Ladies and gentlemen, dear friends of the Basic Income European Network who have travelled from all over the continent and even from across the Ocean to join us here, a very warm welcome to you all.

It is a great honour for me to open our 7th International Congress in the city of Amsterdam, aptly described in our programme as a most suitable venue for a variety of reasons which deserve to be stressed once more. Amsterdam is the major city of a country in which some form of public debate on basic income was launched as long ago as the 1970s; the first country in which the idea was unambiguously endorsed by a trade union back in the early 1980s; the first country in which it was recommended by an officially appointed commission (and some of us remember Prof. Nic Douben participating as a member of the Netherlands Scientific Council for Government Policy at the first conference organised by our present secretary Philippe Van Parijs in Louvain-la-Neuve in 1986, when and where the BIEN itself also came into being as such). Last but not least, the Netherlands is the first country in which it was publicly declared by serving members of the government (ministers Wijers and Zalm, in December 1994) that the basic income should be taken seriously.

However, Amsterdam reminds us also of the great philosopher Baruch Spinoza, who three hundred years ago taught his contemporaries that it would be wise to distinguish between an economic zone of unrestrained free commerce and another in which all the land and possibly even the buildings belonged to public property in order to avoid permanent inequalities.

Josef Popper-Lynkeus, one of the more direct precursors of the BIEN, who lived in Vienna around the turn of the century and was the subject of various discussions at the congress held there in 1996, also loved Spinoza very much for this very reason and loved the Netherlands as the symbol used by Goethe in some famous verses in his Faust. The symbol of a land described as wrested from the sea and opening, in the shelter of a dam, “to many millions of men a space where they may live not in safety but freely labouring… This – I am still quoting from Goethe- is the final conclusion of wisdom: only he merits freedom and life who must win them afresh each day! Thus, surrounded by perils, the youth, the adult and the old man will spend their industrious years. To see such a teeming of life! To live on the free land with a free people! To that moment could I say ‘Stop, thou art so beautiful!’”.

Now, it is probably a fair assumption to say that most of the advocates of the Basic Income are longing for such a free land and such a free people, although they do not think they are thus falling into any sort of Mephistophelian temptation.

We can therefore be particularly glad to have gathered here today, at a moment when some of the ideas we have striven to investigate and spread appear to be receiving broader attention. We all know, however, that one of the reasons for this growing interest is an increasing awareness of the arbitrary and
irrational nature of many institutions of the traditional welfare state, whose redistributive mechanisms have stratified over the years to lose their transparency.

After ten years – which is probably far too a long period – spent serving as co-chairman of the BIEN together with Guy Standing, I would like to contribute to our 7th Congress by submitting to your critical assessment a number of very personal reflections on some far-reaching implications of the crisis now affecting the welfare state for the idea of a Basic Income.

It has become increasingly difficult for citizens - and often also for economists - to see just who the welfare state and the various mechanisms of fiscal redistribution take resources from and give resources to. The Italian scholar Maurizio Ferrera, who is unfortunately prevented from being with us as originally planned, recently described this situation as one of transition from a redistributive to a purely distributive system in the sense that the nexus linking the two moments of taking and giving no longer obeys any economic logic whatsoever. The increasing difficulty of establishing and quantifying the resources effectively transferred from one social group to another heightens the longstanding problem of the lack of a clear criterion to decide what proportion of national income should be creamed off by the state for the purposes of redistribution.

The principle of popular sovereignty, which is somehow supposed to make up for the arbitrary nature of the political mechanisms of redistribution, has itself been distorted in various respects. Suffice it to mention the pay-as-you-go pension systems, which work in many countries to saddle future generations that do not vote or have not even been born yet with massive burdens, often justified by the metaphor of insurance. This comes about above all in countries with negative demographic trends, but also when there are political mechanisms that foster perverse forms of electoral collusion between political representatives and generations of electors thus enabled to obtain high-level benefits at the expense of tomorrow’s workers and voters. Pay-as-you-go pension systems are, of course, not the only devices making it possible to saddle future generations with the cost of the welfare state. In Italy and Belgium, for example, non-existent resources have been spent and transferred by the political system for years, thus creating a public debt that now outstrips GDP, the interest on which will have to be paid by generations other than those actually benefiting from the golden hand-out. Up to last year, the de facto surtax of interest payments facing Italian citizens before the colossal effort made to bring the country into line with the Maastricht parameters was in the neighbourhood of just under 10% of GDP, i.e. more than the Italian state was spending at the time on health and education combined.

In short, experience has shown in many countries that, when left in the hands of politicians and with no mechanism of self-regulation, the welfare state is capable of manipulating the flow of income to create a negative social stock of capital at the expense of citizens who have yet to vote, i.e. at the expense of our children and grandchildren.

It is also for these reasons that the more aware sections of the public are finding the idea of a basic income increasingly attractive. Radical and indeed questionable though it may appear to many, the basic income system offers a clear-cut solution to the problem of finding a non-arbitrary criterion for the beneficiaries of redistribution. All citizens must benefit and on a rigorously equal basis. Many have also understood that the poverty trap must be taken seriously, particularly in countries with a high rate of unemployment, and the basic income system also offers a solution to this problem of the traditional welfare state.
The last decade has also seen the emergence of another two factors working against the traditional welfare state. Unfortunately, however, they do not work in favour of the basic income system. The end of competition with the socialist countries and the globalization of markets have taken a great deal of steam away from the fiscal engines driving the welfare state, and the element of political choice that once served to fuel its growth has thus taken on a negative connotation. In his book Real Freedom for All, Philippe Van Parijs offers a lucid outline of the difficulties involved in introducing and maintaining a basic income system in a world market conditioned by increasing fiscal competition between states, assuming of course that the basic income is to be financed through taxation. So far few alternative methods have in fact been put forward, and one of the merits of James Meade is his demonstration that it is possible to obtain a social dividend paid on a stock of assets owned jointly by all citizens but run on free-market criteria by investment funds. In Meade’s scheme, this stock would be built up by channelling surpluses obtained on the national balance of payments into a national fund. This of course leaves us with the problem of how to obtain the necessary surpluses and ensure the accumulation of assets. Meade pointed out that the “magic of compound interest” can act as one of the driving forces behind accumulation, but made no secret of the fact that tough fiscal and economic sacrifices would be called for over a fairly extended period. The path suggested by Meade does, however, open up new perspectives on an aspect left somewhat vague by the basic income proposal, i.e. the non-arbitrary identification of a mechanism to determine and generate the resources to be distributed equally among all citizens.

As long as the funding of a basic income system has to rely on exclusively fiscal resources, i.e. exclusively on the redistribution of pay-as-you-go revenues, the concern voiced by Van Parijs as regards the effects of fiscal competition between states cannot be lightly dismissed. I regard as realistic his fears that a drop in the international level of fiscal pressure could sweep away both the old edifices of the welfare state and the fiscal base for the introduction of a substantial and sustainable basic income. A third and highly dangerous competitor is now emerging on the market of political ideas, i.e. the proposal to cut social protection to the bare minimum. We do not have to look far: plans for the reduction of welfare to a form of support restricted to certain categories of poor and “deserving” citizens are already to be found in the USA of Clinton and Gingrich. Paradoxically enough, the arbitrary logic of state redistribution results at the same time in the use of colossal resources to finance the mortgages and healthcare of citizens with average incomes and even of the more affluent classes. Such resources are not, however, classified as “welfare”. In any case, the advocates of a basic income, whatever may be their political tastes, must face the need to demonstrate the competitiveness of their proposal in a world situation where fiscal pressure is tending to decrease rather than increase, thus eroding the very base of the resources to be distributed. The appeal made by Philippe Van Parijs to the attractions of a fairer society motivated by solidarity and patriotism strikes me - and will, I believe, also strike him - as insufficient to ward off the threat of a flight of capital and brains from countries which could, thanks to a basic income system, enjoy real freedom for all towards countries that are perhaps less fair and less free but capable of offering lower levels of taxation.

I am indebted to Claus Offe for news of another proposal from the USA, put forward by the well-known scholar Bruce Ackerman in a book written together with Anne Alstott to be published shortly. He counters the idea of a basic income with that of a basic stock to be created by a 3% capital levy. Ackerman calculates that this levy could finance an individual stock of $80,000 for each US citizen on coming of age. So far there is nothing particularly original in the proposal, and Ackerman himself indicates Thomas Paine as his most illustrious precursor. Indeed, if I may be forgiven a quick blast on my own humble trumpet, it was at the BIEN Congress held in Florence in 1990 that I myself proposed as a first step towards a basic income that a 0.5% property tax should be levied to build up a basic stock
of capital for each generation of 18-year-olds. Borrowing a term from the Hungarian Tibor Liska, who was also present in Florence at the time, I called this a “social inheritance”. More original (albeit highly Liskian) is Ackerman’s idea that this basic stock should be repaid, with interest, by all citizens during their lifetime. The individual stock would thus return to a national fund perpetuated from one generation to the next, thus reducing and ultimately eliminating the need for a property tax.

The parallel between the proposals of James Meade and BruceAckerman is only partial in that Meade held that only the yield generated by the national stock should be distributed in the form of basic income. Both focus, however, on a fund-raising mechanism which derives in the long term not from taxation but from the yield on capital owned by all citizens. Conversely, the magic of compound interest and the eventual elimination of recourse to taxation play no part in the schemes most frequently put forward to finance a pay-as-you-go system of basic income. Ackerman’s proposal also has similarities with other suggestions put forward recently in the US, e.g. by Martin Feldstein, for a gradual reconversion of Social Security from a pay-as-you-go system to one based on a stock of financial resources. Similar proposals are also being examined with growing interest by the European Commission.

The relations between Ackerman’s scheme and the idea of a basic income are instead more subtle and more problematic. Ackerman points out that each citizen can opt to draw only the interest on his or her stock, thus deriving a basic income. Once the amount of the stock owned by each citizen has been determined, the income it generates is set automatically by the market rates of remuneration. If we assume an interest rate of 5%, for example, each citizen could draw a basic income of $4,000 a year from a stock of $80,000. In Ackerman’s system, however, the citizen would be free, albeit with some restrictions, to make use of the entire stock rather than conserve it as a source of income. He lays particular stress on the possibility of using the stock to finance a high level of education or professional training, or alternatively to set up in business, thus making it possible for those without university-level education to obtain incomes similar to those offered for more qualified jobs. As will be remembered, the idea of state loans for students was also put forward by Milton Friedman as part of a scheme whereby such loans would be repaid as a percentage of the income earned during the recipient’s working life.

In examining the possibility of replacing basic income with a basic stock, Van Parijs points out the need for a “mild paternalism” to protect citizens from making risky choices when young that could lead them to squander their stock and leave them in a state of need. He therefore suggests that redistribution should be limited to a monthly income with a legal prohibition on converting the basic income into capital through mortgage systems. Ackerman acknowledges the force of this objection, but regards it as sufficient to set up a basic pension at the same rate for all citizens in addition to the individual stock.

In short, the alternative between systems based on the redistribution of income and systems based on the redistribution of capital stock regards both the financing of the redistribution and the form to be taken by the wealth to be redistributed among all citizens. The concept of the basic income in itself involves the idea that the wealth must be redistributed in the form of a flow of income, while it remains an open question whether this income should derive from pay-as-you-go fiscal redistribution or from the accumulation of a stock from which each citizen can draw an income as an owner of capital and not as the recipient of a fiscal benefit. At a time when the idea of a basic income is beginning to be considered with interest as an alternative to the traditional welfare state, I believe that its advocates have a particular duty to study such alternatives and recommend one as a way out of the swamp of the welfare state.
In all the countries now addressing the problem of setting up a funded pension system to gradually replace the present pay-as-you-go (unfunded) system either entirely or in part, the serious problem arises of financing both systems over a fairly lengthy interim period. As long as the generations possessing an entitlement in return for their contributions remain alive, it will be necessary to meet requirements out of current revenues at the very time when funds are also being drawn off to build up the stock which will ultimately finance the new system. As some writers have rightly pointed out, if we wish to avoid saddling the present generations with a double burden, we may as well give up the idea of creating a funded pension system and maintain the present unfunded system indefinitely. This fact provides a tangible demonstration of how systems based on the redistribution of income entail a choice laden with consequences for the future generations insofar as they rule out the parallel creation of a stock to be shared equally among all citizens. In this sense, the welfare state has placed us in a situation where it is difficult to turn back. Similarly, the option of a basic income financed by a pay-as-you-go system could preclude the creation of a capital stock owned by all citizens for an indefinite period of time as it is difficult to see how the double burden could be borne. At the same time, a stock owned by all citizens would obviously be compatible, once it had been accumulated, with the possibility of deriving a basic income from it. Indeed, its funding would rest on a sustainable base no longer susceptible to the uncertainties of fiscal redistribution. In an optimistic perspective, the problem of funding the basic income would be settled once and for all.

We are thus at a crossroads. We must all ask ourselves what sort of society we would choose for our children and grandchildren. I myself have little doubt of the advantages of opting for a society which, having achieved a more equal distribution of its capital stock, is at the same time more competitive in fiscal terms and fairer in that it provides each citizen with assets capable of guaranteeing the satisfaction of basic needs as well as the capacity to undertake risk without relying on a continuous political redistribution of income. It is, of course, necessary to overcome the difficulties presented by the long period of time needed to build up a minimum stock for each citizen.

In abstract terms it is not difficult to demonstrate that if we began to assign a minimum stock to each citizen at birth this would immediately lay the foundations for a society in which the need for recourse to fiscal mechanisms of income redistribution is minimized. The arithmetic of compound interest is fairly simple. Let us assume that half the amount proposed by Ackerman - i.e. 1.5% of the value of privately held assets - is transferred annually into a citizens’ fund. Alternatively, let us assume a mechanism whereby about 2-2.5% of the GDP of an OECD country like Italy or France is channelled into such a fund. Following a simplified version of Ackerman’s arithmetic, $40,000 would be transferred into the virtual account opened for each citizen on the national citizens’ fund at birth. Given a long-term interest rate of 5% and a mechanism of compound accumulation, each citizen would thus have a capital of $900,000 on his or her 65th birthday. The annual return on such capital would be about $45,000, which should suffice to ensure a substantial basic income from the age of 65 on. If this system were adopted forthwith, all the citizens born from now on would be spared a great deal of worry. As we hold that the citizen’s stock of capital should be subject to a post mortem tax of 100%, on the simplified assumption of no change in population - which is a realistic assumption in nearly all industrialized countries - the following generation of citizens would inherit at birth, and no longer on reaching the age of 65, a capital of $900,000, which would unquestionably be sufficient to satisfy the requirements of both Ackerman and Van Parijs. This would also hold for all subsequent generations, as far as we can foresee today.
In this scenario, with the somewhat overdue realization of Keynes’s prophecy, it is easy to see that our grandchildren, coming into a capital of nearly one million dollars at birth, would be freed if not from all economic worries at least from the need to rely on state fiscal redistribution for the satisfaction of their basic needs. The state could confine itself to performing the caretaker duties suggested by Robert Nozick or even make way for private voluntary bodies as in the anarcho-capitalist visions of Murray Rothbard and others. Such a situation would unquestionably be fiscally competitive for our grandchildren. Over a more realistic span of time, it is already more difficult to see how this could work to the advantage of our children or, to be more precise, of citizens born at a time when the accumulation mechanism is just coming into operation. It is still more difficult to find fiscally sustainable solutions for the generation of adults called upon to shoulder the burden both of the present pay-as-you-go systems of social protection and of the period required to accumulate the citizens’ stock of capital.

As a preliminary approximation, it can be assumed that our children, being able to count on a capital of about $900,000 at the age of 65, will live in a society whose fiscal requirements are reduced to three headings:

- the property tax or equivalent mechanism needed to build up the national stock
- taxation required to finance the caretaker government
- meeting the basic needs of those incapable of taking care of themselves during the 65-year transition period.

It will also be necessary to meet the entitlements accrued under the present pay-as-you-go pension system for as long as the generations involved remain alive.

If there were any really efficient long-term capital markets, the problem could be solved more easily by transferring part of the burden of financing the transition to the many future generations which will be exempt from virtually all taxation and come into a considerable stock of guaranteed capital at birth. Such a solution would constitute an exact reversal of a pay-as-you-go system, which saddles future generations with the cost of the income redistributed today for the consumption of the present generations. As Snower points out, however, we cannot count on the efficiency of the long-term capital markets, and must therefore shoulder the severe burden involved in the phase of building up the initial social stock of capital. As Meade points out, the first steps will be the hardest, and harder still given the need to remain fiscally competitive during the phase of transition.

It may well be possible to tackle the above requirements simultaneously only by giving up the traditional ideal of a basic income, including the part distributed in the form of free social services such as healthcare and education. Citizens will have to pay for everything at current market prices, thus avoiding the use of fiscal mechanisms to finance their consumption. If this is accepted, there remains perhaps only one way to guarantee the basic needs of those lacking sufficient income to pay for their essential consumption, i.e. the use of electronic technologies to supplement, with reference to specific merit goods, the purchasing power of all citizens, while funding by taxation this cost to the absolutely indispensable minimum. In practical terms, this means providing all citizens with a social credit card subsidizing a set list of merit goods in proportion to personal income and assets. The use of electronic technologies would serve the dual purpose of minimizing transaction costs and flattening the curve of taxation implicit in the progressive reduction of the subsidization of merit goods as income rises, thus minimizing the poverty-trap effect.
This solution may prove unacceptable to some advocates of a basic income system in that it reintroduces many of the problems that the basic income seeks to resolve, which are related to the conditional nature of the benefits guaranteed by the state. It should, however, be borne in mind that the solution would be transitional in character and could be accompanied by powerful incentives to boost employment and eliminate work paid off the books. On the assumption that the taxes on consumption now in force in Europe are sufficient to subsidize merit goods for the needy (which appears a reasonable assumption at first sight), it would be possible to suggest that both social contributions and taxes on income could be eliminated either entirely or to a great extent for the future generations. If, as we have seen, the new generations can consider themselves freed from the responsibility of providing for their basic needs during old age by their ownership of a stock of social capital, this radical proposal to eliminate all contributions and taxes on work and income depends to a great extent on how we decide to pay the pensions of those who have paid contributions into the pay-as-you-go system. The International Monetary Fund itself agrees that during transition to a funded pension system it would be justifiable to consider transforming the social security debt implicit in the pay-as-you-go system into public debt in order to avoid doubling the burden of the present generations and to foster the formation of savings among all citizens. It is thus possible to imagine a situation where the generations now of working age would continue to pay in their pension contributions while successive generations would be called upon only to pay the interest on the pension debt, transferring the debt itself to the more fortunate future generations potentially freed from all fiscal burdens by their stock of social capital. As we can see, this problem is particularly thorny and places many obstacles on the path of transition towards a stock of citizens’ capital and the gradual liberation of our children from all the burdens which are now imposed on work in Europe and make it fiscally uncompetitive vis-à-vis countries that seek to compete simply by abolishing welfare. It is no coincidence, however, that the most difficult problems arise precisely from the inheritance of the old welfare state based on pay-as-you-go systems. Before setting off on the path of a basic income financed once again by some form of pay-as-you-go system, it is the duty of the present generation of adults to consider all possible alternatives very carefully indeed.

James Meade warned that there is no easy way to manage the first stage of the road towards a sustainable basic income. Some help may be provided by detached consideration not only of the brighter prospects for our children and grandchildren but also of the strong probability that international competition will lead to the gradual dismantling of the traditional welfare state systems piece by piece outside any rational framework whatsoever, countered only by a stubborn defence of the present system together with all the injustices and arbitrary elements that make it so difficult to justify. Our task is to offer a defensible and comprehensible alternative to the present welfare state. The basic income system is an attractive alternative, but its realization may have to be based on the accumulation of a stock of capital and a phase of transition in which basic needs are financed by a conditional type of social money.