance and child benefit with a basic income. Given the unconditional nature of old age and children's entitlements, this would not change very much for the old, but it would raise child benefit. For adults before retirement age, it would mean getting rid of the means- and work-tests in the law of general assistance. Even though institutionally a full basic income could perhaps be fitted into the first tier of Dutch social security rather easily, the economic cost and the political repercussions would obviously be quite considerable.

## **1975-1985. EMERGENCE OF THE DEBATE: FROM UTOPIA TO PIECEMEAL ENGINEERING**

Although the idea of a state-financed income guarantee had been sporadically discussed in socio-economic circles during the post-war reconstruction, the major impulse for the Dutch debate can be ascribed to J.P. Kuiper, a professor of social medicine at the protestant Free University of Amsterdam. Kuiper's studies of re-validation and the humanization of work led him to consider the merits of 'disconnecting productive labour and income'. After reading Robert Theobald's *Free Man and Free Market* (1963), Kuiper developed a morally inspired argument for an entirely unconditional income, in a series of lectures and articles which attracted wide attention from 1975 onwards.<sup>2</sup> From his protestant vantage point, Kuiper presented a clear picture of the emancipatory advantages of unconditional grants, without bothering to discuss its costing or implementation. Kuiper's ideas were endorsed only by intellectuals within the Christian radical Left, in connection with the zero-growth perspective, in which basic income was considered to be a stimulus for 'alternative' forms of production and work in an ecologically sustainable society. More reservedly, religious organizations such as the Council of Churches were prepared to accept a selective version, combined with forms of social conscription - a

possibility tentatively raised by Kuiper. However, reviewing the catalog of reactions between 1975 and 1980 to these ideas on the radical left, one sees unions and employers' representatives dismissing the idea as utopian, social-democrats rejecting it as a far too radical departure from the labour contribution principle, and feminists preferring a direct attack on the male role of family provider, through an enforced reduction of the working week. So in this first stage, basic income figured as a utopian symbol of social criticism, directed to the reality of productivist market society, rather than as a concrete proposal.

It was only under the pressure of a severe recession that the idea took shape as a strategy of social policy. Basic income now entered into the realm of institutional alternatives, though still being strongly inspired by Kuiper's emancipatory viewpoint. The economic crisis was becoming the dominant framework of discussion. Between 1981 and 1983, with unemployment rising from 6 to almost 12 percent (*see* Figure 1), the radical union of food workers (Voedingsbond FNV) launched the universal grant in the socio-economic arena. Echoing Kuiper's moral slogan: 'A guaranteed income is a basic right' and sounding the unemployment alarm 'The robots are coming', the Voedingsbond proposed a basic income system, financed 'at source', and designed to replace major parts of the existing social security laws. This was presented as a long-term working class strategy for the re-distribution of paid work between men and women. In addition, small parties on the Left of the political spectrum spoke out: the evangelical radicals and liberal-democrats D66 were in favour, but did not really believe in the argument that a basic income would automatically bring about a substantive redistribution of paid labour. Most of the Dutch basic income proponents thus insisted on combining unconditional income guarantees with separate legislative programs for labour-time reduction.<sup>3</sup>

The political response to these new moves in the early eighties was detailed, and stated at important occasions. The central labour organizations (FNV and CNV) reacted with a considered, but firm rejection of the Voedingsbond proposal, on ethical and economic grounds, while expressing extreme scepticism about the alleged improvements for organized labour and the bargaining position of women on the labour market. After intensive discussions in the Labour Party (PvdA), the position of its allied union (FNV) was adopted by the party congress in April 1983, together with a resolution to aim at reducing the 40-hour working week to 25 hours, within one decade. The specific reasons for rejecting basic income can be summarized as follows: it would be incapable of reducing unemployment, and amount to buying off the right to work with a right to free income, which, moreover, would have to be so low in comparison to current social insurance payments that the hard-won rights of unemployed and disabled workers would be unjustly eroded in favour of groups not in need of additional transfers. As the party chairman summed up the position: 'With a basic income, you'll end up at the Right'. Moreover, social-democratic and trade union economists expected a basic income to produce economic disaster. This fear was also voiced in a 1981 report by the government-sponsored Scientific Council for Government Policy (WRR).<sup>4</sup> In a separate chapter devoted to basic income, the WRR predicted negative effects on exports and employment, because the additional tax burdens to finance basic income would be passed on into wages and prices. It concluded that even a modest basic income would remain unfeasible for the Dutch economy, except, possibly, if continued increases in labour productivity were to usher in a long period of jobless growth, and so cause persistent unemployment. Consequently, two years later, in its 1983 overview of socio-economic trends - after the unemployment rate had almost doubled - the WRR upgraded its plausibility estimate, now regarding a basic income, or a negative income tax system, as a key ingredient of a 'liberal *anti-etatist*' scenario.

Although this gradual progress of basic income to the status of a serious policy alternative was hardly remarked on in the press, the proponents did not fail to notice. The scientific publications show that they redoubled their energy to question the privileged treatment of wage labour, and criticize the unjust insistence on the 'reciprocal duties' of welfare recipients in the face of insufficient opportunities to fulfil them. A theme also much discussed was the need to simplify the complex and overburdened social security system, with its widespread feelings of insecurity, and its tendency to generate a large 'black' informal sector in the economy. In contrast to the social democratic and trade union stance, proponents argued that compared to paid work, unpaid domestic work and voluntary activities in associations are equally valuable means of individual self-realization and support of others. Thus, an unconditional income for all would not be a buy-off, but actively uphold the right to labour of a decent quality, while at the same time providing security for performing valuable services outside the labour market, without the stigma and administrative humiliation of means-testing.

Meanwhile, the ruling coalition of Christian democrats (CDA) and Liberals (VVD) remained outside of this debate. The Liberals entirely ignored the issue. The Christian democrats at least showed some recognition of unconditional income as a stimulus for voluntary work, but opposed it as being incompatible with the contribution principle and the Christian family ethic, explicitly rejecting the ideal of economic independence for individuals. With the ruling coalition, the major opposition party and the central trade unions firmly against, the political chances of basic income in the mid eighties seemed to be bleak indeed.

### **Safeguarding Social Security**

Yet, and quite unexpectedly, the WRR once more addressed the issue of basic income, in October 1985, this time in the form of a concrete reform proposal designed to ensure the continuity of social security in times where one has to count on long periods of unemployment. The status of the WRR, an advisory board nominated every five years by the government, is to formulate long-term recommendations, which require an official response in Parliament. The central element of *Safeguarding Social Security* is an unconditional partial basic income, coupled to two other institutional innovations. The basic income was to be financed by a special tax on production value. Moreover, it would be accompanied by the abolition of the minimum wage, and the indexing of the social minimum to changes in average income. As Figure 1 shows, the report attracted huge attention. It had a profound, though not wholly positive, influence on the terms of the basic income debate in the next decade. To see why this might be, we shall discuss it in some detail.

In order to simultaneously lower labour costs, flexibilize the labour market and simplify the welfare system<sup>5</sup> the WRR proposed an ingenious package of four measures:

1. A tax-financed universal partial basic income;
2. A compulsory general insurance scheme, providing insurance up to the prevailing social minimum for all kinds of contingencies (disability, unemployment, sickness, etc.). These benefits are not means-tested and have a maximum duration of six years, depending on labour market history;<sup>6</sup>
3. A tax-financed and means-tested social assistance scheme as a provision of last resort;
4. Privatization of all wage-related benefits above the social minimum, under regulations requiring a general duty of acceptance for insurance companies, and non-differentiated flat rate contributions.

The reduction of labour costs was to be achieved in two ways. Firstly, the abolition of the minimum wage would make it possible to hire people at lower wages. The argument was that partial basic income would take over the protective function of the minimum wage in a modernized form, which would no longer be tied to the basic needs of a nuclear breadwinner family, and thus reflect the increased diversity in household earning patterns. Secondly, labour costs would be reduced because under the new tax system, employers would have to pay the partial basic income to their workers, in return for which they could deduct the costs of providing the partial basic income from their tax liabilities. Apart from the beneficial effect of this method on the black economy,<sup>7</sup> the reduction of direct labour costs would be equal to the gross wage equivalence of the partial basic income, which is to say that the latter would act as a wage subsidy. Moreover, the WRR expected that the rise in wage inequality due to removing the minimum wage would be compensated by the effect of the partial basic income. For, with a partial basic income, pre-tax wage inequalities (both among full-time workers and between full-time and part-time workers) have a smaller effect on their total net income. To finance the partial basic income and to compensate for lower tax revenues on wage income, tax exemptions and capital subsidies were to be skipped, and new taxes on production and environmental pollution would be introduced. However, the WRR was reluctant to undertake detailed calculations of costing. This proved to be a mistake, as we shall presently see.

Before discussing how the proposal was evaluated by public opinion, it is instructive to review the other problems that the WRR wanted to solve by means of this new method of

safeguarding social security, and in particular the crucial role of partial basic income. First of all, means-testing. In this respect, as was widely admitted, the Dutch system of the eighties had become very complex. In order to check the many entitlement conditions, the rules of general assistance and related laws required extensive monitoring of claimants. As we noted above, this was perceived to be invasive of the private sphere, and humiliating as well, under conditions of high unemployment. The complicated procedures also created incentives of benefit fraud and administrative shortcuts. Partial basic income was expressly designed to address that situation. The WRR had three main reasons to think that this would be effective. Firstly, far less people would need to claim social benefits, because a part-time job could be sufficient to lift them above the social minimum. This would mean cutting down on expenditure, and on administrative cost. Secondly, the level of partial basic income was chosen so as to equal the difference between the existing benefit of a family and a single person. This would considerably simplify the means-tested part of the social minimum. Both single person and family-claimants would now receive their personal partial basic income, plus the same means-tested amount per household, thus removing the need to differentiate means-tested benefits according to household size.<sup>8</sup> An additional advantage of this particular level of partial basic income, according to the WRR, was that it remained considerably below the social minimum of a single person, thus maintaining the incentive to work among low earners who are in work. But at the same time, the level of partial basic income would still be high enough to give the unemployed with low earning potential the incentive to acquire jobs with earnings income above the social minimum, since in accepting such jobs, they would only be losing the means-tested part of the social minimum. This argument later came to be widely recognized as addressing the problem of the ‘unemployment trap’. Thirdly, a partial basic income would give the small self-employed in retail greater scope to compete with large-scale business (e.g. supermarkets). It would also replace special tax exemptions and subsidies covering the start-up period for the small- and medium-sized business sector.

With *Safeguarding Social Security*, the WRR performed a remarkable piece of social engineering. Addressing the major weaknesses of the Dutch welfare state in the mid-eighties, and taking into account trends such as persistent unemployment at the low end of the labour market, the demise of the traditional breadwinner family, the gloomy prospects of the poverty trap, and the growing informal economy, it came up with an adequate and logically structured new system.

Within 24 hours of the official presentation, however, the report was unanimously shot down. Even those who had staunchly advocated a basic income, such as the PPR and the food workers union, found reasons to object to one or more features of the plan, and therefore to reject it *pars pro toto*. Headlines in the press were ‘14 million welfare recipients’,<sup>9</sup> and ‘An armchair proposal’.<sup>10</sup> In what follows, we briefly review the criticisms of government, of political parties, and of the unions and employer associations.

The government coalition of Christian-democrats (CDA) and liberals (VVD) had originally requested the WRR to report on the reform of social security. But, faced with this result, it was not in a position to respond positively to the proposed radical innovations. For in the meantime, the government had politically committed itself to passing an expenditure-cutting reform of existing social security. This reform basically relied on keeping intact the two-tiered Dutch system, but with more selectivity, lower benefit levels and shorter durations of entitlement in the social insurance and universal benefits. Because of this, the government could not think of

abolishing the minimum wage, which was, after all, the linchpin of the existing system. Still less could it entertain any idea of replacing the minimum wage with a partial basic income, given that it would increase social expenditures, instead of paring them down.<sup>11</sup> So the last thing the government wanted to promote was a parallel discussion about the fundamentals of social security. In its response, therefore, it politely postponed consideration of the WRR plan to the year 2000. The CDA Minister of Social Affairs voiced the general feeling that a partial basic income, as long as it is below the social minimum, is unattractive because it is too low for those who need it and superfluous for those who do not. The coalition party VVD regretted the choice for a partial basic income instead of a negative income tax, and that tax progression was not reduced.

The Labour Party, on the other hand, used the report to brush up its opposition image as the real defender of social solidarity. It argued that indexing benefits to wages is essential for solidarity. If benefits were to be linked to average income, as the WRR wanted, then welfare recipients would have to carry the full burden of adjusting to negative economic shocks, while with wage indexation they would at least be protected by the actions of organized labour for preserving wages in an economic downturn. The Labour Party also objected to the WRR's proposal for making social insurance above the social minimum a privatized option, on the grounds that wage related income security would then become a prerogative of financially well-off workers. And instead of providing a partial basic income, which they thought would give incentives to withdraw from the labour market, or work only part-time, the social-democrats were in favour of facilitating a 'right to work', if need be by means of collective working week reduction and large scale job creation. Thus the Labour Party confirmed the stance which it had taken earlier, in response to the more radical proposals for a basic income by the food workers' union. Only the Center-Left party D66 was sympathetic to the main features of the WRR plan. But it opposed partial basic income, at least in the absence of a solid financial account of its feasibility. Finally, the radical Left party PPR, the only one that had been unambiguously endorsing a full basic income, held that a partial basic income would be totally insufficient for making unpaid work a true alternative to paid work. In this, it sided with the emancipatory movement, which condemned the partial basic income as a disguised form of hush money to keep women at home, without giving women the economic independence that would offer a real choice between the home and the labour market.

Predictably also, the unions fiercely opposed the plan. Elimination of the minimum wage, they said, would hurt the least productive workers.<sup>12</sup> Also, privatizing the collective provisions of wage-related social insurance would erase what the unions had been successfully fighting for since 1945, with the help of successive governments. The unions saw very clearly that if the government were made to retreat from wage-related social insurance, then they would have to negotiate directly with employers and insurance companies about income provisions over and above the social minimum. This could prove highly disadvantageous for the unions, in weak sectors of the economy. Moreover, both unions and employers disliked the fact that they would lose their control over unemployment and disability benefits at the social minimum level, which would become entirely state-administered. Both of these features of the WRR plan (listed under points 3 and 4 above), in short, posed clear threats to the corporatist bargaining model of the Dutch welfare state. Finally, and equally predictably, employer associations objected that paid work would no longer be the primary source of income, but would become supplementary to the partial basic income. The only positive element, in the view of employers, was the removal of the minimum wage. Although they welcomed a reduction in wage costs, they prefer-

red specific measures targeted at the bottom side of the labour market, instead of the generic measures to lower labour costs proposed by the WRR.

### **Several bridges too far**

Even though partial basic income was the central element of *Safeguarding Social Security*, its rationale was entirely pragmatic. For the WRR, partial basic income was a way of introducing a new orientation on basic questions of social security (unconditional vs. conditional, universal vs. selective, permanent vs. temporary, individualized vs. family-based). However, what the WRR may have overlooked, in retrospect, is that in view of its unconditional entitlement, even a partial basic income needs to be given a principled justification, especially if it stands out as the central element in a fundamental plan of reform. Another problem was bad political timing. For one thing, there was considerable consensus among the social partners to reduce the working week across the board, as a response to rising unemployment.<sup>13</sup> This consensus was ignored by the WRR, and, in fact, its advocacy of a liberalized labour market offered no room for a collective shortening of the working week. In this stance it proved to be right later on, given the increase of part-time jobs in the Netherlands, but at the time this was not yet apparent. Also, since almost everybody perceived the high cost of the social security system as the major problem, it was no surprise that a plan proposing to raise social expenditures even moderately would be ruled out of court on that ground alone. Finally, as we noted, the plan came too late to change the welfare reform which was already in the stage of being passed through parliament. Unfortunately, it also came far too early to serve as a realistic stepping stone for a second reform, in the more distant future.

By and large, the WRR-proposal was too ambitious. It wanted to accomplish too much in one time. The simplicity and consistency of the plan, and its style of logical argumentation from problems to solutions, are typical virtues of a social engineering perspective. These virtues do not necessarily count for much in a political process. Again, in retrospect, it was perhaps naïve not to present detailed modelling calculations concerning the effects of introducing partial basic income on household income, tax requirements, employment, prices, and so on.<sup>14</sup> The WRR believed, quite rightly, that such exercises would be impossible to perform with any precision, given the complexity of the proposed institutional changes. But in its scientific honesty, it overlooked the point that economic model calculations play a huge symbolic role in Dutch political culture, when it comes to discussing the effects of any proposed reform.

In sum, the proposal of a basic income, even if it is only a partial one, does not seem to have much of a chance, if it is accompanied with too many other structural changes, such as a shift from direct to indirect taxation and green taxes, the abolishment of minimum wages, a radical change in the role of actors who have a large stake in providing social security, and so on. *Safeguarding Social Security*, in fact, was not a single reform proposal. It was an integrated package of multiple reform components, which were combined in a way that might be easily appreciated by a disinterested social scientist, but difficult to grasp for political actors. As a result, none of the political actors could fully accept it, while each actor could find ample grounds for rejecting the components that cut closest to the bone of its particular vested interests. Moreover, since the basic income component stood out as a central element of the whole package, without, however, being supported on independent grounds, it served as the lightning-rod of popular indignation.

A final lesson of this episode is that an accurate examination of the detailed effects of a partial basic income on the distribution of income among different households and on

employment, prices and output, seems to be absolutely essential for obtaining serious attention for the proposal.

### 1986-1992. SEVEN LEAN YEARS

Even though the massive rejection of *Safeguarding Social Security* quickly removed basic income from the political agenda in the narrow sense, the idea remained on the broader agenda of public debate, though in a subdued manner, since most trade unions and political parties now participated only with lukewarm interest, at best. Basic income, one might say, was confined to insistent whispers at the sidelines of the debate on welfare reform. As one can see from Figure 1, after 1985 there is a sharp drop in the frequency of political and press documents on basic income. However, the scientific debate continued, and even more intensely than in the periods before 1985 and after 1992, reaching a much more mature state compared to the debate in the pre-1985 period.

In the wake of the first Basic Income European Network Congress (1986), in October 1987, fourteen organizations, including some trade union sections, political parties, claimants unions, and voluntary organizations, set up the *Workshop on Basic Income* (renamed *Society of Basic Income* in 1992) to stimulate and co-ordinate activities concerning the debate about basic income. It issued a newsletter three times a year, in which a small number of activists showed a remarkable dedication to keep the idea alive. The Workshop also organized some important seminars on the economic feasibility of a partial basic income reform, on the economic effects of basic income under several financing methods, as well as on questions of ethics and citizenship. This stimulated the elaboration of concrete proposals such as de Beer's (1988) costed proposal for a basic income of Dfl. 1000. The Workshop provided a stable platform to discuss issues on basic income in detail, more or less outside the attention of public opinion.

In speaking about a 'more mature state of discussion', it serves to note that, following the example of the WRR, the proponents of a full basic income were motivated to engage in detailed considerations of the advantages and disadvantages of basic income and negative income tax, compared to a variety of other alternatives to the existing system of Dutch social security. Two studies in particular need to be mentioned. Firstly, sponsored by the research centre of the Dutch Labour Party, Paul de Beer's '*Being jobless. Three scenarios for the labour market*' (1988) systematically compares the labour market effects of (1) the continuation of the current government's strategy (wage moderation, reduction of the public sector, forms of workfare); (2) the Labour Party's official alternative policy (collective reduction of the working week to 25 hours over a period of ten years); and (3) the introduction of a basic income at the level of the current guaranteed minimum income, along with a slower collective reduction in the working week and the fostering of individual working time reduction. On de Beer's calculations, the second scenario barely performs barely better than the first one in terms of unemployment, and only the third scenario has a chance of achieving nearly full (voluntary) employment. Secondly, a very comprehensive study, commissioned by the Ministry of Social Affairs, was undertaken by Joop Roebroek and Erik Hogenboom in 1990 under the title *Basic Income: Alternative Benefit or New Paradigm*. It contained an updated and balanced account of the discussion so far, systematically outlining the major variants of basic income, and clearly presenting the arguments for and against each. The study also gave a comprehensive survey of the international debate, including a section on the negative income tax-experiments in the USA, during the 1960s and

1970s. According to Roebroek and Hoogenboom, the fundamental fact prompting basic income proposals – ranging from right-wing, market oriented, selectivist ‘alternative benefit systems’ (à la Milton Friedman) to typically left-wing, collectivist, universalist ‘new paradigms’ (à la Robert Theobald) – is the increasingly manifest failure of social insurance systems to provide adequate income support. They identified three major trends: a dramatic increase in the number of long-term unemployed (who are no longer covered by such systems), a dramatic increase in the number of young unemployed (who have never had the opportunity to enter the social insurance system) and a dramatic reduction in the stability of households (which accounts for a growing number of households with no one earning or socially insured). "New challenges of a technological, social, political and cultural nature keep coming up. The times of transition are not over yet", the authors concluded. This high-quality report anticipated the theme of social exclusion, which was to become prominent in the mid 1990s.

### **1993-1996: BASIC INCOME AND SOCIAL EXCLUSION**

At the end of 1992, the Central Planning Bureau, the major forecasting agency of the Dutch government, published a large scenario study entitled *Scanning the Future*. The object of this ambitious exercise was to trace the fate of the Dutch economy in three possible scenarios of economic development during the next 25 years. The study generally assumed that each of these scenarios would be accompanied by a distinct set of labour market and social security policies. In the *Global Shift* scenario, the focus of the world economy shifts to the US and Pacific Basin. The Netherlands shares in the meagre fruits of a general ‘Eurosclerosis’, in which the generous Dutch welfare system, and its rigid labour markets, are not changed. The unhappy consequence is a near-collapse of the welfare state around 2015. Almost the opposite occurs in *European Renaissance*, the scenario that has the United States lagging behind, and Western Europe locked into a dynamic process of integration. In the Netherlands, a revitalized corporatism produces the consensus that enables the welfare state to maintain its high levels of benefit, but with a tightened regime of eligibility conditions, and Swedish-type ‘active labour market’ measures. This scenario was especially welcomed by the Labour Party, since it coincided with the optimistic hopes of the Party’s official Welfare Commission’s report *No one excluded* (1992) to restore full employment, and increase the participation rate of the labour force.

Surprisingly, the third scenario had a basic income as its centrepiece, in the form of a negative income tax that was to replace all social minimum benefits, and was envisaged to grow at a slower level than average income, thus lowering the ratio of social minimum to average living standards over time, while at the same time staying ahead of inflation. Of the three scenarios, this one, Balanced Growth, was the most successful in terms of growth and employment, and it was set against an international background, which has the ‘wealth of all nations’ developing favourably. The assumptions behind Balanced Growth are an enlightened mix of liberal market economics and ecological restraint, notably a heavy worldwide tax on energy consumption. With the welfare state much leaner and simpler to administrate, the poverty trap much reduced, and means-testing finally eliminated, the Central Planning Bureau reinstated a familiar picture of basic income, as a pivotal device of liberal social engineering, even though it hardly referred to the other major exercise in this perspective: Safeguarding Social Security. Considering how far basic income was removed from the political agenda in the narrow sense – since the dramatic failure of the WRR plan seven years earlier – this part of the CPB-report

contributed significantly to re-establishing its respectability within the community of economic advisers in the country, as well as among the political parties, in particular the liberals. But the mild recession in the years 1993 and 1994 with rising unemployment rates (see Figure 1) may have also been helpful in putting back basic income on the political agenda. For this recession focused attention on a theme which was by now becoming prominent in the political debate: the persistence of social exclusion and poverty, despite the improved trend of employment growth in the Netherlands.

### **High hopes for basic income**

After a social-liberal coalition came into power in September 1994, hopes of a serious role for basic income on the agenda of social security reform were raised high.<sup>15</sup> The coalition was formed, following four months of tough negotiation, on a compromise platform of drastic cuts in government expenditure, priority for satisfying the criteria for membership of the European Monetary Union, boosting labour participation, and a much-publicized announcement to discuss the future of the social security system in the summer of 1996 in Parliament.

In December 1994, Hans Wijers, Minister of Economic Affairs and member of D66, said in an interview that “we are inevitably moving towards something like a basic income” because this is a rational way of combining the dynamism and flexibility of the labour market with the kind of minimum income security which is considered a sign of ‘civilized society’ by many in the Netherlands. Emboldened by this unmistakable political cue, D66 held a well-prepared consultative conference on the ‘feasibility and desirability of basic income’ in March 1995.<sup>16</sup> At the conference, Wijers firmly restated his opinion, adding, however, that a basic income could be introduced only during a long-term process, in which the Dutch labour force would have to become more entrepreneurially oriented, and less prone to educating workers into lifetime employees: “We should try to see how we can use the system of basic income to promote the creativity of people. The current system does not stimulate this, on the contrary, the benefits of social assistance tend to put a brake on creativity”.<sup>17</sup> These comments sparked off a rather intense media debate during the first half of 1995. Though Wijers declined to participate any further in it, another prominent coalition member- Gerrit Zalm, Minister of Finance and former Director of the Central Planning Bureau – reiterated his sympathy for basic income as a privacy-friendly and a low-cost way of overhauling the elaborate Dutch social security system, as shown above in the scenario of *Balanced Growth*, which Zalm authored.

To be sure, the social liberal coalition also had its determined opponents. In particular Ad Melkert, the social-democratic Minister of Social Affairs and Employment, was quick to register his disagreement in no uncertain terms. Melkert, whose name nowadays graces no less than four newly created types of subsidized jobs wrote: “the freedom that basic income seems to offer amounts to a definitive separation of outsiders from insiders in the labour market”.<sup>18</sup> To contain an all too heated public debate within the coalition, Prime Minister Kok had to calm things down. In a press conference, he stated that the policy option of basic income could not be ruled out in advance, but that it was to be seen as one of several possible alternatives in a future discussion (though not necessarily in 1996, under the responsibility of the present government).

Nonetheless, the ensuing months had the media speculating on the probable shape of the 1996 agenda.<sup>19</sup> According to most commentators, any viable system of social security would at least have to combine the following three policy objectives: it should induce increased participation of the low-paid and relatively unproductive part of the labour force; be compatible with the rapidly growing variety of employment modes, in particular short-term flexible labour

contracts; and it should effectively prevent poverty, by durably providing a social minimum to those out of work. Three alternatives were identified:

1. a refurbished version of the present system: leaner on benefits, meaner on work requirements and more generous on job subsidies, but holding on to the existing two-tiered structure of minimum-wage-linked universalistic social assistance benefits and collective insurance for workers.
2. a so-called mini-system, especially promoted by the VVD, which is a uniform means-tested safety net at a sharply reduced social minimum, and privatization of collective worker insurance.
3. gradual build-up of a basic income in the income tax system for all adults, at 50 percent of the social minimum for families, with a gradual phasing out of the minimum wage, and indexing to per capita income instead. This basic income would have to be supplemented to safeguard the social minimum for certain groups, such as single old-age pensioners.<sup>20</sup>

In this anticipation of a debate to come, and with the backing of two prominent Ministers, it seemed plausible that the basic income alternative would stand some chance of becoming a serious candidate for reform. With its drawback of high cost mitigated by a gradual introduction, the proposal could claim to combine the three above-mentioned objectives in the most simple and effective way. Despite the vehement objections of Melkert, the Christian-democratic opposition, and VVD-leader Bolkestein, the proposal was indeed considered to be the most realistic one in early 1995 by leading Dutch newspapers, as its radical features needed to be appreciated against a background of unstable employment in the long run. As an editorial in *NRC Handelsblad* (23-12-1994) remarked, after stressing the participatory advantages of unconditional income, the idea of basic income ‘erases the conventional thought that social benefits are merely temporary, in anticipation of one’s next stable job. This message is a difficult one to accept, and politically difficult to get across. It touches the ethical core of our welfare state’.

### **1996: Back to work!**

However, by the time of the annual review of the budget in September 1995, it became apparent that the social-liberal coalition had no intention starting to prepare for a fundamental reform discussion in the summer of 1996. In retrospect, it seems to have made its choice for the refurbished version of the existing system well in advance. It is most likely that this was due to the fact that employment growth was rapidly reducing the unemployment figures, and the need to increase the rate of labour participation became more evident within the coalition. It was time to get back to work, and to stop speculating about reforms. This could be read most clearly in the official publication on employment and social policy (*Sociale Nota*, 1996). The tenor of this influential document is aptly summed up by chapter titles such as: ‘Work, Work, Work’, ‘Searching for Employment’ and ‘A Working Social Security’.<sup>21</sup>

As mentioned above, Minister Melkert had become the undisputed champion of subsidized jobs. He initiated an elaborate plan to create 40.000 public sector jobs for long-term unemployed (estimated cost: 1.6 billion guilders), provide legal opportunities for employers to hire long-term unemployed below the statutory minimum wage, and conduct experiments with different forms of workfare.<sup>22</sup> Though even Melkert himself admitted that these schemes are quite costly, and tend to run into serious implementation problems, the political climate of

response was prepared to grant him the benefit of the doubt. With Melkert's jobs of last resort, workfare-type measures were introduced into the Law of General Assistance in January 1996. These concerned the imposition of sanctions by local benefit centres on those unwilling to take part in a schooling or job 'trajectory'. This new law considerably tightens work requirements. Categories previously exempt, such as single mothers with children over five years of age were now required to search for a job or accept some form of public employment.<sup>23</sup> Also, the income norm for single persons was scaled down from 70 percent to 50 percent of the family social minimum, with discretionary powers for local centres to provide supplements for the needy.<sup>24</sup> Finally, other parts of social security were tightened by building in additional means-testing (provisions for widows and next of kin), or were scrutinized for further cost-cutting and work incentives (wage-related insurances for sickness and disability).<sup>25</sup>

It could no longer be denied that the social-liberal coalition government was involved in an extensive reconstruction job on the existing system, and that it was wasting little time. The promised reform discussion swiftly receded into the background. Frank de Grave, the newly appointed liberal underminister of Social Affairs, officially stated his willingness to drop the idea of a 'mini-system' despite protests in his party.<sup>26</sup> Also, the annual party conference of D66, held in March 1996, withdrew its previous support for the basic income reform strategy, retaining only the promise not to close the door on the idea for good. This was reminiscent of the 1994 PvdA election program's stance of keeping open the basic income option, as a future possibility of a 'more relaxed organization of labour' (we shall comment on this below). Thus, in this episode the more serious consideration given to basic income proposals, after the idea had gained a new infusion of respectability (following *Scanning the Future*), revealed a simple bottom line: on the ruling political view, the Dutch electorate was held to be in favour of retaining the features of the existing system, and it was largely committed to the ethic of paid work.<sup>27</sup> In a way, as we shall show later on, it may have been salutary for the prospects of basic income that the reform discussion of 1996 was postponed. The idea would not have survived political scrutiny as a major policy alternative.

### **The pragmatic turn of basic income**

Despite the continuance of a principled debate on the moral desirability of unconditional income guarantees,<sup>28</sup> the state of the discussion in the Netherlands during the second half of the 1990s had a resolutely pragmatic orientation. It focused on empirical questions that bear directly on the political chances of introducing (some kind of) basic income (within some time span). These qualifiers in parentheses are important, given the proliferation of forms and transitional scenarios, only some of which have been discussed, up to now.

With respect to the long-term impact of a basic income on behaviour, an interesting discussion took place between professional economists in the fortnightly journal *Economisch Statistische Berichten*, in early 1995. Following an admirably clear exposition of basic income's potential advantages, professors Lans Bovenberg and Rick van der Ploeg (who also figured as the financial spokesman of the PvdA in Parliament) took a firm position against the proposal with a sophisticated form of the 'dilemma of cost versus protection'. Their most provocative thesis is that over time, the introduction of a substantial unconditional income in the form of a negative income tax - which would offer adequate social protection but imply high marginal tax rates - would undermine the incentives of young people to invest in skill and education, leading them to take up undemanding and often undeclared small jobs during their formative years. According to the authors, "these developments threaten the most important capital good in a

knowledge-intensive society: human capital and the work discipline of future generations". In the long run, therefore, basic income would tend to undermine its own financing base.

The thesis is not entirely new,<sup>29</sup> and it was swiftly attacked by economists de Beer (1995), and Nelissen and Polk (1995), who stressed the need to take account of the empirical evidence on schooling and skill formation, and argued that two counteracting forces work to lower the cost of acquiring human capital: (1) students would receive a basic income which covers the subsistence cost of studying, whereas most of them now have to incur large debts to finance their education; (2) with lower net wage rates due to higher tax rates, the foregone earnings of full-time schooling would decrease. This exchange of views is politically significant, because it shows that the state of the discussion on basic income among economists has been shifting from the familiar short-term effects on labour supply to more qualitative (and necessarily speculative) long-term effects. Given the influence of economists on political debate in the Netherlands, this means that the debate on the more conventional issues has been waged with some success by those who have promoted basic income over the years, and is able to address more difficult issues which would not have arisen at all, failing this success.

The new wave of pragmatism can be also illustrated with reference to another form of the 'dilemma of cost versus protection', in the context of more directly political debates on partial versus full basic income that were conducted since the concept of partial basic income was introduced in *Safeguarding Social Security*. The dilemma is expressed as the '*impossibility theorem*'. It says that a basic income is either too low to be socially acceptable, or too high to be economically feasible. This is a favourite debating point of social democrats such as Melkert (who became the parliamentary leader of the Labour Party in the second social-liberal government, headed by Wim Kok, in 1998). The response of basic income advocates to this putative dilemma raises complicated issues, which will have to be sorted out in the coming years.<sup>30</sup> First of all, a partial basic income (whether it is seen as permanently partial as the WRR envisaged, or as a stage on the way to a full basic income) does not stand on its own. Rather, it is to be regarded as the unconditional component of a new system, which offers social protection up to an agreed level of social minimum, and which is more in line with the diverse realities of a modern labour market. However, the difficulty of this response is that the beneficial effects of the unconditional component, as well as the total cost of the new system - including its 'supplementary' conditional part - will ultimately depend on a fundamental question. This question concerns the *desired level of the social minimum over time*, relative to average income. It is this issue which decides what a 'full' basic income would ultimately amount to, and thus what it would cost to maintain it, in time.<sup>31</sup>

Secondly, as was made clear once again at the Conference 'A Future Welfare State with Basic Income', the behavioural impact, and therefore, the economic feasibility, of any given basic income level crucially depends on the method of its financing, in particular the impact on labour cost.<sup>32</sup> This point is usually overlooked by those who put forward the cost versus protection dilemma. However, this second response again reveals a problem for the basic income movement: the existence of a strategic trade-off. Either one tries to finance an unconditional grant by the traditional means of income taxation, implying acceptance of the adverse effects on labour supply occasioned by higher marginal rates of tax, hence a lower sustainable level of the grant - or one goes along the ambitious route of trying to introduce basic income along with a radical change of taxation and financing of social security, implying better prospects of sustaining a high level of basic income, but at the cost of having to provide independent arguments for two fundamental reforms at the same time. The dangers of this

second route have been amply illustrated by the fate of *Safeguarding Social Security*, as we have shown earlier.

Thirdly, and once more concerning the ‘impossibility theorem’, some long-term trends make it easier to introduce a basic income, or make its introduction more urgent. Since World War II, most Western countries have experienced continuous growth in GDP per capita, a decrease in the average number of hours worked, a gradual improvement of the conditions of employment, an increase in the female participation rate, and an increase in the number of disabled and early retired. All these factors facilitate the implementation of a basic income. High unemployment exerts pressure on working hours, reducing them, so as to distribute the total amount of employment over more people. Thus, as time goes by, the norm of full employment itself becomes set at a lower standard of annual working time. This trend motivates the use of a basic income of an appropriate level because basic income increases the number of persons that are looking for smaller-sized jobs, and can therefore help achieve full employment at the lower standard. Furthermore, the gradual improvement of the conditions of employment, combined with the shortening of the working week, makes it all the more feasible to reduce wage income as a necessary compensation for the sacrifice endured. And finally, what makes the introduction of a basic income so expensive, under current conditions, is the large number of women who do not perform paid work, and are not entitled to a social security benefit under the present arrangements. If the female participation rate continues to rise in the future, then it will become less expensive to finance a basic income by replacing conditional entitlements, provided a basic income does not deter women from entering the labour market. Conversely, if the proportion of disabled and early retiring persons in the population grows, then the collective financing cost of this is reduced by a basic income floor, in the same way that the capital cost of pension financing in the Netherlands is reduced by the state pension, (which effectively is a basic income over age 65, as we have noted before).<sup>33</sup> As we shall see below, these trends have been appreciated to some extent by forces on the political Left, despite the commitment of the social-democrats in the coalition to the conventional notions of full employment and raising participation in paid work.

### **The non-governmental Left: tax credits and basic benefits.**

On the non-governmental Left (the Green party GroenLinks, and the Trade Unions), the period under consideration was marked by a reticence to take active part in the media confrontation between ‘ideal type models’ of basic security, such as depicted in Figure 1 of the Introduction to this volume. However, new proposals were developed, which might be seen as first steps towards a genuine basic income. In its platform for the 1994 election, GroenLinks announced a plan to turn the personal income tax exemption into a small refundable tax credit (Dfl. 280 per month for each adult). In November 1995, its Executive Committee decided to re-label this as ‘foot income’, and raise the amount to Dfl. 500 per month, to be financed additionally from environmental taxes. Then, in its June 1996 Congress, the party proposed to raise the foot income another hundred guilders, so as to reach about two-thirds of the current minimum income for a single person. The party seems to be currently undecided whether it wants to proceed along the route of gradual introduction of a ‘full’ basic income at social minimum level, or stop at some kind of updated form of the 1985 WRR plan for a partial basic income. But whatever the case may be, it seems that the Green Left party has moved to a position which is far more favourable to basic income than might have been expected. In view of the party’s increasing popularity, and its wish to take part in a future social-liberal coalition, this is not

unimportant, even though it remains to be seen what would happen if these governmental aspirations were to be realized.

The union approach to basic income has always been strongly concerned with the issue of labour participation. In a discussion paper launched at the end of 1995, the Trade Union Federation FNV critically reviewed the social-liberal government's performance on social policy, as an introduction to a new proposal of its own. In the form of a refundable tax credit, their so-called basic benefit ('basisuitkering') would again start by replacing the income tax exemption, and then rise gradually up to 50 percent of the minimum wage in 2010. Like a basic income, it would be an individualized entitlement, whose size does not depend on family earnings. But unlike basic income, this benefit would be restricted to people who either have a job, actively seek paid work, or are engaged in care work within the family. The basic benefit plan was favourably reviewed by the Central Planning Bureau, which praised its effects in creating jobs in lower segments of the labour market.<sup>34</sup> Within trade union circles, the plan may well represent a compromise between long-standing opponents and advocates of a pure basic income. In fact, the plan closely resembles the UK proposal for a 'participation income', developed by leading economist Tony Atkinson in 1992. Seen from a strategic perspective, such proposals may constitute a different route to a full basic income. Instead of starting with a small unconditional income, which is then raised to cover basic needs, this strategy starts by making a basic needs-covering income accessible, subject only to the most entrenched of all conditionalities, the 'reciprocity' requirement of willingness to do (un)paid work.

### **The governmental Left: towards a relaxed labour market**

In the same period, two publications (1994; 1997) by the governmental Left (the Labour Party) expressed the need to relax the organization of work. The normative position is that what makes participation in 'work' a strategic good for individual well-being and agency is not paid work as such, but rather a flexible mix of paid work and unpaid activities, which persons should be able to vary over the course of their lifetime.<sup>35</sup> The empirical premise behind the call for a 'more relaxed organization of work' was expounded in the Labour Party's election programme of 1994: the prospects for full employment in the long run are uncertain, but that in any case, the demand for the work of the lesser talented and lower skilled will in all probability continue to present employment problems at the bottom end of the labour market. From these normative and empirical premises, it follows that it is both prudent and ethically defensible to broaden the concept of lifetime work by admitting that 'all paid and unpaid activities actually contribute to participation and integration'. In other words, the concept of a relaxed organization of work holds that the 'intrinsic' good of labour participation must be taken to include the value of unpaid activities in voluntary work, the upbringing of children, and neighbourhood care.<sup>36</sup>

The desire to achieve a more relaxed labour market qualifies the conventional full-employment policy goal. 'Full employment' is now seen as a matter of providing lifetime access to paid work, while at the same time ensuring that people will be able to leave the labour market for longer periods, and be able to work shorter hours even in a full-time job. This means that the corresponding objectives of social security need to be adapted in the direction of a flexible system of benefit entitlements, in both tiers of the Dutch system. As the 1997 party document *Time for Participation* shows, the ideas that the Labour Party has been discussing internally reflect a keen awareness of adapting social security to this relaxed conception of full employment. In the sphere of social insurance, this is to be accomplished by building in contribution-financed periods of home or study leave into the insurance package. In universal

social minimum provisions, the document goes a long way in the direction of the unions's proposed basic benefit system, which was just mentioned. In some ways, this development runs counter to the Party's governmental stance in the reform debate, which is of course much more oriented to the upright position of maximizing people's lifetime participation in paid work, for men and women alike. But given the stridency of the drive for 'Work, Work, Work', one might expect that if these tensions in social democratic thinking are to be resolved in the long run, then it is likely that the relaxed position will have to become more influential. If so, the climate for basic income will become that much more hospitable.

### **1997-2001. BASIC INCOME: IMPLEMENTATION BY STEALTH?**

Due to the success of the 'Lowlands-Economy' – notably its employment growth, its steadily decreasing budget deficit, and its combination of rising profits with the maintenance of still generous social security standards – public discussion of basic income in the Netherlands has subsided. In so far as there has been any discussion at all recently, it is a repeat performance. But mainly, to return to our distinction of the political agenda in the broad and the narrow sense, basic income is strictly off the agenda in the broad sense, as one can see from the curvature of Figure 1.

Yet, paradoxically, basic income is on the political agenda in the narrowest possible sense, though admittedly in a small way. How can this be? The answer is the recent decision (as mentioned at the beginning of this chronicle) to introduce a tiny basic income in the tax system, without one moment mentioning it as such. In February 2000, Parliament agreed to introduce a personal refundable tax credit of € 1,507 (Dfl. 3,321) per year for all adult residents, except students, which is to take effect as of 2001. Over and above that, those earning at the most 130 percent of the minimum wage are given an additional variable tax credit of up to € 803 (Dfl. 1,847) per year. These measures are part of a total package to reform the tax system (*see Tax Reform 2001* by the Ministry of Finance, 1999). The reform is quite wide ranging, and it was launched by the second social-liberal coalition under the slogan 'Broadening, Greening and Shifting'. *Broadening* refers to the strengthening of the tax base by reducing the number of tax-deductible items (e.g., mortgages on the second house, interest on loans, annuities, etc.). *Greening* means that environmental taxes are doubled, although they still remain quite modest. *Shifting* refers to two things: first, direct tax rates (on all earned income) are reduced, while indirect tax rates (VAT) are raised; and secondly, related to the broadening objectives, income from labour and income from capital are henceforth subject to different rates of tax, with capital income treated very favourably.

The introduction of the personal tax credit is part of the reform that deals with wages and salaries. It replaces the current general tax allowance, which has always been transferable from non-earning partners to the breadwinner within the household. Actually, the level of the tax credit corresponds to the tax advantage of the general allowance for low income earners (which is equal to the tax allowance times the tax rate of 37.5 percent, in the first income bracket). For single-earning families in the higher brackets, who face a marginal tax rate of 50 percent or 60 percent, this replacement would constitute a significant loss of net income. Income neutrality of the tax reform is however attained by reducing the marginal tax rates across the board (*see Table 1 below*).

**Table 1: Tax Reform 2001\***

Present tax system		Tax reform proposal	
Tax allowance (transferable)	3,900	Tax credit (refundable)	1,507 (+ 803 if working)
1st tax bracket + tax rate	[3,900; 21,350] at 37%	Two lower income tax brackets	[0; 14,027; 23,529] at 32% and 36%
2nd tax bracket + tax rate	[21,350; 46,957] at 50%	Middle income tax bracket	[23,529; 48,869] at 42%
3rd tax bracket + tax rate	[46,957; → ] at 60%	Higher income tax bracket	[48,869; → ] at 52%
VAT	17.5%	VAT	19%

\* All expressed in Euro.

The micro-economic reasons for introducing the tax credit are twofold. Firstly, in the present system dependent partners of breadwinners have only a small financial incentive to perform paid work, due to the above-mentioned transferability of the tax allowance. This makes the implicit marginal tax rate on income earned by the dependent partner equal to the marginal tax rate of the breadwinner. Introducing an individualized tax credit removes this adverse effect on labour supply. Secondly, the replacement of transferable tax allowances by tax credits generates considerable additional tax receipts (approximately €2.3 billion), which can be used to lower tax rates on wages and salaries. As noted above, the reduction of tax rates is such that the negative income effects of the middle and high income earners are more or less compensated. For this reason, the cutback in marginal tax rates is much higher in the middle and higher income brackets, as Table 1 shows.

Despite the lack of support for a basic income among political parties (excepting the Green Left party, which is in favour of a partial basic income, as we have seen), the tax reform outlined above is a major step towards the implementation of a substantial basic income. Why? First, the instalment of a nearly universal and refundable tax credit means that some fundamental objections against basic income have been waived. For, in the new system, individuals (again, except students, who receive a small universal study grant) receive an *unconditional* income entitlement through the tax system, which is characteristic of a basic income. Secondly, the tax reform is a definite step towards a tax system in which the unit of taxation is the individual, not the household. This can also be considered as an important prerequisite of a basic income scheme, when it takes the form of a negative income tax.

So, even though the motives behind the proposed tax reform have little to do with the principled emancipatory or justice-oriented motivations that advocates of basic income usually deploy, the government is well on the way to conceding that a basic income type scheme is at least part of a rational method for attaining fiscal individualization, a flexible and dynamic labour market, and a decent minimum income security for all. However, this concession is entirely implicit, since in defending the proposal, the social-liberal coalition has kept studiously silent about the fact that the measure entails an unconditional income. Given the political preference for the overt productivism of the Lowlands-economy, and given a *Zeitgeist* which

strictly favours tightening rather than relaxing work requirements on benefit recipients, it cannot be openly admitted that a basic income constitutes part of the new taxation package. The present mood among policymakers, and among the political parties who voted for the tax reform, is that one is allowed to name the tax credit as one wishes, as long as it is not called a ‘basic income’.

## CONCLUSIONS

With this overview of the Dutch discussion on basic income from the early 1970s to the turn of the century in mind, we briefly relate the different episodes to different strategies for bringing basic income onto the political agenda, and assess which of them has been most successful for squeezing basic income into the realm of political possibilities. Looking back, three strategies can be distinguished in the Dutch debate: (1) *the royal way*: arguing for a full and avowedly unconditional basic income, by a careful exposition of the critical power of the notion of ‘decoupling of income from work’, and then going on to point out the attractions of concrete proposals for a emancipatory and redistributive reform policy; (2) arguing for a partial basic income, as the linchpin of a problem-solving *social engineering strategy*; Finally, (3) the strategy of bringing in basic income by the support of measures that are not associated with the notion of unconditionality, but in practice serve to loosen the link between income and paid work. This strategy we have called *implementation by stealth*.

It may be argued that these strategies have been applied sequentially, in the order we just presented them. Everything started with the strategy of the royal way, following professor Kuiper’s ethical appeals in the mid-1970s. The strategy was the dominant one until 1985. Predictably, because of the novelty of the idea it tried to promote, it had little real impact, apart from triggering an important discussion on the fundamentals of the welfare state. The achievement of the royal way was to place basic income firmly on the agenda of public discussion. But it soon became apparent that the royal way was not suitable for getting basic income even close to the legislative agenda, because unconditionality, and ‘decoupling’, are highly controversial in a society with a strong work ethic, and invoke extremely strong gut feelings of opposition. As we have suggested, however, the sudden rise of unemployment in the early 1980s created a climate of urgency, which motivated governmental advisors to explore the problem-solving potential of the idea. Governmental advisors have been largely responsible for turning basic income into an instrument of practical policy in the Netherlands, within a social engineering perspective. But there again, the open advocacy of unconditional entitlements proved to be a bridge too far, this time perhaps for opposite reasons, to wit that the controversial nature of basic income was now underestimated by its advocates, and thus remained undefended against moral opposition. When the Scientific Council for Government Policy (WRR) made partial basic income a prominent element in its grand design of reorganizing the social security system, it probably did not fully realize what the response would be. The direct success of this strategy has thus been strictly limited as well, even though the problem-solving potential of a partial basic income was explored far more successfully, though also more loosely, in the 1992 scenario study *Scanning the Future* of the Central Planning Bureau. However, indirectly, the very failure of the social engineering approach may well have made it possible to achieve the modest, but real, breakthrough of partial basic income in 2000, by including a genuine element of negative tax in the tax reform. It made policymakers realize that while unconditional grants can be useful if they are not too large, one should not emphasize the element of ‘giving away

something for nothing’.

It is rather difficult to judge whether implementation by stealth, the third strategy which we identified above, will play any further role in Dutch politics. The reason for this is that it is hard to tell whether the strategy is a proper strategy in the first place, that is to say, a publicly accountable way of choosing policy means to achieve given political ends. From a Machiavellian point of view, it may of course be eminently rational to try to bring in a reform by the back door, if the front door happens to be closed. But the problem is that the back door, so to speak, may either be too small to allow the whole package to pass through, or it may be that once part of it is inside, it can easily be thrown out through the same door again, without anyone caring much, or even noticing. Outside observers of the Dutch scenery of social policy may wonder what the fuss is about, given that the popularly supported state pension in the Netherlands is already granted independently of whether one has worked or not during one’s lifetime. But the point is that this pension scheme (which was extremely controversial at the time) could be introduced precisely because everyone was assumed to have worked between age 16 and 65 as a matter of course. To exempt the age group of ‘able-bodied’ even partly of the duty to work is a quite different matter. Thus, for the proponents of basic income at least, an alternative mode of looking at the modest result of twenty years of agonizing and campaigning is perhaps to admit that things often do not happen in the way one expects, but that it is important to cash in on them, if and when they do happen. From this more patient point of view, there may be reasons to be moderately optimistic, despite the dominance of the productivist attitude to social policy at present.

In the near future, social security, in both tiers of the Dutch system, is meant to be implemented by means of compulsory ‘insertion contracts’.<sup>37</sup> This approach will involve a high degree of tailoring individual duties to accept work, retraining or job search, in which people’s needs and capabilities are to be taken into account. This system may be very costly to administrate fairly and efficiently, however, in the cases of less employable persons who have reason to assume that the insertion contract holds no real prospect of improving their lives. Their ‘needs and capabilities’, then, might benefit more from exemptions from paid work, or from a more substantial refundable tax credit. Some experience with the contractual approach will no doubt offer administrators and policymakers ways of finding out, by trial and error.

As remarked in the Introduction to this book, the wish to move towards a more ‘relaxed labour market’, with more scope for combining paid and unpaid work over the life cycle, is starting to be realized only in social insurance, in the form of paid parental leaves, or collective agreements to save for going on sabbatical leave. As we also noted earlier, such developments are highly compatible with the logic of a ‘participation income’. However, as yet, they still remain to be introduced into the domain of basic social security. This may take some time. At present, it seems that those who are far removed from the labour market are perceived as people who must be disciplined, whereas those holding ‘proper jobs’ are apparently assumed to possess the right kind of work-ethic. This makes them eligible for a more relaxed regime of discipline, which includes organized exemptions from paid work. But it may well be that running viable contracts of insertion will ultimately necessitate similar arrangements in basic security as well, slowly at first, as exceptions to the rule, or perhaps concealed as income legitimized by the promise of some kind of useful activity. Perhaps, after the trick of the tax reform has been repeated in several other fields, the Netherlands will after all be having something like a basic income, though by then, no one may remember what the term was supposed to mean.

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## Notes

<sup>1</sup> Political documents are classed as government publications (ministries, standing advisory organizations) and publications issued by political parties, unions and employer organizations. Scientific documents, besides books and journals include papers presented at seminars, and specialized newsletters. Press documents are mainly national newspapers and periodicals items, and in some cases transcriptions of items on radio or telex.

<sup>2</sup> Kuiper (1975; 1976; 1977; 1978; 1980; 1982).

<sup>3</sup> The pacifist socialists opted for a non-means tested social minimum, conditional on the willingness to seek employment after redistribution of labour would have been achieved by a 25-hour working week. This proposal thus accepted a (*de facto*) unconditional income only as an emergency measure, during a short transition towards a state of 'full employment' for men and women alike.

<sup>4</sup> The status of the WRR as an independent think tank of the government is to provide scientific information about the long-term developments that may have a serious impact on society, and to formulate the major bottlenecks and problems in order to give a timely overview of the major policy issues and policy alternatives. As a matter of fact, the studies of this body are of high standing and have had a considerable influence on the policy measures that have actually been implemented in the past, following the advice of the WRR.

<sup>5</sup> The Council asserted that everyone able to understand the results of the soccer league is also able to understand the new system.

<sup>6</sup> For every year that levies are paid, one is entitled to half a year of insurance.

<sup>7</sup> Employers would forfeit the 'partial basic income tax credit' if they employ workers informally, and for labour

intensive work only wage cost additional to partial basic income would have to be paid to make it worthwhile.

<sup>8</sup> Partial basic income (PBI) is the difference of the social minimum for a two person household (SM2) and a single person household (SM1). SM1 is 70 percent of SM2, so the PBI is set equal to 30 percent of SM2. The means-tested general assistance benefit, which has to be paid out to top up the PBI, is GI. It is equal to 40 percent of SM2. For a single person household on welfare, total income is  $PBI + GI = 70$  percent of SM2. For a two person household on welfare total income is  $2 PBI + GI = 100$  percent of SM2. Whatever the household composition, only one GI-benefit is provided per household. Thus by choosing the level of PBI in this way, paying out differentiated levels of means-tested income has become unnecessary, while the required differentiation in social minimum entitlements between households is preserved.

<sup>9</sup> NRC Handelsblad 25-6-1985.

<sup>10</sup> "The plan is a construct of the study room, with no connection to reality, financially completely unfeasible, now and in the future" (De Telegraaf 21-6-1985)

<sup>11</sup> Partial basic income would increase social expenditures, mainly because large groups (housewives, the self-employed, workers), who would otherwise not be entitled to any benefit, would now be receiving the partial basic income. The savings that the WRR plan might as a whole have in the long run could not be calculated easily, while these increases in cost stood out quite visibly.

<sup>12</sup> The move of the WRR to combine partial basic income with the abolition of the minimum wage was new and ingenious. Without a minimum wage, full-time workers with an earning capacity below the social minimum would have to claim supplementary general assistance, which is considered to be socially unacceptable in the Netherlands. Partial basic income precludes this, and is thus a stepping stone (a non-earmarked wage subsidy) for the least productive workers. However, what the unions pointed out was that the least productive workers would be insufficiently protected by a partial basic income of the proposed size, given that wage rates might decrease significantly across the board. From this point of view, it would be more justifiable to lower the minimum wage correspondingly, rather than abolish it completely.

<sup>13</sup> This consensus emerged despite the fact that working week reduction in order to distribute the available jobs over more people has the disadvantage that the more productive workers are forced to work less to provide less productive workers jobs. Besides this efficiency loss, there is the serious danger that employers react with further rationalization of the production process (more machines and computers) instead of hiring more workers.

<sup>14</sup> Although the report clearly expounded the direction of the effects, no estimates were given for the magnitudes of the changes on economic variables.

<sup>15</sup> This coalition, which is in its second term of government now, consists of the liberal party VVD and the social-democratic PvdA (to which Prime Minister Wim Kok belongs), with the smaller left-liberals D66 wedged in between. The left-liberals have been especially instrumental in forging the coalition, and thus removing the Christian-democrats from their habitual place at the centre of power in Holland. Currently, however, they have large difficulties in maintaining their political identity.

<sup>16</sup> See the main conference document in SWB D66, 1994, and see Vrijhoef, 1995. The main contributions have been published in Varkevisser (ed.), 1996.

<sup>17</sup> Quoted in Trouw, 6-3-95.

<sup>18</sup> Quoted from the Volkskrant, 24-12-1994

<sup>19</sup> See for a detailed review Pels and Van der Veen, 1995: 7- 40.

<sup>20</sup> This is the most current, but less ambitious, of the two variants of a basic income system set out in the new information brochure of the Dutch Basic Income Society, see Vereniging Basisinkomen, 1995. The other variant aims at a basic income of 100 percent of the social minimum for a single person.

<sup>21</sup> The coalition's social battle cry, often repeated by Wim Kok in 1996: 'Werk, werk en nog eens werk' (Work, work, and work once more)

<sup>22</sup> Sociale Nota 1996, Ch. 5.

<sup>23</sup> The present government proposes to extend this measure to single parent families with children under five years of age: they are expected to work 24 hours a week, provided that child care is available.

<sup>24</sup> A lively inventory of the changes is given in Kroon and Vinckx in 'De ambtenaren blijven praten totdat de bijstandsmoeders aan het werk willen', NRC Handelsblad, 21-12-1995: 7.

<sup>25</sup> Not all of these developments can be placed unambiguously in the first category of policy alternatives mentioned under 'High hopes for basic income'. Stricter means-testing and exemptions of the minimum wage law fit into the

mini-system strategy as well, whereas replacement of contributions by income taxes to finance state pensions, another measure announced by government in response to demographic pressures, is compatible with a basic income strategy. It should be noted, moreover, that some leading proponents of basic income took up a more relaxed position with regard to (non-coercive forms of) workfare, which they were willing to envisage as a means of easing the transition to a basic income system. *See* in particular DIS, 1995: 72-75.

<sup>26</sup> According to an interview in *Algemeen Dagblad*, 13-8-96. It should be noted, however, that VVD-leader Bolkestein has not endorsed de Grave's statements. The liberal party probably remains in favour of the mini-system option, which it has been consistently promoting since 1984.

<sup>27</sup> A public opinion survey conducted by the Social and Cultural Planning Bureau in 1993 showed that 41 percent of the Dutch population would support a mini-system, only 19 percent a partial basic income (along the lines of the 1985 WRR-proposal), and no less than 59 percent would be in favour of a workfare system. *See* SCP, 1994, Ch. 6, and the recent analysis of these three alternatives in Vrooman and De Kemp, 1995. The survey was repeated in 1995, with closely similar results (*see* SCP, 1996).

<sup>28</sup> *See* De Beer, 1993; Heij *et al.*, 1993; and Van der Veen and Pels, 1995. These works have attracted little attention in the Netherlands. Despite their close attention to policy issues, they may be perhaps said to fit better into the international philosophical debates on the ethics of basic income, which have been intensified after the publication of Van Parijs, 1995.

<sup>29</sup> It was raised earlier, and discussed in depth, by Erik-Jan van Kempen in Heij *et al.*, 1993, Chs. 7 and 9.

<sup>30</sup> A highly readable journalistic overview of these various issues for the general public is found in Smakman, 1996.

<sup>31</sup> The importance of this point is particularly clear from comparing the scenarios 'European Renaissance' (a conditional and permanently high social minimum over time) and 'Balanced Growth' (an unconditional and decreasing social minimum over time), in Centraal Planbureau, 1992. The point is extensively discussed in Heij *et al.*, 1993, Ch. 12.

<sup>32</sup> This conference was organized by the Dutch Society for Basic Income in February 1996. It dealt with several other issues, such as the link between basic income and the Green movement, and improving the communication between the basic income movement and the entrepreneurial world.

<sup>33</sup> Of course, this last argument only holds as long as the society in question remains committed to collective, rather than privatized, provisions for disability and early retirement. At present, this holds for disability social insurance, but with respect to early retirement, the government has decided to abolish collective provisions. Early retirement is now part of a person's more flexible options of capital-funded pension.

<sup>34</sup> *See* NRC Handelsblad, 7-2-1996.

<sup>35</sup> *See* PvdA, 1994: 31

<sup>36</sup> *See* PvdA, 1994: 10. This particular position is also stressed by the Christian Democratic Party, *see* CDA, 1995.

<sup>37</sup> The WRR has been quite influential in getting this mode implementation accepted, *see* its most recent report on social security (WRR 1997). For an analysis, *see* Van der Veen, 1999.