

LOCAL EXPERIMENTS WITH SOCIAL ASSISTANCE IN THE NETHERLANDS: WHAT CAN THEY ACTUALLY TELL US ABOUT BASIC INCOME?

Robert van der Veen, Department of Political Science,
University of Amsterdam

Seminar ‘How to experiment basic income in Europe?’
March 30, 2017 at Yonsei University, Seoul

INTRO: Why basic income? An old question in the Netherlands. Now being asked with renewed interest in Dutch society. Less so in parliamentary politics, where workfare still seems to rule OK! ₁

WHERE IT ALL STARTED

- January 2015 Introduction of ‘Participation Act’:
devolution of social assistance (“bijstand”) to municipalities, and reduction of budgets
- Tightening of social assistance regulations and more administrative sanctions
- Reform discontent in Dutch municipalities
 - Bureaucratic burden, implementation cost
 - Lack of flexibility, climate of distrust
 - Legal ambiguity

→→→ LOCAL EXPERIMENTS

- *Participation Act (PA)*: allows experiments so as to improve the implementation of the Act and increase outflow to paid work
- Experiments can be oriented to **basic income or workfare** models
- Workfare orientation: city of Rotterdam 2015 (**Work Pays**). Modest but significant effects on take-up and work-insertion.
- Basic income orientation: **Utrecht (forerunner)**, Tilburg, **Groningen, Wageningen**, due in 2017, followed by some smaller cities.
- New experiments must obey the terms of a **“PA-ANNEX”** under administrative law, in force as from April 1, 2017.

Utrecht Experiment (1/2)



- Co-operation City of Utrecht and Utrecht University
- **Random Controlled Trial** with social assistance claimants in the Utrecht region. Voluntary decision to take part in the experiment
- Reference and control group, 4 treatment groups, $n \geq 200$
- Intended starting date **May 2017**; duration 2 years
- Purpose: Measuring **goal effectiveness** (work, social participation, health, well-being/satisfaction, debt situation) and **cost efficiency** of implementing the Participation Act.
Note: **Utrecht does not regard its trial as a 'basic income' experiment**
- Data collection: administrative files and regular surveys

Utrecht Experiment 2/2 WETEN WAT WERKT (*Knowing What Works*) Design Outline

- **0 Reference Group.** Claimants who do not take part in the experiment, and who must therefore fully obey the rules of the Participation Act
- **1 Control Group** Claimants who do take part, but are allocated to the existing social assistance rules.
- **2 Exemption Group** Claimants receive the full social assistance benefit of €960 but are exempt from the 'duties of re-integration' to actively seek paid work and/or accept assigned tasks, given the usual menu of activation opportunities offered by caseworkers.
- **3 Exemption Group with Intensified Exposure** to work opportunities.
- **4 Exemption Group with Service Bonus:** an additional €150 per month in return for a service outside of the labor market (a list of 'socially useful' activities; regular volunteer work). Half of Group 4 gets €150 at the start of the month, on pain of subsequent withdrawal if service is not delivered.
- **5 Labor Market Incentive Group** Claimants are not exempted from re-integration duties, but allowed to keep 50% of monthly earnings up to €199.

Four insights from behavioral economics

- Poverty impedes people's **cognitive capacities** (Mani et al., 2013).
- Concerns of **reciprocity and fairness** (Fehr & Schmidt, 2000) induce cooperation or resistance counteracting narrow self-interest.
- Extrinsic motivators, such as money rewards or fines can **crowd out intrinsic motivation** (Frey and Jegen, 2001).
- Effects of equivalent rewards differ due to **framing and loss aversion** (Tversky and Kahneman, 1979), (Thaler, 1980).

Dependent variables

- **Outflow** into paid work, unpaid voluntary work; skill development; debt situation

Measured with administrative data

- **Claimants'** subjective well-being, cognitive capacity, health, stress
- **Case workers'** job satisfaction and work stress.

Measured with existing survey instruments

THE *PA-ANNEX*: LEGAL RESTRICTIONS ON EXPERIMENTS (1/3)

- Participants who *choose to exit* the experiment face **legal penalties** (art. 8.2)
- Participants in exemption groups face expulsion (legal penalties) on *evidence of 'insufficient effort'* (art. 5.1a)

This reduces an experiment's potential for testing the (first three) insights of behavioral economics

THE PA-ANNEX: LEGAL RESTRICTIONS ON EXPERIMENTS (2/3)

- Mandatory treatment group: double exposure to '*work and re-integration duties*' in contacts with caseworkers. This group cannot be an exemption group (art. 5.1 b, d).

This runs against the purpose of Treatment Group 3 – which is to see whether more *work opportunities* will be taken up voluntarily.

THE PA-ANNEX: LEGAL RESTRICTIONS ON EXPERIMENTS (3/3)

- Treatment Group 5 - claimants permitted to keep 50% of monthly earnings – obeys a **stringent cap** (art. 5.1c) of €199, which is only a bit more than can be allowed on an individual basis, under existing PA rules.

This requires a larger group in order to observe a significant incentive effect, and is unduly far removed from a basic income.

RESPONSES TO THE PA-ANNEX RESTRICTIONS

A **draft version** of the PA-Annex was critically discussed in parliament. Also 11 cities, and the universities involved in designing the four main experiments asked the Ministry to ease the above restrictive conditions, without success.

The city of Utrecht is investigating legal possibilities **to circumvent the *PA-Annex***. So far, the other three cities plan to **obey the restrictions**.

Tentative Conclusions (1)

1 The focus of the new Dutch municipal experiments' on social assistance recipients may tell us something about the *potential of basic income to liberate the the poor from onerous conditions on income support.*

2 Especially so once the legal restrictions imposed by the *PA-Annex* are removed.

3 This is not likely to happen soon, for the PA itself reflects the values and norms of *workfare* more than those of *basic income.*

Tentative Conclusions (2)

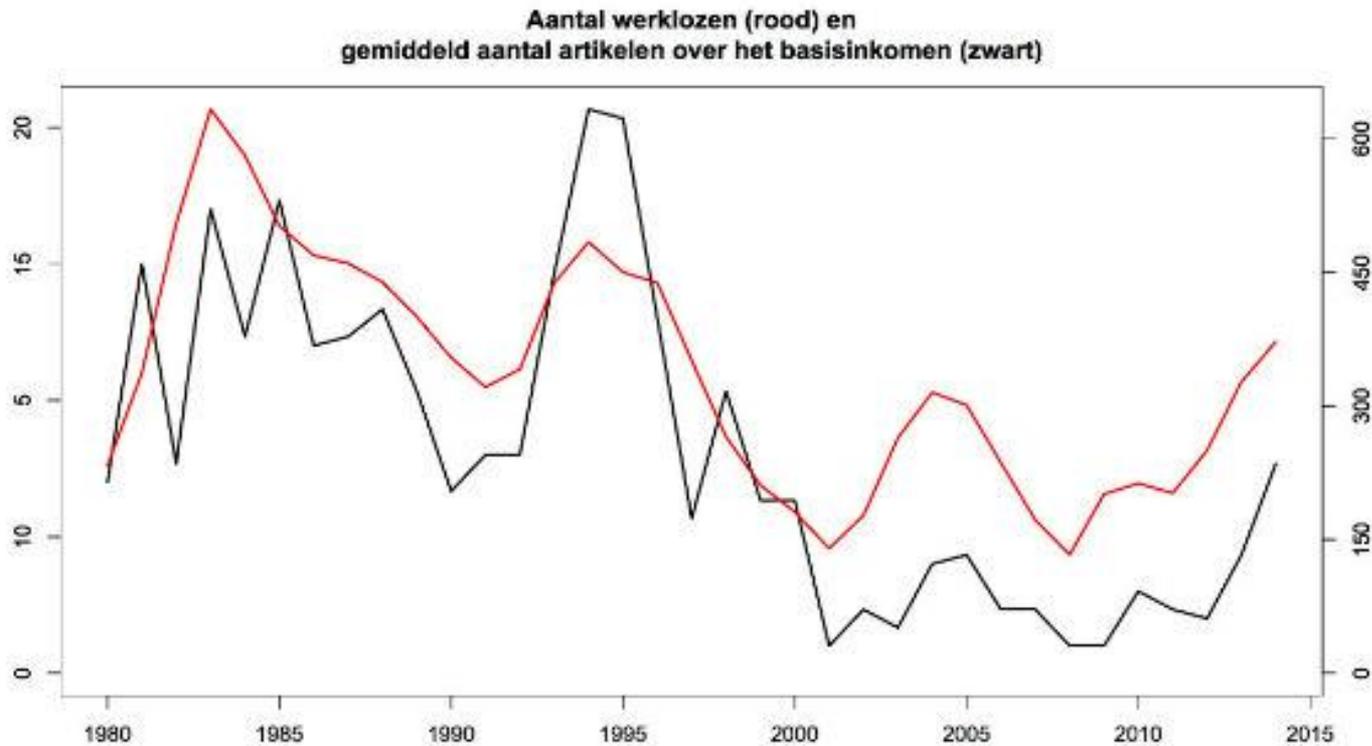
4 What the experiments can tell us about basic income is thus **limited by the Dutch legal framework**. But in any case they tell us nothing about the effects of **broadening the *base of entitlement* to all, under an altered tax burden**.

5 However, the Dutch experiments may be very useful in comparisons with workfare experiments, **when more variables than *merely work-insertion* are in play**.

REFERENCES BEHAVIORAL ECONOMICS

- Fehr, E., & Schmidt, K. M. (2000). Fairness, incentives, and contractual choices. *European Economic Review*, 44, 1057–1068.
- Frey, B. S., & Jegen, R. (2001). Motivation Crowding Theory. *Journal of Economic Surveys*, 15(5), 589–611.
- Mani, A., Mullainathan, S., Shafir, E., & Zhao, J. (2013). Poverty Impedes Cognitive Function. *Science*, 341(August), 976–980.
- Thaler, R. H. (1980). Toward a Positive Theory of Consumer Choice. *Journal of Economic Behavior & Organization*, 1, 39–60.
- Tversky, A., & Kahneman, D. (1981). The Framing of Decisions and the Psychology of Choice. *Science*, 211(4481), 453–458.

Interest in BI and unemployment 1980-2014



Source: *Otjes & Lucardie*, Een hardnekkig idee: Hoe het basisinkomen uit het politieke debat verdween en weer terugkwam

2016 Poll on basic income. “There is a proposal to introduce a basic income: everyone would receive a certain – limited - – income, irrespective of other income sources and without obligation to be available on the labor market. The system of taxes and transfers will then be adjusted accordingly. Do you think this is a good proposal?”

		Allen	Huidig stemgedrag						
			PVV	VVD	CDA	D66	PvdA	SP	GL
	Ja	40%	37%	18%	24%	44%	53%	54%	60%
	Nee	45%	46%	73%	61%	45%	34%	31%	22%
	Weet niet/geen antwoord	15%	17%	8%	15%	12%	13%	14%	18%
Totaal		100%	100%	100%	100%	100%	100%	100%	100%

Groups to include

1 Social assistance recipients

- *no poverty/employment trap*
- *vouchers or persons centred grants*

2 Break-even workers

- *incentive to reduce working time*

3 Families with children < 6 year

- *incentive to reduce working time*

4 Prospective entrepreneurs

- *incentive to start up a business*