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**BASIC INCOME MARKET ECONOMY AND DEMOCRACY:
A FRENCH APPROACH**

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The scandal of inequality and poverty has returned amongst the richest nations. In a world that is each day richer than the previous day, there are more poor each day than the day before.

In the United States, between 1973 and 1993, the average salary of non-qualified employees has decreased from 11.85 to 8.64 dollars per hour. At the same time, the salaries of qualified people has flared up and the supplementary wealth produced in the United States during these years has been concentrated for a third on 1/100 of the population.

More recently, the American *Center on Budget and Policy Priorities* published a report indicating that the average revenues after taxes, of the richest 20% of Americans, have increased by 43% since 1977, whereas those of the poorest 20% of Americans have decreased by 9%.

In France, in spite of our social policies, according to a recent official report, 3.3 million households, representing 6 000 000 people, live with less than 3 500 FF (roughly 500 euros) per month and the number of these people has increased by more than 40% in 25 years.

The deep cause of this inequality phenomenon is neither the development of international trade nor the so-called trend of globalisation which should not be transformed into scapegoats; the cause is simply the technical progress.

The very nature of the contemporary technical progress in fact acts as a tool of real discrimination of competence amongst all the individuals, by permanently choosing the stronger, by mercilessly rejecting the weaker.

A generalised process of increasing professionalisation rejects those who can not adapt to the system. The market has penetrated all the levels of the work organisation. Each production unit becomes as an independent center of production so that technical progress acts as an implacable relegation of the weakest. Inequality seems to be an unavoidable by-product of the production of wealth.

Social inequality is therefore not an occasional accident in the history of capitalism or a marginal misadventure in our developed economy. Inequality is at the centre of the capitalist economy and the modern market system, since it is a direct result of the technological trend which creates the wealth.

This structural aspect of inequality is fundamental and is a basic challenge to our society.

Indeed, since the fall of the Berlin Wall, the principle of democracy has generally been accepted by all nations and market economy is the subject of a very wide consensus. And we want to keep both market economy and democracy. As a matter of fact, this is not a surprise, because the freedom to consume and produce requires the freedom of the citizen.

But the basic principle of democracy is equality amongst citizens and the unavoidable by-product of market economy seems to be increasing inequalities. We are therefore facing a fundamental contradiction

The risk for our developed societies is probably no longer revolutions as we had in the last century; the risk is more probably a loss of citizenship, which can be measured by a diminishing interest in votes for political elections. When people are poor and have no hope from the system, they just stop voting. And consequently, the political system becomes the exclusive property of rich people including possibly soft or hard mafia. This is no longer democracy.

This is why reducing inequalities is not just one regulation among others. It is a necessary step to save democracy.

Therefore, if the way of reducing inequality is not found, there is a risk of losing democracy and perhaps also market economy in addition at the same time.

The difficulty is then to find the means of reducing inequality without breaking the efficient driving forces of development, which characterise the market economy.

Is it possible to find means of reducing inequalities that would not be a handicap for the efficiency of capitalism and market economy ? That is one of the most important questions of modern times. And this shows the great importance of this congress.

Inequality has not only one dimension. The inequality of access to knowledge, to education, to health, to culture is not always measured in economic terms and the important notion of public service is an appropriate answer which we should never forget.

But we must admit that in this market economy, where gradually everything depends on money and the market, income inequalities become more and more intolerable, especially for low incomes.

In France, during the post World War II period of full employment, the SMIC (minimum inter-professional wage) was an inferior limit for the distribution of wealth. But if the minimum wage (SMIC) has symbolically remained very important as a term of reference and as such must absolutely be defended, unemployment and exclusion, and part-time work have created a new class of working poor which is developing.

With Michel ROCARD, we created the RMI (minimum integration revenue), given to those who have nothing. But there is nothing for these millions of wage earners who are the heads of a family and who have only for instance a part-time job. However their incomes are around 3 000 FF to 3.500FF per month (roughly 500 euro).

And now we are contemplating a renewed hope of full employment again. But considering the rules and process of the technological change in action in our society, the new full employment to come will include a large group of wage earners, who will only be employed on a part-time basis. They will represent a large group of working poor. Full employment perhaps yes, but with working poor.

A solution of this problem has long been proposed by many authors as the universal allowance called sometimes citizenship allowance.

The proposed monthly allowances range from 200 euro per month to 600 euro per month that would be given to each citizen without exception, disregarding personal economic conditions. The authors of these proposals refer to very diversified philosophical foundations and backgrounds and I admit that those theoretical approaches are of a great help to think more efficiently even if they do not give practical resolutions to the difficult actual problems we have to solve now.

But I must confess I disapprove the vision of the society that some authors have, in which there would be two clans of citizens: those who work on one side and those who are clever enough to have a living which they do not have to earn.

The Greeks had this concept, so clearly explained to us by Hannah ARENDT, but in fact the Greek society was founded on a duality with citizens who devoted their time to activity and politics on the one side and on the other side slaves who had the monopoly of work.

This is not at all our vision of the society. I refuse the concept of “the end of work” because I think that work remains the basis of social bonds, in a democratic society where all citizens should be equal and practise solidarity with one another.

And last but not least, the application of such a principle to our present economies and political systems is absolutely unfeasible.

The amount of transfer which is fiscally required would range from 100 billion euro to 200 billion euro for a country like France.

No government will ever accept to jump in such a game just because of the size of the amount of taxes to ask from the taxpayer for, after all, a rather modest social effect.

This is why I have made a proposal to the French government, which is at mid distance between the “universal allowance principle” and the “negative tax system” commonly attributed to Milton Friedman.

My objective is essentially threefold:

- First, limit the fiscal transfer to a maximum of 7 billion of euro (that is 7% of what should be required at minimum for the universal allowance); That is the maximum that the French budget can absorb.
- Second, help substantially all revenues which are below the normal revenue earned by a full time worker paid at the minimum wage level.
- Third, suppress the poverty trap which is commonly identified as a very negative trait of the RMI (minimum integration revenue).

The result is the following proposal:

The proposed allowance would decrease according to the increase in the household’s income, in such a way that the beneficiary would always have a financial interest to work more, without the fear of losing his income support status. This would ban all poverty traps and this allowance would become a powerful incentive to enter the working community. It could be called the revenue compensating allowance (RCA or ACR in French – allocation compensatrice de revenu).

All the working population would benefit from this, whether they have been entitled to the RMI or not: the beneficiaries of the API (single parent allowance), of the unemployment allowance, disabled adults, young people under 25 must not be excluded from this measure.

The quantitative shaping is fairly simple. With no income at all, the beneficiary would receive the present RMI, that is to say 28 800 FF per year (or approximately 4 000 euro) in the case of a single person. With an income close to the SMIC, for example 80 000 FF (or approximately 12 000 euro per year being equivalent of a 1.2 net SMIC, the beneficiary would no longer be entitled to anything.

And between the two extreme points, the allowance would be inversely proportional to income.

It would give the following results:

Annual Revenue without ACR	ACR	Annual Revenue with ACR
0 F	28.800 F	28.800 F
20.000 F	21.600 F	41.600 F
40.000 F	14.400 F	54.400 F
80.000 F	0 F	80.000 F

A simple formula can define the ACR: it corresponds to the RMI, reduced by a rate of 36% of other incomes. The total cost of this measure would probably range from 3 to 6 billions of euro according to estimations made by experts from the Ministry of Finance, from the University as well as from the American MIT.

The easiest procedure would be to create a tax credit decreasing according to income, and granted to each household. Possible aids or allocations received elsewhere would be deducted from this credit and the balance would be covered by a real payment whose total amount would define the ACR.

The impact on low incomes is quite sizeable :

for a revenue of 20.000 FF (approximately 3.000 euro), the allowance would be 21.600 (the disposable income would therefore be doubled)

for a revenue of 40.000 FF (6000 euro), the allowance would be 14.400 FF(a little more than 2000 euro) which means an increase of disposal income of more than 33%.

And most importantly, the traps of poverty created by the minimum integration revenue has disappeared

This system has of course some similarities with the American Earned Income –Tax Credit (or the new British Working Families - Tax Credit) but it is adapted to the French social systems which will have 3 important reference points. The minimum revenue, the minimum wage and now the revenue compensating allowance.

It solves the problem in an acceptable ways for the beneficiaries and in a feasible way for government.

The practical implementation of this principle into the French social and fiscal system is now under study in the Ministry of Finance.

It is fairly complex because it must first take into account a great variety of family sizes and conditions, and second adapt the system to the many existing social transfers (and probably change quite a lot of them) in order to avoid new thresholds or negative unwished effects.

Most probably this will lead to a complete reengineering of the whole income tax system; it will therefore be a very substantial reform.

In a market economy where the earnings are regulated by the market, it is necessary to have a new regulation on revenues (and especially on low revenues). This is a major problem for all social democrats of the world and I hope that this Berlin Congress is a first step to a European coordinated regulation on low revenues at last in the entire Euro zone.

But the major critic of this proposal comes from those who think that this subsidy to low revenues will induce a development of the class of working poor and that it will create a temptation for employees to cut down ways and perhaps destroy the concept of minimum wage.

The critic is fair but the answer is very clear :

First, the minimum wage concept is part of the proposed system as well as the minimum revenue concept. In order to define the compensation revenues proposed, the legislators must first define the minimum revenue level and then the minimum wage level and only then define the compensation allocation as proposed.

The three concepts go together and are established as the reference points of the revenue regulation policy.

Therefore there is no danger of forgetting the concept of minimum wage.

Second, as for the accusation of creating more working poor, the answer can be as follows.

The concept of Revenue Compensation Allowance is built in such a way that a working poor has always a financial interest to work more if he can find such a job. Of course this is provided he wants to earn more. And this is self-evident. Indeed, let us not forget that the allocation is given to the head of a family who works on a part-time job and for instance earns 500 Euro per month (as global revenue for a family).

The alteration of the labour market equilibrium is in truth of secondary importance if not negligible in practise.

After the failure of the systems of planned economies and the acceptance that the Keneyesian concepts are no longer adapted to the situation of a completely open world, a fairly general wave of deregulation has struck our economies

The priority is now to redefine the operating rules and the limits of market economy and capitalism, that is to say to invent new forms of regulation, in a way to *reengineer* the rules of the game.

And in addition to the somewhat technical regulations which are necessary for a greater efficiency of market economy and capitalism, there are social regulations that are essential in particular to reduce inequality, and basically income inequalities.

Then, and only then, will we be able to say yes to the market economy and no to the market society placing our hopes on what I propose to call the post social democracy of the 21st century.

Ensuring that the society is not too inegalitarian is the only way to keep the democracy alive which is also the only way to control the increasing potential violence of the world.

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