PART III

Responses
Basic Income versus Stakeholder Grants: Some afterthoughts on how best to redesign distribution

Philippe Van Parijs

TWIN IDEAS?

I have always liked the idea of a universal basic endowment or, as Bruce Ackerman and Anne Alstott prefer to call it, a stakeholder grant. But I have never regarded it as belonging in quite the same league, in terms of either feasibility or transformative power, as that of a universal basic income: Either it is feasible but does not change much, or it would change a lot but then it is not feasible, and rightly so. Let me explain.

There is, of course, an intimate conceptual link between the two ideas. So close that, after Hillel Steiner first drew my attention to Thomas Paine’s Agrarian Justice (1796), the first known formulation of a basic endowment proposal, I regretted for a while having baptised “Collectif Charles Fourier,” rather than “Collectif Thomas Paine,” the group with which I launched the European discussion on basic income in the mid-1980s. Only for a while, though, for although Fourier’s (1836) authority could only be invoked to justify a work-unconditional but means-tested form of minimum income, the two earliest formulations of a genuine universal basic income I subsequently discovered—in Joseph Charlier’s Solution du problème social (1848), and in the 1849 edition of Mill’s Principles of Political Economy—were explicitly in Fourier’s lineage.

These afterthoughts have been largely fed by stimulating discussions at the workshop Rethinking Redistribution (Madison, WI, 3–5 May 2002). On the pros and cons of basic income and stakeholder grants, see now also Dowding, De Wispelaere and White, eds (2003).
Nevertheless, between grants given unconditionally and equally once in a lifetime, once every decade, once every year, once every month and once every week, there does not seem to be a fundamental difference in a world in which one can borrow and save, and certainly not so deep a difference that the effects would diverge markedly and that very different justifications would be required. So, why do I find one of the two ideas so much more promising than the other?

COMPARING THE COMPARABLE

To answer this question, it is important to first reflect on what would constitute comparable versions of the two ideas. Universal basic endowments in cash already exist in a number of countries. For example, every newborn Belgian baby, boy or girl, rich or poor, is given a non-taxable “birth premium” (prime de naissance) of about US$860. The parents are at liberty to put this money aside for when the child will reach adulthood, or to use it (sensibly, no doubt, in most cases) for some more immediate purposes. But even if they had the obligation to save this amount until the child reaches majority, the amount this would represent pales in relationship to the amount currently distributed in the form of (practically) universal monthly child benefits, which average over US$25,000 per child over a period of entitlement that varies from 18 to 25 years, depending on how long a child studies. And it would obviously be even less of a match to even a very modest basic income paid throughout each person’s life. Other existing universal endowment schemes, most recently the much publicized “baby bond” introduced in the UK in April 2003, are even less significant.

To make a meaningful comparison of the pros and cons of one-off endowments versus regular basic incomes, it is therefore essential to choose levels of the endowment and of the regular (say, monthly) income that would be, in some sense, equivalent. Bruce Ackerman and Anne Alstott (henceforth A&A) are aware of this. They suggest that their proposed grant of US$80,000, possibly handed out in four instalments of US$20,000 can be regarded approximately equivalent to a basic income of US$400 per month from the ages of 21 to 65. The sum of the corresponding 528 monthly instalments of US$400 obviously comes to considerably more than their grant, namely $211,200, owing to a small extent to some people never reaching the age of 65 but above all to an interest rate which I understand they assumed (very generously) to be 5 per cent p.a. in real terms. After the age of 65, A&A’s full reform package includes, like Thomas Paine’s, an unconditional regular pension given to all, irrespective of other income and past career, and I shall therefore take for granted in what follows that there is no difference between basic income and their proposal beyond the age of 65. Let us instead scrutinize the claimed equivalence between US$80,000 at 21 and US$400 every month between 21 and 65.

One important feature of the A&A proposal which needs bringing in at this stage is the claw-back of the stakeholder grant at the end of each person’s life. If the grant is supposed to be returned to society with the interest it could have generated over this period if invested safely (which is, I believe, A&A’s own preferred interpretation of this requirement), it is clear that the best thing to do for any dutiful beneficiary is precisely to invest it safely – unless she belongs to the small minority of those who can rightly feel pretty sure of using the money so as to yield a higher-than-average rate of return. Under this interpretation, the stakeholder’s grant is not really an endowment at all, but rather a loan, and its equivalent in terms of a monthly basic income is not US$400 but zero.

On a milder, and perhaps more sensible construal of the claw-back clause, what needs to be returned to society is not the capital plus interest, but only the capital. In this case, the “equivalent” basic income simply corresponds to the “social dividend” yielded by a person’s personal share of society’s capital. Under A&A’s optimistic assessment of the interest rate, this means 5 percent of US$80,000 or US$4,000 annually and US$333 every month. Owing to the high interest rate, this is not far below the US$400 mentioned by A&A for the case in which both interest and capital are consumable by the beneficiary. Under what would seem today a more realistic long-term estimate of the real interest rate, however, this amount should easily be more than halved, and hence be of the same order of magnitude as the dividend paid to every Alaskan resident by Alaska’s Permanent Fund (about US$2,000 in 2000, though only US$1,540 in 2002, or about US$130 per month).

Thinking about “equivalent” basic income schemes by bringing in the claw-back, however, takes for granted that the basic income would be introduced cohort by cohort, starting with the one reaching the age of 21 in the current year. This would mean that the first basic income cohort would, unlike the older ones, enjoy a basic income throughout its life, just as, in A&A’s proposal, the first cohort of stakeholders will get the full stake without older cohorts receiving anything. But there is another, no less natural (and, for a number of reasons, less problematic) way of thinking about the equivalence. The “equivalent” basic income scheme would then be obtained, not by
spreading the grants A&A propose to concentrate on one year of one cohort equally over the 45 years of life of that cohort, but by spreading them equally this year over the forty-five cohorts aged 21 to 65. How much this amounts to per capita obviously depends on the age pyramid. A glimpse at recent demographic figures for the US suggests that the youngest cohort makes up somewhat less than 1/42 of the total population aged 21 to 65, and hence that the basic income equivalent to A&A’s US$80,000 would be around US$1,900, or US$160 per month.

There is no need to quibble about the fine details of the simple reasonings leading up to these two estimates. The basic message should be clear. If one has in mind a basic income at the sort of level granted to single people by Europe’s existing guaranteed income schemes (at least US$600 per month), then the “equivalent” amount of A&A’s grant should be in the order of US$300,000 per capita rather than 80,000. If instead we need to take the latter figure as the relevant reference amount, the “equivalent” basic income is a low “partial” basic income of about US$160 per month for every person aged 21 to 65. A sensible discussion of pros and cons would be best served, it seems, by using these orders of magnitude.

This is by no means the end of the story, however, as part of the funding of the SG may come from a reduction of public expenditure (higher education, mortgage relief, etc.), which would be less naturally coupled with a basic income. In that case, only the “fresh money” component in the funding would be meaningfully available for funding the BI, whose “equivalent” amount would need to be correspondingly reduced. The choice would then be: Either a SG of US$80,000 without mortgage tax relief nor subsidised higher education or a BI of, say, 100, with unchanged mortgage tax relief and subsidies to higher education.

But this again is too simple, because BI too would be naturally combined with (and partly funded by) a restructuring of tax-and-transfer systems, in particular the transformation of existing general income tax exemptions and of the bottom part of existing welfare and social insurance benefits into a basic income for the people involved. Hence, it would be naive to spread evenly into a basic income of, say, US$100 the “fresh money” component in the funding of a SG that is available for funding an “equivalent” basic income scheme. It would make far more sense to concentrate that money on people with low benefits and tax exemptions or none whatever, and to combine it with the money freed by the redefining of the bottom part of existing tax-and-benefit systems to fund a much higher basic income. The real choice would then rather be something like: Either a SG of US$80,000 without current mortgage relief and higher education funding, or a BI of, say, US$300 without some of the existing means-tested benefits and income tax exemptions.

The comparison thus becomes more complex, no doubt, but these complexities are essential for a meaningful comparison between actual reform proposals. To keep a sharp focus on the principled differences that may emerge, however, I shall assume in what follows that one is comparing a SG of US$80,000 to an “equivalent” BI of about US$160 a month, both funded out of the same amount of new fiscal resources without any substitution of existing schemes.

THE EQUALISATION OF OPPORTUNITIES

SG and BI have much in common. They are given on an individual basis, without means test or work requirement. Yet, they seem to belong to very different perspectives. SG is evidently intended to make opportunities more equal, whereas basic income is no less evidently intended to provide basic economic security more effectively than conditional schemes. However, while it is true that basic income does, and is intended to, contribute to security, it can and does also make sense from the standpoint of the “radical rhetoric of redefining inheritance,” and hence of equalizing opportunities. Both stakeholder grants and basic income can be said to make the citizen’s opportunities less unequal over their life courses by distributing part of our common inheritance “equally” to all. What this “equally” means is different in the two proposals: The same amount to all those who reach the age of 21 versus the same amount each month to all those who are adult citizens (aged 21 to 65) alive that month.

In the most superficial sense, SG is the more egalitarian variant, since those dying, say, at 25 will have received the full amount. But this is a misleading appearance. First, given that the end of life is generally unforeseen, this hardly makes a difference to the “injustice” stemming from the inequality in the length of (the healthy part of) people’s lives: The person dying at 25 may have turned it into an annuity most of which will be left un consumed or, worse still, devoted it entirely to an investment which has not yet started to bear fruit.

Second, and crucially, SG opens up the possibility of “stake blowing,” whether deliberately for consumption purposes or involuntarily through bad investments (wrong house, wrong training, wrong business). This is bound to make SG far less opportunity-egalitarian
than BI. Why? Lifetime opportunities are of course determined only to a very limited extent by the stake received at 21. They are powerfully affected by intellectual abilities, parental attention, school quality, social networks of various sorts, and so on. On average, those young people who are already favored along these various dimensions are precisely those who are most likely to make the best possible use of their stake. The real value of a stake of the same nominal amount will therefore be considerably less for those who lack the intelligence, guidance, education, connections, etc. that would enable them to competently select, in the light of what they care about on reflection, what is best for themselves.

This huge egalitarian advantage of a BI over a pure SG scheme is significantly reduced, though far from abolished, relative to A&A's actual proposal because of two important restrictions they impose. One is that they advocate a basic pension for the elderly, which amounts to preventing the young from blowing the part of their stake that is needed to secure them a minimum standard of living if and when they reach old age. The other is that they compel those who fail to complete high school to turn their stake into an annuity: BI as a consolation prize for the school drop-outs. However, even with the stakes reduced to the 21–65 stretch and with the set of potential stake-blowers shrunken to the 80 per cent of each cohort who complete high school, the room for an inequality-amplifying effect remains considerable.

BI, on the other hand, is assumed to be non-mortgageable, as is in most countries the lowest layer of any household's income. Hence it denies young people the freedom to blow their life-long stake in one go. However, especially for the less well endowed among them, it improves the real freedom to make sensible long-term investments. As Bart Nooteboom (1986), James Meade (1989) and many others have emphasized, an unconditional life-long security gives less wealthy people the confidence and endurance to make investments and take risks, while also making potential (private and public) lenders more willing to make the loans that will enable them to acquire qualifications or go into business. Unlike the freedom to make choices that jeopardize later freedom, therefore, the freedom to make choices that enhance it is far less affected by the difference between SG and BI. Hence, while it is clear that a BI does better than an "equivalent" SG in terms of security, it is by no means evident that a SG does better than an "equivalent" BI in terms of equalizing opportunities – quite the contrary.

WEALTH EQUALIZATION

Sensible SG advocates may concede that SG is worse than BI in terms of equalizing opportunities as soon they realize, on the basis of considerations of the sort just sketched, that the opportunity space is enlarged to very different extents by a given SG depending on the genetic and social equipment of its beneficiary. But they may still feel confident that a SG funded by a wealth tax, as proposed by A&A, is more wealth-equalizing than a BI financed by an income tax (be it in the form of a consumption tax or energy tax or value-added tax), as proposed by most BI supporters. To shake this confidence, I invite them to pay some attention to the notion of wealth.

First, economists soundly regard a working person's current entitlement to a future retirement pension as a component of her present wealth, on a par with her savings. A secure future flow of basic income is no different. This broad sense of wealth is routinely used by economists – in his efficiency wage models, Edmund Phelps (1994, 1997), for example, uses the expression "social wealth" to refer to the bundle of work-independent rights to an income. On the benefit side, therefore, BI constitutes no less than SG a form of wealth redistribution. Moreover, given what has just been said about the non-random egalitarian distribution of stakeblowing, there is even no doubt – as far as the benefit side is concerned – that this wealth redistribution is more egalitarian with BI than it is with SG.

As we turn next to the tax side, it must first be noted that BI could in principle be financed, be it partly, as it is in some proposals (including the very first one I made myself, back in 1982), by a wealth or inheritance tax. Note, moreover, that even a pure tax on labor income can be largely viewed as a tax on the return to human capital. If a person's human capital is understood, as is again sensible, as part of her wealth, its assessed value is bound to be negatively affected by the taxation of its return. Consequently, it cannot be said a priori whether a conventional wealth tax or an income tax is more wealth-equalizing in this broad sense of wealth (which we have every reason to find more ethically relevant than the narrower concept). Much would depend, for example, on the correlation between income and human capital, and on how high and how progressive the income tax and the wealth tax are.

DECOMMODIFICATION

A final remark on the decommodification of human beings. There is an obvious sense in which both BI and SG contribute to it. A substantial
and universal individual cash entitlement entirely independent of one’s selling or being prepared to sell one’s labor power amounts to conferring a radically de commodified economic status onto each person.

There is, however, a sense in which SG is, on the contrary, meant to produce a “commodifying” effect. A&A like to point out that their scheme would tend to foster a conversation among the young, and between the young and their parents, about how to use most profitably the stakeholder grant. They will devote time to discussing whether it should be used as an investment in the beneficiary’s human capital, or as the capital base for some business venture, or as a more or less secure form of saving. All this, it is argued, will effectively foster a market-oriented frame of mind. This is certainly no part of the typical pro-BI rhetoric. Quite the contrary: one argument frequently used is precisely that there will be less need to speak about money, owing to the security offered by the scheme, and hence, it is sometimes argued, more time to think about and experience what really matters: God, women, men, children, the natural world and other hopefully not too commodified entities.

There is, however, a distinct sense in which BI can also be said to contribute to commodification. For BI’s stated purpose of fighting exclusion from paid work can be re-described in terms of a recommodification of the skills of the excluded. This is supposed to be achieved through two mechanisms. First, a BI is not only unconditional as regards (willingness to) work, but also as regards earned income, which amounts to making it an implicit subsidy for low-paid work and hence (relative to means-tested guaranteed income schemes) a means of helping more people into a job without lowering their standard of living. Second, by making it possible, or cheaper, to reduce working time or interrupt one’s career at a time that best suits the person concerned, BI works as a mechanism for sharing jobs between more people (the jobs one frees on a part-time or temporary basis can be taken up by others) and spreading paid employment over a longer stretch of one’s life (taking time off to look after one’s young children and to retrain before it is too late makes it less likely that one will have to retire early as a result of deskilling or burnout). Consequently, BI can be said to increase the commodification of people, in the sense that it fosters participation in the labor market for a greater proportion of people and a longer portion of their lives, while at the same time decreasing the commodification of people by making them less dependent on the labor market for their subsistence.

This is a paradox, not a contradiction. Indeed, the fundamental reason why I find BI such a good proposal is precisely that it contributes to commodification in the former sense while contributing to decommodification in the latter. And the fundamental reason why I find BI so much better than a comparable SG is precisely that BI plausibly promises to do both these things both more powerfully and more equally than SG.

NOTES

3. In 2002, the prime de naissance was EUR 983.68 (or about US $1,150) for every first child, or twin, or triplet, etc., EUR 740.10 (or about US $860) for each other child. To be entitled, it suffices that at least one of the parents should belong to a “family benefit fund” (caisse d’allocations familiales) by virtue of being employed, or officially unemployed, or a student, or retired, etc.
4. The Blair government’s “baby bond,” whose introduction was announced in April 2003 by Chancellor Gordon Brown, has been fixed at £250 (about US $400, and hence less than half Belgium’s universal “birth premium”), for every newborn child. It rises to £500 for the children of the poorest third of households (Financial Times, 10 April 2003).

REFERENCES


Current social policy divides each life into three broad phases—childhood, adulthood, old age—and treats each very differently. For example, children get education, the elderly get pensions, and adults get help when they need it most. Within this three-part framework, basic income and stakeholding join in a shared critique of the status quo: They both challenge the need-based approach to the adult phase of life.

But as suggested in Chapter 2, we also seek to raise a deeper question that eludes the partisans of basic income. We mean to challenge the now-conventional tripartite division of the course of life and to urge social recognition for a distinctive fourth phase. Call it early maturity.

Stakeholding is designed to confront the distinctive life-shaping opportunities that are open at this stage of life. The debate in this volume has, to our mind, insufficiently attended to this point, and for the best of reasons: We did not spell out this distinctive rationale sufficiently. We hope that this chapter will compensate for our deficiency and help clarify the next round of discussion.

Consider the problems of early maturity a bit more elaborately. For upwardly mobile men or women, early maturity begins when they leave secondary school and look forward to a few years in university; for the downwardly mobile, it begins when they are thrown onto the labor market after completing formal schooling—which is always shorter than, and usually inferior to, that provided their upwardly mobile peers.

All these young adults have much in common. They are physically and sexually mature, and capable of forming lasting emotional