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ABSTRACT

Harmonisation of social security systems is back on the agenda of European policy makers. However, the introduction of a harmonised scheme poses severe challenges. In this article we explore some options and difficulties associated with the implementation of a harmonised minimum income protection scheme for the elderly. As earlier contributions to the literature already outlined the practical and ethical arguments in favour of a European basic pension, we take the proposal of a European basic income for the elderly as our starting point and assume that a basic income is philosophically and ethically justified. In this paper, we try to broaden the scope of the discussion to the various and often technical options, difficulties and pitfalls associated with the practical design and implementation of a harmonised European minimum income scheme. Hence, we first offer an overview of minimum income guarantees for the elderly in Europe. Second, we make a detailed assessment of the issues involved in the design of a basic pension. Third, we shed some light on the European dimension of this proposal to, finally, conclude with a sketch of three possible 'basic pension scenarios'. Our findings confirm that it is one thing to be in favour of a harmonised scheme of minimum income protection, but another to design a realistic and politically feasible proposal.

Keywords:
Harmonisation of social security, European Union, elderly, basic income, pensions, social policy reform, minimum income protection

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1. Introduction

The debate on the desirability of harmonising European social protection schemes is as old as the first treaties leading to the establishment of the EU. Already in 1956, the French Prime Minister Guy Mollet defended the harmonisation of social regulations and fiscal burdens during the negotiations leading to the Treaty of Rome (Scharpf, 2002: 645-646). However, only in the early 1990s the EU set its first steps towards harmonising minimum income protection with “Council Recommendation of 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems” and “Council Recommendation of 27 July 1992 on the convergence of social protection objectives and policies” (Council of the European Communities, 1992a; 1992b). More recently, both the Commission and the European Parliament have called on the Member States to fully implement the Council Recommendation and to provide ‘an adequate minimum income for a dignified life’. This minimum income guarantee should be implemented in accordance with common principles (European Commission, 2008a). The European Parliament went even further and defined a common target level for social benefits. In its Resolution of 6 May 2009 the European Parliament (2009):

“Underline[d] its request to the Council to agree an EU target for minimum income schemes and contributory replacement income schemes of providing income support of at least 60 % of national median equalised income and, furthermore, to agree a timetable for achieving this target in all Member States;”

Not only policymakers, but also researchers have been involved in the harmonisation debate. Whereas some pointed to major difficulties of harmonisation and limited desirability of going further than the “elaboration of minimal norms or general principles of qualitative or organisational rather than quantitative nature” (Deleeck, 1987: 243), others called for strengthening the European Union’s ‘social space’ through the nesting of the national welfare states within the European Union and the creation of – among others – supranational ‘social sharing schemes’ (Ferrera, 2009).

In this paper we further explore the options and difficulties associated with the harmonisation of minimum income protection systems in the EU by discussing the proposal of a European basic pension (BP) as a means of eradicating financial poverty of the elderly in Europe (e.g. Schokkaert and Van Parijs, 2003: 259). As argued by Atkinson (1995: 1, italics as in

original) “The proposal of a basic income/flat tax, or variations on its central elements, has generated wide interest in a number of countries. [...] it should be on the agenda for any serious discussion of tax and social security reform for the twenty-first century.” In this paper, we discuss important options and pitfalls which policymakers must face when introducing a universal basic pension targeted at the elderly. The aim is thus conditional: if a BP for the elderly is to be implemented, then what form could it take? As we shall see in the next sections, the design of such scheme is confronted with several complexities. First of all, the risk of fiscal competition between member states makes the EU the most appropriate level for the decision on introducing a basic pension scheme (cf. Atkinson, 1998: 140-145; Schokkaert and Van Parijs, 2003: 259). However, as the European Union is neither a state nor a clear supranational entity (cf. Rosamond, 2000) it does not possess all policy tools and levers at the disposal of national governments. Second, EU enlargement in 2004 and 2007 has resulted in a considerable increase of the diversity within the EU in terms of social policy institutions and social security arrangements (cf. Cerami, 2006) as well as in terms of social outcomes (e.g. Marlier et al., 2007: 63-84). This complexity enhances the (theoretical) number of available options in the design of a European basic pension, but also the number of problems that have to be solved. What may look like technical details at first sight, will appear to be choices with potentially important consequences. The specific design of basic income schemes still offers tough nuts to crack, and we hope to move this discussion beyond a purely theoretical debate.

As a starting point, three assumptions must be kept in mind. First, we use the well-known standard definition of basic income, as propagated by Philippe Van Parijs (2004: 8): “A basic income is an income unconditionally granted to all on an individual basis, without means test or work requirement.” We assume that this basic income is philosophically and ethically justified, as has been argued by, for instance, Van Parijs (1997) and Raventós (2007). In what follows, we refer to a basic pension (BP) as a basic income targeted at the elderly. Second, we assume that if it is to succeed, every proposal for a basic pension in the EU must start from existing policy arrangements and political praxis (cf. the concept of the nirvana fallacy of Demsetz (1969)). Therefore, before embarking on a discussion of policy options, we first present an overview of already existing minimum income guarantees for the elderly in the European Union. The assumption also implies that we take account of the subsidiarity principle in the EU with respect to social policy issues (i.e. social policy remains firmly a national responsibility)². However, as argued by Atkinson et al. (2002: 229-230), we assume that there is – at the

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² A general discussion of the subsidiarity principle in the EU can be found in Barber (2005).
European level – enough room for manoeuvre as it comes to setting minimum standards to be met by national social policy actions (as is exemplified by the resolution of the European Parliament mentioned earlier). In other words, we suppose that the EU could for example set the minimum level of guaranteed income benefits for persons above a certain age to be provided by national governments, leaving the method of delivery to member states. Finally, the reduction of financial poverty is expected to be one of the main merits of basic income.

We contribute to the existing literature in at least three different ways. First of all, we present an original and systematized overview of the minimum income guarantees for the elderly in each of the 27 EU member states. Second, we offer an overview of the issues involved in the design of a basic pension scheme in the European Union. Van Parijs and Schokkaert (2003: 258-259) spelled out the ethical and instrumental arguments in favour of a European guaranteed minimum pension. However, whereas they explicitly did not go into “the details of the introduction of such minimum income guarantee”, we set off at precisely that point. In doing so, we pay more attention to the various options that are open to policy makers than in previous articles about minimum income guarantees for the EU’s elderly (e.g. Atkinson et al., 2002) and address the specific considerations that must be made in light of recent and future enlargements. However, it is not our objective to propose solutions for all problems and considerations raised. Our aim with this focus is twofold. On the one hand, to contribute to the debate about the possibility of European social policy and the way in which European minimum income schemes could be harmonised to some extent (cf. Deleeck, 1987; Ferrera, 1996; 2009). On the other hand, to contribute to the basic income debate by moving it forward to (practical and ethical) issues involved in the concrete design of a basic pension scheme. Finally, the paper can be considered to offer a groundwork for the further examination of the social and fiscal consequences of the implementation of a European basic income scheme under different scenarios, for instance by using the European micro-simulation model EUROMOD. Since all details of a policy design must be decided upon for such a simulation, it is necessary to first review them and consider the various alternatives which could lead to radically different outcomes in terms of covered population, financial cost and poverty alleviation.

The paper proceeds as follows. In the first section, we consider arguments in favour of first implementing a BP scheme for the elderly. In the following section we present an overview of the minimum income guarantees which are currently in existence across the EU. Although most member states provide a specific minimum income guarantee for the elderly, target groups and entitlement conditions vary a lot. In the third section we turn to the issues involved in the design and implementation of a European universal basic pension and the various options which are available to policy makers. In the fourth section we elaborate further on
those issues that relate directly to the European character of the basic pension scheme. In the fifth section we single out three different scenarios in the design of a European basic pension for the elderly. Thereafter we conclude.

2. A focus on Europe’s elderly

Although we believe that a strong moral case for implementing a basic income for children can be made, there are some good reasons to restrict accessibility to basic income in the first place to the elderly of the EU. First, in accordance with our concern to fight financial poverty, pensioners face a high average risk of living in financial poverty throughout the Union, on average 19 per cent of those aged 65 and over. Nevertheless, diversity is quite large, ranging from 6 per cent of the elderly in the Czech Republic and the Netherlands over 16 per cent in Austria, France and Denmark to close to or more than 30 per cent in the United Kingdom, Latvia, Spain and Cyprus. They even face the highest risk of all age categories in more than half (14) of the EU’s member states (data from Eurostat, 2009). Second, the elderly are a group for whom social transfers are particularly important. Activation measures such as those designed to increase skill levels and employability may be preferred for the younger generations, but for those already retired socially provided pensions are the most important source of income maintenance (e.g. Atkinson et al., 2002: 230). In other words, pensioners are mostly depending on income transfers to stay out of poverty. Third, due to the age restriction it can be expected that possible negative labour market effects (i.e. people cutting working time or quitting jobs when receiving a basic pension) will be limited. Finally, as we shall see in the next section, in almost all member states some form of minimum income guarantee for the elderly is already in place. As opposed to, for instance, child benefits (that are almost everywhere designed as supplemental benefits), these guarantees vouch for a minimum level of income in the absence of ‘sufficient’ other income. Such schemes can serve as a realistic starting point for the introduction of a European universal basic pension.

3 Data refer to 2007 (most recent available data for the entire EU, 13/02/2009). The EU’s official at-risk-of-poverty poverty indicator is used. Persons are at risk of poverty if their total net disposable household income is below 60 per cent of the median of the member state in which they live. Household incomes are ‘equivalised’ to reflect economies of scale for persons living together and the relatively lower cost of children as compared to adults. A complete overview can be found in the annex.
3. An overview of minimum income guarantees for the EU’s elderly

In our view, the eventual implementation of a basic pension in the EU will only be realistic insofar account is taken of the social security provisions that characterize European welfare states. Therefore, before we embark upon a discussion of the options and pitfalls in the design of a European basic pension, we first present an overview of minimum income guarantees that exist for the elderly across EU member states.

Pension systems in most EU member states involve a number of different programmes. This derives not only from the fact that within many member states different schemes exist for different groups of persons (e.g. farmers, employees, the self-employed and civil servants), but also from the fact that in most member states persons (have to) participate in different programmes at the same time (e.g. a public and a private programme). Furthermore, over the past decades complexity has been further enhanced by what Natali (2004) coined the ‘hybridisation’ of pension systems in Europe. Whereas in post-war Europe it was easier to distinguish between two or three kinds of pension systems, nowadays more and more ‘hybrids’ fill the pension landscape. These hybrids combine some central techniques and instruments of the post-war clusters. Common to these hybrids is an evolution towards partial privatisation and the integration of more programmes into the pension system. Nevertheless, hybridisation does not necessarily mean (institutional) convergence (cf. Hinrichs, 2001; Bonoli, 2003).

As a result, a wide range of ways to classify and describe pension systems can be found in the existing literature (Hinrichs, 2001; Natali, 2004; Immergut et al., 2007; OECD, 2007; Goedemé and Raeymaeckers, 2008) Due to its comprehensiveness, in this paper we follow the terminology outlined in Immergut and Anderson (2007: 21-23) and consistently applied in The Handbook of West European Pension Politics. A distinction is made between three pillars: a public sector pillar (the ‘first pillar’), an occupational sector pillar (the ‘second pillar’) and an individual private sector pillar (the ‘third pillar’). Every pillar may be composed of different tiers. In the first pillar, the first tier can consist of a minimum guaranteed pension (with or without a means-tested part) and the second tier of an earnings-related component. In the second and third pillar, in the first tier there can be a mandatory scheme, in the second a subsidised voluntary scheme and in the third a completely voluntary scheme without public subsidies. What is of relevance here, however, is that in almost every EU member state some regulation can be found to guarantee a minimum income to the elderly, be it as a part of the pension system or as a part of the general social assistance scheme, be it with, or without a means-test (see table 1 for an overview). In general, such regulations are limited to the first pillar (first tier) and the general social assistance scheme. On the
basis of the target population and entitlement conditions, four different ways to guarantee a minimum income to the elderly can be discerned.

1) A *minimum pension* in a contributory scheme for persons with enough pension entitlements, without a means-test. This regulation can be found in the first pillar’s first tier\(^4\), or it can be part of a broader earnings-related scheme which comprises the first pillar’s first and second tier.\(^5\) In half of the cases the scheme is exclusively financed by contributions, in the other schemes it is financed by contributions and government subsidies. Only in Lithuania the minimum pension is exclusively financed by government resources. To the extent that the first pillar comprises different schemes for different socio-economic groups, conditions and availability may not be the same for all pensioners.

2) A *pension supplement* for persons with a low pension, with contributory conditions (i.e. being eligible for a pension) and a means-test (e.g. Denmark (income-tested part of the *Folkepension*), Greece, Italy and Slovenia). Also this regulation is located in the first or second tier of the first pillar.

3) A *guaranteed minimum income* to which the elderly are entitled from a certain age. This is a scheme for which no minimal contribution record is necessary. There are three different kinds of guaranteed minimum income schemes in the European Union, some with a means test, others without a means test. In Denmark and the Netherlands a ‘basic income’ is available to all persons aged 65 and over. In both countries, the benefit depends on the number of years one has resided in the country. This basic income can be situated in the first pillar’s first tier. In other member states such as Cyprus, Estonia, Latvia and Sweden a ‘conditional minimum income’ is available for the elderly. Apart from residence conditions, eligibility is also ‘pension-tested’. Usually, the amount does not vary by other sources of income. Almost all other member states provide a ‘means-tested minimum income’ to the elderly. In most cases eligibility and the amount of the benefit are not dependent on the number of years of residence. Rather, in these schemes the amount of the benefit is typically equal to the difference between the threshold of the means test and the part of the household’s income that is taken into account. In most cases it concerns a scheme integrated into the general social assistance scheme, but with some specific conditions for the elderly. In others (Belgium, Cyprus, Finland, Greece, Ireland, Italy and Malta) it is

\(^4\) Cyprus, Czech Republic, Estonia, France, Greece, Ireland, Lithuania, Luxemburg, Poland and United Kingdom.

\(^5\) Austria, Belgium, Bulgaria, Hungary, Latvia, Malta, Portugal, Slovenia and Spain. In Denmark, apart from the basic income in the first tier, a minimum pension can also be found in the second tier’s earnings-related scheme.
rather part of the pension system’s first pillar. In almost all countries, guaranteed minimum incomes are exclusively financed by government subsidies. However, in Finland, Italy, the Netherlands and Slovenia, the minimum income is financed by both taxes and contributions.

4) In only a few member states there is no specific scheme for elderly persons without the necessary pension entitlements to draw a (minimum) pension. Nevertheless, in all of these member states a general social assistance scheme is available (Czech Republic, Luxemburg and Romania). Romania is the only member state in which the general social assistance scheme is the only source to guarantee a minimum income to the elderly. In all three member states, this scheme is financed by taxes. Of course, in almost all EU member states a social assistance scheme is present, but in member states where special arrangements for the elderly exist, this scheme is virtually irrelevant, except for very specific groups (e.g. in cases of residence requirements for a guaranteed minimum income).

From this short overview it can be concluded that up to now, nowhere an unconditional basic pension for the elderly exists. The Netherlands’ AOW (Algemene Ouderdoms Wet) and the Danish Folkepension come closest. Yet, in both member states the amount is conditional on the number of years of residence between the ages of 15 and 65, respectively 25 and 65. For each year missing, the benefit is reduced by 2, respectively 2.5 per cent. Nonetheless, in a large majority of EU member states special regulations for the elderly exist in order to provide them with a guaranteed minimum income. As we have already mentioned in our introduction, these existing schemes should serve as a realistic starting point for the implementation of a basic pension in the European Union, an exercise in which we engage in the next section.

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6 In April 2009, Romania introduced a minimum pension.
7 Additionally, a limited income test is applied in Denmark. The benefits of high income earners are thus reduced (more or less 1% of pensioners in 2002) (Green-Pedersen, 2007: 469).
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<th>Country</th>
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**Notes:** For a description of the different categories, see text. Social assistance is only indicated if a minimum income is not available. In some cases a minimum pension is only provided to one or several socio-professional groups and not to all the insured. In Austria the minimum pension is offered only to a small group. Different sources regularly contradict each other. If necessary the website of the relevant Ministry has been consulted.

**Source:** (European Commission, 2006; Social Protection Committee, 2006; various contributions to Immergut et al., 2007; OECD, 2007; European Commission, 2008b; Goedemé and Raeymaeckers, 2008).
4. Issues in the design of a universal basic pension

If a universal basic pension for the elderly in the European Union is desirable, the question is how a basic pension scheme should look like and how it becomes politically feasible. In line with Atkinson (1998), we believe that a universal basic pension cannot be achieved by individual member states, due to fiscal competition. Therefore, action at EU level is not precluded by the principle of subsidiarity, especially if the EU’s role is limited to setting minimum standards, leaving the method of delivery to member states (cf. Atkinson et al., 2002).

In order to find out how a universal basic pension scheme should look like, it is helpful to discuss the various possibilities with regard to how such a basic pension scheme could look like. Many of the following issues may seem largely technical, but the choice for one option or another may have significant consequences in terms of population covered, fiscal consequences and poverty alleviation. In what follows, we offer an overview of different options and pitfalls in the design of a European basic pension scheme. As is apparent from the comparative social security literature, most important dimensions of social security schemes are ‘mode of access’ (a), ‘benefit structure’ (b), ‘financing’ (c), and ‘governance’ (d) (cf. Titmuss, 1971; Reman, 1992; von Maydell, 1993; Schulte, 1998; Dixon, 1999; Clegg, 2008). We draw on these dimensions to select and organise the most important choices that must be made in the design of a European basic pension. A separate section is devoted to the European dimension of the basic pension scheme.

4.1. Mode of access

In designing a basic pension scheme for the elderly, it is necessary to define who the elderly are. Where should the line be drawn? All persons above a certain age? If so, which age? 65 and over as Atkinson et al. (2002) propose? Although such a choice would be in line with actual age thresholds in many existing minimum income schemes, in some member states lower age limits are in use (e.g. Estonia, Hungary, Lithuania, Malta, Slovak Republic and United Kingdom), whereas in others higher age limits are (also) applied (e.g. Bulgaria, Latvia, Portugal and again United Kingdom). However, one could also opt for a dynamic age limit which takes changes in the age structure into account. Such a dynamic age limit could

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8 A quantitative illustration for five West European countries, can be found in Atkinson et al. (2002).
9 Belgium as from 2009, Denmark since 2004, Cyprus, Finland, France, Germany, Greece, Italy, The Netherlands, Portugal, Slovenia, Spain, Sweden and United Kingdom.
accommodate rising costs as a result of ageing as well as the wide cross-sectional variation in age structure in the EU. For instance, it could be defined so that the basic pension scheme would cover a certain percentage of the population (say, the 20 per cent eldest in a member state). In such a case a further question could be whether the basic pension scheme should cover the eldest 20 per cent of the EU population or the 20 per cent eldest persons of each member state. Of course, the choice has tremendous consequences with regard to who will ultimately benefit (the most) from such a scheme. Furthermore, this choice will be closely linked to matters of financing (cf. *infra*).

The following graphs may give an idea of the large differences in target population and financial consequences for member states or the EU in three different scenarios. The first figure shows the size of the target population as a proportion of the population between 20 and 59 years old (at which economic activity is most intensive) if an age limit of 65 years would be used. As can be seen from figure 1, the dependency ratio is highest in Italy and Germany (reaching 35 per cent) and lowest in Ireland and Slovakia (below 20 per cent). As a consequence, if the basic pension is to be financed by the national (active) population, the financial cost is likely to be much higher in relative terms for Italians than for the Irish. Note that the dependency ratio and GDP/capita (taking account of price differences between countries) are not correlated to each other.

Figure 1. Dependency ratio (population of 65 and over to population between 20 and 59 years old) in the EU (2006)

EU1: Dependency ratio of all EU citizens (i.e. country average weighted by population size).
EU2: Country average, not weighted by population size.


However, if the size of the target population is held constant (in proportion to those aged between 20 and 59 years), the age at which persons could benefit from the basic pension would vary tremendously
between member states. Whereas the Irish elderly could be eligible from the age of 62, Italian elderly would have to wait until their 71st birthday if a dependency ratio of 25 per cent is used as a cut-off point. Note that the age limit is very weakly correlated with the average life expectancy (at birth) in each member state: persons living in member states with a higher age limit do not necessarily live longer.

Figure 2. Life expectancy at birth and age limit for the target population corresponding to a dependency ratio of 25 per cent (in proportion to the population between 20 and 59 years old). EU member states (2006)

Instead of holding the dependency ratio for each member state constant, the European dependency ratio could be used as a point of reference. If a dependency ratio of 25 per cent is chosen, all elderly of 68 and over could apply for the basic pension. The next figure shows that the number of elderly persons that would benefit from this scheme would differ in most member states substantially from the number that would benefit if the dependency ratio would be held constant at the national level. Whereas in some member states up to 20 per cent more persons would be eligible (Italy, Germany, Sweden, Greece, Portugal, Belgium and France) and in others the same (United Kingdom, Finland, Latvia, Spain, Estonia and Bulgaria), in a majority of member states fewer persons would be eligible (up to 35 per cent less in Slovakia and Ireland).
Figure 3. Number of elderly in the target population if a European definition is used in proportion to the number of elderly in the target population if a national definition is used. The cut-off is a European dependency ratio of 25 per cent, which corresponds to an age limit of 68 (2006)

A dependency ratio of 25 per cent is used as cut-off point (target population in proportion to those aged 20 to 59 years).

EU1: Dependency ratio of all EU citizens (i.e. country average weighted by population size).
EU2: Country average, not weighted by population size (own calculation).


Defining an age limit would suffice if policymakers would opt for a truly unconditional basic pension (and not merely a minimal income guarantee). However, for many member states this would mean a very radical change in welfare provision, maybe too radical a change to be politically feasible, most certainly if the implementation takes place in one movement. Therefore, policymakers could specify restrictive entitlement criteria. A first issue would likely be how to treat migrants who have not lived during their entire working career in the member state in which they apply for a basic pension. For instance Dutch and Danish (and Canadian) policymakers have made the (level of the) basic pension for the elderly dependent upon the number of years of residence in the country. Since such a restriction is driven by the concern for ‘social tourism’ (cf. Kvist, 2004: 306), or at least some balance between contribution and benefit, it is closely related to the financing of the basic pension and the level of the benefit. We will return to this issue in the next section.

One step still further away from the basic pension proposal is to make entitlement dependent on the income at someone’s disposal. Such an income test could be more or less strict with regard to the kind of income that is taken into account (e.g. only pension income, monetary income in general – including pensions, earnings, welfare – or all financial and non-financial means). Furthermore, the generosity of the test depends on the
threshold above which someone is no longer entitled to the income benefit. Last but not least, there are different possibilities with regard to the unit of assessment. Does one take into account only the income of the person that applies for a minimum benefit or also that of others (the partner, household, family, …)? If the latter option is chosen, the question is how and to what extent the income of others should be accounted for.

One could think of many other entitlement criteria (e.g. having paid a certain amount of contributions or taxes – depending on the financing mechanism), but the more criteria are added, the less the scheme looks like a basic pension scheme and the less likely it is that such a scheme will be converted into a universal basic pension.

4.2. Benefit structure

With regard to the basic pension itself, many choices must be made. However, if policymakers stick to a real BP scenario, the options are more limited. We will first discuss the issues involved in such a scenario, then we will review some alternatives.

To begin with, the level of the benefit must be defined. First, the basic pension could be a fixed amount. However, it should at least be adapted over time in line with changes in prices. To avoid becoming irrelevant in the future, the benefit must also be linked to the evolution of the average standard of living. Therefore, it could be defined as a percentage of average or median earnings or (equivalent) household income. Second, it could be made relative to the standard of living within each member state or to the standard of living in the European Union as a whole. Whereas the former option could encourage social tourism, the latter could make the benefit largely irrelevant in the richer member states, and make it higher than average earnings in the poorer member states. One could also opt for a mixed approach (say, half the benefit is relative to the national standard of living, half of the benefit is relative to the European living standard).

10 The difference is quite important. Average respectively median earnings could remain constant, while household income increases. This is for instance the case when there is a rise in the relative number of two earner families. On the other hand, data on earnings are generally more readily available than household income data.

11 In Fahey (2007) an illustration of the wide differences between member states can be found. As Fahey shows, these do not necessarily entail widely differing views on what constitutes a desirable standard of living (cf. European Commission, 2007; Dickes et al., 2009).

12 If a European perspective is used (be it a fixed amount or an amount relative to a European average), it is necessary to take account of the variation in prices among member states. Otherwise, with the same basic income, one could buy more goods.
In figure 4, the wide differences in mean net disposable income in the EU’s member states are shown. Incomes are equivalised (i.e. adapted to household size, cf. infra) and shown in purchasing power standards (PPS). ‘Purchasing power standards’ is a kind of ‘virtual’ money unit, which represents national incomes in a common currency adapted to differences in prices between member states. All amounts have been expressed in terms of the average income of all inhabitants of the EU25 (i.e. all EU member states except for Bulgaria and Romania). Clearly, mean income varies greatly across member states with mean income in Luxembourg being almost six times as high as mean income in Lithuania. Alternatively, applying the same benefit level across all member states would lead to substantial increases in the poorest member member states and substantial decreases in benefit levels in the richer member states, although these relative losses would be smaller than the increases in most poorer member states. A benefit level of 60 per cent of the average income in the European Union would still be 60 per cent higher than average income in Lithuania and Latvia. At the same time, this benefit would be below 50 per cent of average income in the Netherlands, Ireland, Austria and the UK and below 30 per cent of average income in Luxembourg. If an intermediate option is chosen, the average of national mean incomes and European mean income could be used as a reference point for calculating the basic pension. In such a scenario, the dispersion of benefit levels between member states is substantially reduced and benefit levels in poorer member states increase relatively more than the decrease in benefit levels which would take place in richer member states. 60 percent of the reference income would still mean a basic pension which is 11 per cent higher than the mean income in Lithuania and 55 per cent below mean income in Luxembourg. Similar results are obtained if – as in the resolution of the European Parliament – 60 per cent of the median is used to define the level of the benefit.

A second point with regard to the level of the benefit concerns the treatment of household composition and economies of scale. If – as in the proposal and definition of Van Parijs (2004) – the basic pension is fully individualised, then each person receives exactly the same amount. However, two persons living together in the same household each receiving the same benefit can do and have more than a one person household with exactly half that income. For instance, an apartment for a couple is not necessarily more expensive to buy or rent and the cost for heating is the same. In other words, there are economies of scale. Therefore, it could be argued that – if the basic pension is to offer the same material standard of living to all who receive it – the benefit must be higher for individuals living in a single-person household than for persons who share a household with others. At present, this is for instance the

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and services in one member state than in another. Purchasing power parities are a means to tackle this issue, although they are subject to serious limitations (e.g. The Canberra Group, 2001; Atkinson et al., 2002: 233-237; Milanovic, 2005).
case in the Dutch AOW scheme. If an equivalence scale is used to correct for economies of scale, the question is how the scale will be established. In research on income inequality and poverty, different methods are in use and studies are inconclusive about the precise extent of the economies of scale at play (cf. Buhmann et al., 1988; Coulter et al., 1992; de Vos and Zaidi, 1997). Nonetheless, many studies that are concerned with poverty and income inequality in Eastern Europe, as compared to Western Europe, agree that economies of scale are generally lower in Eastern Europe than in Western Europe (e.g. Atkinson and Micklewright, 1992; Förster et al., 2005; Brandolini, 2007). Furthermore, economies of scale can vary over time (e.g. Večerník, 2009: 91-92). Independently of the choice for a ‘European’ or a ‘national’ basic pension this issue must be addressed with care. As Atkinson et al. (2002: 236-237, 240-241) have shown, the choice for one equivalence scale or another may have a large impact on the outcome of pension reforms. One could start from the equivalence scales that are implicit in existing minimum income schemes, but these could be the result of budgetary and political concerns as much as concerns with economies of scale (cf. discussion with regard to the use of ‘official’ poverty lines in e.g. Sen, 1983)\textsuperscript{13}. In any case, the issue cannot be ignored: even if each person receives exactly the same amount (implicitly) an equivalence scale is used, i.e. a scale which assumes that there are no economies of scale.

\textsuperscript{13} The discussion does not end here. If an equivalence scale is used and each partner of a household given the same amount, it is assumed that different household members share household income (or at least collective costs) equally. The common assumption of equal shares in most cases does not correspond to reality. An overview of the literature can be found in Burton et al. (2007).
Essentially, a basic pension does not depend on previous contributions, nor on present income. Nevertheless, policymakers could introduce a European BP scheme in several steps to make it more palatable. If so, they could proceed by first introducing a guaranteed minimum income in accordance with new European criteria and then changing the guaranteed minimum income to a true basic pension some years later. In this two-step approach, the first step could involve a reform towards what we termed a ‘conditional minimum income’. In such a scenario, the Czech Republic, Luxembourg, Poland and Romania should introduce a (pension-tested) guaranteed minimum income specifically for the elderly and many other member states should convert their means-tested guaranteed minimum income into a pension-tested guaranteed minimum income\(^\text{14}\). The amount of the basic pension in Denmark and the Netherlands, as well as the conditional minimum income in all other member states should

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\(^{14}\) These countries are Austria, Belgium, Bulgaria, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Malta, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden and United Kingdom (cf. Table 1). The pension test should be conceived in such a way that vertical efficiency (extent to which leakage of transfers to those above a certain threshold is restricted) as well as horizontal efficiency (extent to which all those below a certain threshold receive the transfer) are maximised (cf. Atkinson, 1998: 121-123).
already be brought in line with the new BP scheme. In a second step all conditional income schemes could be converted in real basic pension schemes. Furthermore, if the scheme is to be a truly European scheme, residence conditions could be removed or restricted to residence in EU member states. Of course, the desirability of the latter depends on how the scheme is to be financed and the way the level of the benefit is defined (national –European).

4.3. Financing

In accordance with the principle of subsidiarity, financing would probably be left (for most part) to the member states (cf. the resolution of the European Parliament). Nevertheless, the are some important remarks to be made with regard to this issue as well. The basic pension could be financially integrated in the first pillar of the pension system or be set up as a separate scheme with a separate financial structure. If additional sources must be found by introducing a new tax or social contribution, policymakers should define the tax base (property, pension income, earnings, consumption, ...) and the tax unit (the individual, the household, ...). Some previous proposals of a BP are accompanied by the proposal to finance it with a flat tax (i.e. a tax set at a fixed proportion of earnings or other income) (e.g. Atkinson, 1995; Levy et al., 2007). However, it could also be financed by a regressive or a progressive tax. Such choices could of course (partly) offset, respectively reinforce, the poverty and inequality-reducing effects of a basic pension. The BP could be financed on a funded basis, a pay-as-you-go basis, or a mix of both. In the case of funding, only ‘collective funding’ is an option since the level of the pension is not dependent on previous contributions of the individual. However, a choice for funding (as the only financing mechanism) limits the possibility of introducing the basic pension in a short time-span since one would have to wait until a considerable capital has been built up. Furthermore, it excludes the possibility of intergenerational risk-sharing and thus would be of the defined-contribution type (at the cohort level). As such, it could only be a guarantee of not being much poorer than other pensioners. In other words, such a scheme would not offer a guarantee against poverty in relation to the entire population. Therefore, a genuine income guarantee is of the defined-benefit type, which requires intergenerational

Not only the progressivity of the tax, but also the choice of the tax base (income or consumption and the kind of income and consumption that is taxed) largely affects the impact of the entire policy change on poverty and income inequality (e.g. Gemmell and Morrissey, 2005).
risk-sharing and, consequently, includes at least an important pay-as-you-go component\textsuperscript{16}.

A special point of attention for European policymakers should be the way in which the basic pension will be treated by national tax and social security systems. If policymakers would opt for treating them the same as pensions are treated, then European elderly will have completely different net benefits at their disposal, even if they would initially receive exactly the same basic pension in gross terms. As Verbist (2006) has shown, the treatment of pensions by Europe’s tax systems varies a lot throughout the EU, with important consequences for the relative income position of the elderly in each member state. If completely left to national governments, governments not in favour of the basic pension might finance the scheme by simply taxing benefits away. In other words, it must be decided to what extent European policymakers define the way the basic pension is to be financed and whether and, if so, how it is to be taxed. Furthermore, it must be decided to what extent the BP will be financed using national and/or European financing mechanisms. We return to this issue in the next section.

A last point to which we would like to direct attention, are changes in the intergenerational distribution of incomes. A budget neutral implementation of a universal BP may imply a compensation by new financial resources. It would be cynical if new or increased taxes would push younger households (with children) under the poverty line, especially if the introduction of the measure would be motivated by reducing poverty in first place\textsuperscript{17}. Even a progressive tax could have such negative effects. In other words, the issue of financing should be treated with care and caution, even – or rather, especially – if this is entirely left to the EU’s member states.

\textbf{4.4. Governance}

Since fiscal competition is less of a concern in this area, as long as the principles of ‘good governance’ are respected, matters of organisation would probably be left to national governments. Issues involved are for

\textsuperscript{16} Pay-as-you-go financing does not preclude financing primarily on the basis of intra-generational redistribution – as Schokkaert and Van Parijs (2003) have defended in the case of a guaranteed minimum. The guaranteed minimum could be financed by a tax on (high) pensions in first place.

\textsuperscript{17} Levy et al. (2007: 229), simulating the effects of a universal child benefit financed by a general flat tax on gross incomes (including pensions) encounter such a case with lower child poverty but a higher tax burden for persons on already low pensions. They conclude: “This indicates that financing a child basic income with a general flat tax is not a practical proposition on its own. Other financing mechanisms, perhaps using existing tax bases and schedules, would be more appropriate.”
instance the choice of the institution that will be charged with the administration of the basic pension scheme and the extent of decentralisation. However, some other issues may attract the concern of European policy makers. For instance, what role should the social partners play? Will their role be in line with national customs with regard to the administration of social security institutions and the control of financial flows? To what extent could they negotiate the level (and timely upgrades) of the benefit? Not only the role of social partners in the determination of the level of the benefit must be defined, but also the role of others. Who will ultimately decide upon the basic pension scheme? What role is left for national governments and parliaments? What should be the role of the various EU actors (Commission, Council and Parliament)? However, if payment of the BP would come straight from the EU and not pass through either national or subnational governments – as in the proposal of a ‘Euro-Stipendium’ by Schmitter and Bauer (2001), it is obvious that the administrative capacities of the EU should be enhanced considerably and that European policymakers should consider all aspects related to the administration and management of the basic pension scheme. The extent to which this option can be reconciled with the principle of subsidiarity would certainly be subject to discussion. Irrespective of the choices one makes, it becomes clear that the administrability of a European basic pension, i.e. the extent it can be “administered in a practical and efficient manner in accordance with its primary objectives and within existing constraints” requires careful analysis (cf. De Wispelaere and Stirton, 2007: 524). This is even more so if entitlement would be subject to some form of means or pension test or if people are not required to apply for a basic pension when it is granted automatically. Such an automatic procedure would mean an improvement of the accessibility and take-up of benefits, as it neutralises the effect of a lack of information among potential beneficiaries (cf. Notten and Gassmann, 2008: 266-267), but it could also limit stigma which is associated with means-tested benefits (cf. van Oorschot, 1994; Atkinson, 1998: 131-133; Hernanz et al., 2004). This would be a major step towards the realisation of an improved accessibility of minimum income protection as has been requested by the European Parliament (2009). However, an automatic procedure requires significant administrative capacities.

If the basic pension scheme is to be implemented, policymakers should first consider carefully how the basic pension will interact with existing pension schemes, social assistance arrangements and – as we pointed out earlier – the tax system. At least three issues need special attention: (1)
the replacement of existing schemes; (2) derived rights; and (3) treatment by the tax system.

1) In his discussion of the basic income/flat tax proposal, Atkinson (1995: 2) considered a basic income that would replace all social security benefits. Of course, the effect of the reform on the income situation of pensioners is largely influenced by the extent to which existing pension arrangements would be replaced. Would it replace minimum income guarantees and leave pension schemes on a contribution basis untouched? Or, would it also replace (parts of) (earnings-related) first pillar pension schemes? Such differences not only influence the effect on the income situation of the elderly, but also the cost of the benefit programme and the most appropriate (or logical) way it is to be financed. For instance, a partial replacement of a scheme financed by social contributions with a universal scheme could entail a change to financing by taxes (and a decrease in necessary social contributions). Furthermore, if the basic pension is also to replace the disability scheme (for persons above a certain age), it would be desirable to foresee some adaptation of the basic pension’s benefit level to different needs.

2) In some member states beneficiaries of social assistance (or the minimum income guarantee for the elderly) are entitled to ‘derived rights’ because of receiving social assistance (e.g. social rent, health care at a reduced price etc.). If this is no longer the case with the basic pension scheme, then some at the lower end of the income distribution might end up worse than before the reform (as is illustrated by Atkinson et al., 2002: 232).

3) As we mentioned in the previous section, a different treatment by the tax system could lead to very different outcomes. For instance, in France and Belgium the guaranteed minimum income for elderly persons is exempted from taxes, but pensions are not (although they have a favourable tax treatment). Nevertheless, if the BP would be treated as a pension, then a basic pension as high as the guaranteed minimum income in gross terms, could be lower in net terms (cf. Verbist, 2006: 83).

As becomes clear, it is not sure that no one would lose with the introduction of a BP or some kind of a pension-tested guaranteed minimum income. In order to prevent important income losses for elderly persons, European policymakers could add a rule that states that no pensioner at the bottom of the income distribution should lose from the reform (in net terms). Such a proposal should not only consider the level of the new benefit in comparison with the old one, but also the interaction with the tax system, with other (means-tested) benefits and ‘derived rights’.
As has been pointed out several times in the previous sections, each aspect of the scheme involves a discussion about the extent to which matters must be settled at the European level. In other words, if the EU’s role is to be limited to setting minimum standards, the question is which aspects of a basic pension should be subsumed under this heading. Issues which largely affect the cost of the programme should be settled at the European level, this is why we argued for a European basic pension in the first place. Therefore, the EU should logically play a role in establishing the level of the benefit and the definition of the target group (coverage) and entitlement criteria. Although financing could be left entirely to the member states (as Atkinson et al. (2002: 231) propose), maybe there is some role for the EU in this area as well, especially with regard to the accommodation of intra-EU migration.

The definition of the target population and entitlement criteria, the level of the benefit and financing should be considered jointly. If policymakers opt for a basic pension that is the same for all European citizens, the amount should be sufficiently high to be of any meaning to the inhabitants of the richer member states. However, with median incomes in the UK four and a half times higher than in Bulgaria and GDP per capita over three times higher, two important remarks must be made. First, the level of the basic pension must be high enough in all member states. Yet, a uniform basic pension that is adequate for the richer member states, turns out to be too high in the poorest member states if compared to their average living standard. Therefore, if some European dimension is desirable, a mix of the average European living standard and the national standards of living is probably a better option. Second, even in this mixed scenario, the financial resources to provide a basic pension are more limited in the least wealthy member states. Therefore, national resources may not suffice (if the BP for the elderly is not to disrupt their economies and social policy expenditures).

Broadly, one could distinguish between three alternative ways to finance such a scheme: taxing governments, taxing corporations and taxing citizens. Taxing governments is the usual way in which the EU operates. For instance, in the proposal of Schmitter and Bauer (2001) the regional and structural funds and the resources of the Common Agricultural Policy programmes are used to finance a basic income. Taxing corporations, as well as EU citizens directly, involves a Europe-wide tax. Such a tax could

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19 Cf. Figure 4. This is especially the case if the basic income is targeted to particular groups in society and not to all in habitants. It seems absurd to make the Bulgarian elderly much richer than persons at working age. The discussion could be different if all Bulgarians would receive a basic income.
for instance take the form of a corporate income tax, a Tobin tax (i.e. a
tax on capital transfers) or a European tax on energy. The latter and
similar ideas have been advocated by the European Commission since
1992, and by several other actors since then (European Commission,
2004a; Le Cacheux, 2007). Such a tax would bring substantial revenues
for the EU (European Commission, 2004b) and would involve
redistribution from richer to poorer member states. However, it would not
necessarily involve a direct transfer from one government budget to
another.

If the level of the benefit would differ among member states and the bulk
of financial resources is to be provided by the member states themselves
(especially in the richer states), there could be a reasonable concern
about intra-EU migration (and ‘social tourism’ in particular). Is it
reasonable to expect from national governments to finance a basic
pension for persons who moved to their member state on their 65th
birthday? Although it would compromise on the unconditionality of the
basic pension and it would complicate the calculation of the benefit level,
it seems advisable that in such cases the level of the benefit would
depend on the number of years one has resided in each member state.
For instance, the benefit could be equal to the sum of the benefits in each
of these member states, weighted by the relative number of years of
residence in each member state respectively. A similar procedure is
foreseen in the old (1408/71) and new (883/2004) regulations on the
coordination of social security schemes in the EU (cf. Rottiers, 2008: 363-
364; Verschueren, 2009: 158-159)\(^\text{20}\). However, people who have worked
for instance 20 years in Bulgaria and 20 years in the UK risk to receive an
inadequate basic pension if they continue to live in the UK. Therefore, a
different solution could be using European resources to finance the basic
pension of migrant workers. This would relieve poorer member states with
many emigrant workers of a substantial cost and enhance their capacity to
provide an adequate basic pension for their elderly and it would offset the
potential cost of ‘social tourism’ to richer member states with more
‘receiving’ migrant workers\(^\text{21}\). Such a regulation would provide substantial
incentives for member states to promote (short-time) intra-EU migration.

A last issue to which we would like to direct attention is concerned with
enlargement and the legal enforcement of the right to a basic pension.
The European Union could – in order to compel member states to provide
the basic pension – anchor it in the Treaty (cf. Vandenbroucke, 2002).
Apart from this, the issue of future enlargements should be given special
consideration. First there is the question about how much time new

\(^{20}\) See especially Art. 52 §1(b) of Regulation 883/2004, OJ L166, 30.4.2004, p. 58.

\(^{21}\) Although overall intra-EU mobility is relatively limited (cf. Ilzkovitz et al., 2007: 22-24).
member states would be given to adapt to the European regulation with regard to a basic pension. Second – and related to the first issue – it should be established from what moment in time citizens of new member states could be entitled to the BP in other member states. Third, if the benefit level or target group is defined in some ‘European’ way, it should be established how changes in European income and age structures should be dealt with, especially if it would entail some reduction in benefit level or change in the group of persons that is entitled to the basic pension. For instance, if the level of the benefit is set at a percentage of average or median income in the EU, the simple fact of accession of poorer countries to the EU could lead to a lower average or median income and consequently also to a lower level of the benefit. Obviously, such an evolution is to be avoided, not only from a poverty perspective, but also because such a mechanism could give rise to strong resistance against future enlargements.

6. Towards a European Basic pension: three scenarios

How do all these options add up to coherent proposals for a European basic pension? Although the precise specifications of a European basic pension scheme are up to politicians and policy makers, we believe that the ultimate design will fall into one of the following three categories, which can be situated on a continuum from a purely European to a purely national basic pension scheme.

At one extreme, there is a universal basic pension with equal benefits in all member states (taking differences in prices into account), benefits which are adapted to the household situation using the same equivalence scale all over the EU and provided by the European Union. Benefits are defined as a certain percentage of the median or average income within the EU. The basic pension is completely tax free to ensure that the benefit is the same for everyone in net terms. Benefits are automatically granted to a target group defined at the EU-level (as a percentage of the total population in the EU or using a strict age limit or any other uniform criteria). The basic pension is financed by a European fund, similar to the Cohesion Fund. Such a scheme may seem simple (and so it is in many respects) and effectively solves the problem of migration within the borders of the EU (that could arise from other designs). Nevertheless, it would require that the EU disposes of major administrative capacities. Furthermore, it probably cannot be reconciled with the subsidiarity principle, it neglects the relativity of income and poverty at the national level and could provide disincentives for national governments to provide a decent standard of living for the elderly. Additionally, such a scheme ignores (variations in) economies of scale at the household level and presupposes that – if necessary – international transfers from richer member states to the elderly in poorer member states or from relatively
young populations to relatively old populations are desirable and politically feasible.

At the other extreme, EU governments agree to implement some form of a basic pension in each member state, leaving all details of its implementation to the member states. In other words, national governments define themselves the target group, the level of the benefit, the way it is updated over time and the equivalence scale that is used to compensate for economies of scale within households. The way it is to be financed and whether and – if so – how it is to be taxed is left to national member states. For migrants, the level of the benefit depends on the number of years EU citizens resided in the respective member state. Clearly, such a scheme solves many of the problems we identified in the case of the purely European scheme. However, it would result in a scheme that does not resolve properly the issue of intra-EU migration. Furthermore, it does not ensure a decent basic pension in each member state and leads to very different benefits for the elderly of different member states, not only because member states themselves can define the level of the basic pension, but also because of differing national tax and benefit rules. Additionally, it ignores the relatively limited resources in poorer member states and it is a very limited version of a ‘European social sharing regime’. In other words, in the purely national scenario the EU’s elderly are likely to be treated differently along national lines, not only with regard to the target group, but also the level of the benefit both in relation to each other, as in relation to the active population of the member state in which they live.

The third category, a hybrid of the two schemes above, can take many different forms. It is the most complex one which could try to integrate the strengths of both extremes. Probably, it is the most promising way to achieve some kind of European social sharing regime. Given the minimum income guarantees that are already in existence in most EU member states, such a reform would entail bigger changes in one member state than in another. In order to make the reform more palatable, we therefore suggested to operate in a two-step procedure. In a first wave of reforms all member states should provide a conditional minimum income to all the elderly, with a benefit level defined at the European level (the only innovation in the case of Denmark and the Netherlands in this phase). The second wave of reforms would convert these schemes into unconditional (but not necessarily fully individualised) basic pension schemes. As far as its hybrid structure is concerned, the basic pension could follow uniform rules in all member states, but with results adapted to the situation in each member state. For instance, benefits could be defined as a certain percentage of the median or average income within each member state and are tax free. Instead of applying the same equivalence scale in each member state, member states could be asked to calculate the equivalence scales using a uniform method to assess economies of scales within households. Benefits are automatically granted to a target group which
could be defined uniformly as a certain percentage of the *national* population (or some other formula to take different, and changing, age structures into account). Financing could be left to national governments, but at the same time, European funds could be foreseen to ensure that migrant workers in richer member states could benefit from the same basic pension as the other elderly in that member state as well as to support poorer member states in implementing the basic pension scheme. Of course, also this scenario has some of the drawbacks mentioned earlier. Nonetheless, there is more room for manoeuvre to maximise the strengths and minimise the shortcomings of the scheme.

7. Conclusion

The harmonisation of European social security schemes in general and minimum income protection in particular is back on the agenda of European policy makers. With this paper we wish to contribute to this debate by pointing to some options and pitfalls in the design of a harmonised European basic pension scheme. Throughout the paper we assumed that a basic pension for Europe’s elderly is a desirable reform, in the first place with regard to the reduction of financial poverty. However, as we have tried to show in this paper, the design of a European basic pension scheme is a complex issue, no matter how it is conceived. Numerous decisions – partly interdependent – have to be made. The choice for one option or another may seem a largely technical issue at first sight, yet it could have a very large impact on the population that would ultimately benefit from the basic pension scheme, the level of the benefit, the financial cost of the scheme and the most appropriate organisational structure. All issues involved should be considered jointly. Nonetheless, each aspect of the basic pension scheme merits its own thorough ethical, technical and empirical discussion. As we have tried to show, being in favour of a European basic pension is one thing, but designing one that fits all necessary and desirable conditions is another.

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### Annex

**Table 2: At risk of poverty rates (total population and by age group), EU27, 2007 (%)**

<table>
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<th>Country</th>
<th>Total</th>
<th>0-17</th>
<th>18-64</th>
<th>65+</th>
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<td>17</td>
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<td>23</td>
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<tr>
<td>Bulgaria</td>
<td>14(^p)</td>
<td>18(^p)</td>
<td>12(^p)</td>
<td>18(^p)</td>
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<td>16</td>
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<td>18</td>
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<tr>
<td>Germany</td>
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<td>15(^p)</td>
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\(^p\) = provisional data. Source: EUROSTAT.