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Proposal for a European Basic Income

A European Basic Income Allowance (BIA) as a solution for the social unification of Europe

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1. Introduction

In the past 50 years, the economical and financial unification of the EU has led to a successful implementation of a unified economy. It resulted in a global EU wealth creation as never seen in history before. This can be called the success of: “The baking of the cake”. But one of the issues for a lot of people in the EU is the poor results in the unification of a social Europe. This means a global EU wealth distribution system, which people would feel to be just. This can be called: “The eating of the cake”. If the EU unification wants to succeed in the future, there is a need for such a widely accepted social Europe with a unified social security system. This could be a perfect challenge for the next decades of European unification.

2. Challenges

To obtain a unified social security system in Europe, the first challenge is to accommodate the present different types of social security systems in the countries. Therefore a new concept of social security system in the EU will be necessary.

Another challenge is the financing of the system. Present social security systems are now mostly paid from contributions and taxes on wages. But in the present successful market economy, the production efficiency increases continuously and this leads to lower employment needs. In fact a shift from income from wages (labor income) to income from capital investment (financial income) is noticed and this evolution is expected to continue.

Besides the observation that financial income is increasing, also a gradual increase of extreme poverty is noticed and there is no reason this trend will not persist, when nothing is done.

The amount of older people will further increase. For the present social security systems, an increasing need to finance legal pension funds and legal health insurance will result.

Last but not least, there is the challenge to develop a sustainable and environmental friendly economy. But this challenge will not be addressed in this paper.

3. Assumptions for an EU social system

A new social concept should become the minimal social security protection for every EU citizen. It has to be easy to implement and easy to transfer when an EU citizen is moving to another EU country. Preferably, the controls should be simpler than the present social security systems.

The system has to reduce extreme poverty as much as possible.

The system should avoid the social security trap of present social security systems. The income difference between the social funding and a low salary income should be substantial and not negligible, like in most present social security systems.

It should also be taken into account that 100% employment will never be reached. There exist always people who are unable to work due to mental or physical inhibitors. There is no reason that people should work to obtain an income. E.g. people with capital do not need to work for an income. They get income when they invest their money into the economy. The reason to allow profit on a capital investment in our society is based on the observation that the economy is improving (growing) with this type of remuneration. Therefore, based on the same reasoning, when a social security funding in an economy helps to sustain and stabilize the growth of the economy, then it is valuable for the society.

To finance a new social security concept, income from capital investment should equally contribute to this social system. The social security systems are now mostly paid from tax on wages and therefore designed to destroy jobs. It is observed that income from wages (income from work) tends to decrease in favor of income from capital investment (financial income). On a longer term the contributions from wages will decrease and the social security financed from their contributions will reduce significantly. Therefore a new financing mechanism with equal contributions from financial income is mandatory.

A new social system should promote individual initiative to work (income from wages) and promote individual initiative to take risk (income from capital investment). This can be obtained by a reasonable tax on income (enough reward when you make an effort for your income) and when everybody can take part in the social security funding (equal share for everybody on the socially distributed wealth).

4. The proposal: A Basic Income Allowance (BIA) paid by a Basic Income Tax (BIT)

The BIA proposal can be named the “40/30 proposal” and should become the minimal social protection in the EU. The BIA consists of an equal share of 30% of the total income (= GDP) for every EU citizen.

The BIT consists of a 40% flat tax on each income, independent of the type of income. An income can be from salary or profit on savings or anything else (which is increasing your own amount of money).

The money from the BIT equals roughly 40% of the GDP of the EU.

- 30% of the GDP is used for the social security system (BIA = 3/4 of BIT)

- 10% of the GDP is used for the government administration (1/4 of BIT)

Note that no tax on capital itself is foreseen in the proposal, only a tax on the profit of the capital.

5. Basic Income Allowance (BIA): practical implementation

30% of GDP per Person and per Year (PY) in the EU = 7,000 EUR/PY = BIA

Every person will receive a BIA, independent of its income.

5.1 How to start the “40/30 proposal”

To start the system: a differentiation between EU regions based on local Purchase Power Standard (PPS) will be necessary. As an example, to start in Belgium the BIA could be 9,000 EUR/PY and in Hungary 4,000 EUR/PY, but exact values should be based on an in-depth study of this proposal. Values are hereby given as an example to clarify the concept of the “40/30 proposal”.

Every year, an adaptation to local PPS of each region will be necessary. One can expect that regional differences will level out when economies in EU are growing to each other. As an end goal, the amount of the BIA in the EU should become one unique number. This could be considered as one of the success criteria (as a Key Performance Indicator) for the realization of a unified social Europe.

5.2 The BIA replaces all EU social security

The amount of the BIA covers approximately the basic needs of one person: Food, clothing, housing and basic health care.

On an income from work or capital investment a 40% flat tax is paid.

Preferably, additional tax breaks on income for promoting mortgage on a first house, private health insurance and private pension fund should be provided to promote some self-savings from an own income. In this way, people with an income can built-up additional insurance and this gives an advantage to people, when they work or do a capital investment.

The BIA will replace all EU social security items. In practice, the difference with existing social benefits is limited, but the BIA as a social benefit system is much easier and transparent than existing legislation and control mechanisms.

The BIA as a minimal social protection in the EU:

- replaces the progressive tax level with higher income
- replaces the minimal unemployment allowance
- replaces the minimum allowance for poor families without any income
- replaces the sabbatical periods for education of children
- replaces the school tuition for children (educational support)
- replaces the legal pension
- replaces any other minimal social benefit

Extra social funding could be provided by local authorities from local taxes. But this will be up to the local democracy. When people do not want to pay the tax for more extra social protection, they should not vote for the politicians in favor of more social protection.

Extra social funding for employees can also be negotiated by e.g. unions with employers per economical sector. This is similar to the existing extra social protection systems provided by employers for their employees and are a competitive item in the salary negotiations between an employee and its employer. Also for this type of extra social funding, some tax breaks could be foreseen.

Let us discuss here 6 examples of the BIA replacing the existing social security funding:

Progressive tax level

In a lot of countries higher income from wages is taxed more than lower income as a social benefit for lower incomes. The combination of a flat tax on income with a basic income serves the same purpose and is easier and more just. Every person (also without an income) will at least get its basic needs covered by the BIA. Also for low incomes, they will only pay taxes on the income on top of the money they need for basic needs, because they will always receive the BIA on top of the income they get from work or financial savings.

Unemployment

Presently, in most countries unemployed people will get a funding (sometimes temporarily) if they can prove they try to get work, i.e. if they prove they are available on the employment market. The “40/30” proposal can replace this and will reduce some of the extra costs on controlling the availability of the person on the employment market. Additional support for dismissed employees based on negotiations by e.g. unions with the employers per economical sector is still possible. The existing legislation in certain countries on fees that an employer has to pay to the employees when he is dismissing them can be kept if wanted.

Poor families without an income

When a family can prove nobody is able to work due to physical, health or mental problems and has no other means to survive, in the present situation usually the state provides funding to these families. The “40/30 proposal” can replace this completely and no extra cost on controlling if the family has really no other means of income will be necessary. This will cut some of the existing costs of the social security system. The control function on income will be from the fiscal administration (everybody needs to pay its 40% flat tax). Social assistance to teach certain people to handle their income in a correct way (help to live within a budget, e.g. when the family has too high debts) can still be foreseen and will be more efficient than the existing control function of social workers. In this way, social workers will really help some poor families instead of being the ‘social-fraud control-person’.

Sabbatical periods

Some countries foresee presently extra funding to promote that people stay at home for children, helping parents or to support other sabbatical periods in their lives. The “40/30 proposal” will ensure a minimal income when people decide for a sabbatical period. No control and approval is needed from a political level for this decision anymore. If in a family, one of the parents wants to stay home to raise the children, the person will still get a decent (BIA) income. If the person wants to work, the BIA can be used to pay the day care for the children. In this way, a family has a real choice without political rules to choose between raising its own children or to pay a day care center.

School tuitions

Each child will receive the BIA. This sounds to be overkill, because children are living in families. But the BIA of the child is intended to support the education (schooling) of the child. So, the whole budget of the administration of education is included in the BIA budget.

Until a certain age of the child (e.g. 18 years), schooling is obligatory paid from the BIA. Governments should ensure that decent education is provided for a price below the BIA. With a BIA of 30% of the GDP/PY, this is possible. For the higher education (> 18 years) the BIA may not be enough, but the extra-tuitions above the BIA should be tax deductible. Again, local authorities could decide to provide these extra tuitions paid from local tax.

Most EU countries provide now almost “free of charge” schooling. So, this system can be sustained in the countries were it exists already. The cost of the education in these countries will be subtracted from the child’s BIA and that money will go to the governmental administration of education. Parents will be able to choose between the

“free-of-charge” schools (provided by the local government) and receive a reduced child’s BIA or they choose to receive the child’s full BIA and then they pay for the full cost of the education of the child in a private school. As long as the child gets education of a certain minimal standard (controlled by the government) the child’s BIA will be provided.

For people older than 18 years, the educational duty is not obligatory anymore. The BIA can be used to pay for higher education, but it is the choice of the person itself. The major advantage of this system is that people cannot have the excuse anymore that the society did not provide the means for education. People willing to take the opportunity are financially capable to do decent studies and educate themselves. The ones who do not take this opportunity can only blame themselves later on.

Legal pension

The BIA will replace the existing legal pension. The major advantage is that the legal pension will become dependent on global economical performance of the EU and it becomes budget neutral for governments within the fiscal year. Only money from tax paid in that year is needed to pay the BIA (which replaces the legal pension).

Sufficient additional tax-breaks on income should be provided to promote self-savings for own additional private pension. Also local authorities can decide on own extra pension funds, paid from local taxes. Again this is a democratic question and depends on the votes of the local people for that system. If they want to get higher pension, then they will need to pay higher taxes during their life. But anyway, the “40/30 system” will be the minimal amount of social funding an EU citizen can expect during his whole life.

This will also allow to disregard the existing “legal pension age”, which is now only based on the possibility of governments to pay the increasing amount of older people. The recent raise of the legal pension age in some countries has nothing to do with the discussion on when it would be just for a person to get a pension from the state. There is no discussion about how long somebody should work or at which age a person is still skilled (mentally or physically) to work. The main reason for the rising pension age is simply a budgetary one, because the existing pension systems cannot pay an increasing amount of older people, while the amount of working people remains constant.

In the 40/30 proposal, the BIA is paid independent of age. It is also independent of income level. Therefore it allows people to reduce the working time gradually on a self-chosen age. Because the redistribution of income of the 40/30 proposal is done within a fiscal year, there is no problem in increasing deficits when certain social groups are increasing in number or in needs. The BIA is a relative amount versus the total income in the EU gained in that year. The increasing amount of older people becomes payable. Of course, as mentioned before, additional pension funding has to come from either private savings (promoted by tax deductibility) or regional taxes (democratically agreed by the people of the region).

Other examples

The previous 6 examples are given to clarify the concept of the 40/30 proposal. The BIA is an individual right of every EU citizen for a whole lifetime. So the money of the BIA can be used by the EU citizen as long as its use is legal. But this right does not mean that the person has no obligation to be a “good citizen” in the EU. If the person is doing illegal acts, the money of the BIA can be taken by a court to serve other purposes. When somebody is doing illegal acts, a judge can oblige that the BIA

of that criminal is used for its own re-education in the society. When jail seems to be the best option (this will depend on the judge), the living cost (basic needs) in the jail will be paid by the BIA. When a re-education in a specialized center is more appropriate, again the BIA of that person can be assigned by a judge to that center. In this way, at least a part of the existing budgetary problems to control criminals in our society is solved. So the BIA will be a right for every EU citizen within certain legal rules.

5.3 Practical and regional implementation of the BIA

As mentioned in previous examples, the best practice of the BIA is not necessarily a monthly money transfer from the government onto the bank account of the individual. As an example, I would like to mention the Belgian social security system. In the 40/30 proposal, I assume that the BIA amount for Belgium would be of the order of 9,000 EUR per person and per year. But, in the present Belgian social security system for employees some social protection is provided free of charge:

- The yearly school cost for a child is approximately 7,000 EUR and this is now paid by the government.

- The basic health insurance is approximately 1,000 EUR per person and per year.

A practical BIA amount in Belgium for every citizen could then become:

- For an adult: 8,000 EUR per year plus the free basic health insurance (9,000 – 1,000 = 8,000)

- For a child (<18 years): 1,000 EUR per year plus the free basic health insurance and the free school tuition (9,000 – 1,000 – 7,000 = 1,000).

This example shows a possible practical concept how the BIA could be a real decent social security system, providing a minimal protection for every citizen.

6. The 40/30 proposal is economically viable

For the governments there is one very attractive part in the 40/30 proposal. Because exactly 30% of the global income is redistributed each budgetary year, there is no build up of deficits, due to increasing needs or a wrong budgetary estimation of social needs. The whole proposal is budgetary neutral within a fiscal year. And it will stay budgetary neutral, because the allowance will follow the economical performance. The social allowance follows the economical growth (or reduction) of incomes, independent of the income type. The allowance is automatically adapted to global income changes. Traditionally, governments try to increase social funding with a decrease in the economy to sustain the demand. This is believed to be better for the economy. However, once the amount of the social funding is high enough (i.e. covering roughly the basic needs), an increasing social funding with a slower economy will become less necessary. The social funding level is then already near the level of the basic needs and the impact of a slight reduction will be less dramatic compared with present social security systems. Moreover, in the present social security systems, the only goal of many people eligible for social funding is to try to increase the social funding as such, independent if this is good for the economy (i.e. the wealth creator). In the “40/30 proposal” the wealth creation and distribution is automatically coupled. The social funding level is directly dependent on the economy and therefore when the BIA is not sufficient or is lowered (due to an economical downturn), a person will be more positive about a governmental policy to improve the economy (because this will increase the BIA amount).

The 40/30 proposal will also avoid that governments need to increase taxes to compensate higher social funding in a decreasing economy. If in the 40/30 proposal,

the government wants higher social funding (higher BIA), then they should promote economical growth and automatically social funding (BIA) will increase again. This is more viable, because it immediately solves the problem of who will pay for the higher social funding instead of creating higher debts of the government.

The amount of the BIA that a person receives is equivalent to his basic needs. Therefore, the person will use that entire amount within the year as the cost to live. The total amount of the BIA will return within a year into the market economy. As a consequence, the consumer demand will be more stable. The whole amount of the BIA will continuously be injected back into the economy. And it is well known that the consumer demand is the engine of the market economy.

Another reason why the 40/30 proposal is viable over a long term period is that when the type of income is shifting (e.g. when income from wages is shifting to income from capital investment) the total amount of tax is still the same. The proposal consists of a 40% flat tax on any income, independent of the type of income. This proposal also avoids the advantage of a fiscal optimization of the type of income for e.g. an owner of a company. When the owner's income is paid as a profit on the company's investment, the present tax is usually lower than when the owner's income is paid as a salary from the company. In both cases the brut income can be exactly the same, but in most present fiscal regimes in the EU the net income after tax will be different. This leads now to fiscal constructions, which may be legal, but they cannot be considered as just. Moreover, an increasing production efficiency of companies (which is the driver of the profitability of companies) leads to lower wages and higher income on capital investment. Presently it leads to lower contributions to the social security. The "40/30 proposal" solves this problem. Social security is paid from all incomes, independent how it is made and therefore the BIA is only dependent on the global economical health of the EU. It is an enabler to get a buy-in from a large audience for the present successful EU market economy.

To argue further that the 40/30 proposal is beneficial for the global economical health, I would state that this 40/30 proposal will enhance the initiative to take risks in the economy and can facilitate the entrepreneurship in the EU. To take profit from the existing social security systems usually it is dependent on the type of employment contract a person has. When the person is changing the type of contract, e.g. from employee to independent or to investor, the social security protection level can change sometimes drastically. This is inhibiting people to take a risk in the economy by e.g. starting up their own company. In the present situation, some legislation tries to do something about this problem, but it is usually quite complicated to overcome this problem. In the 40/30 proposal every person will always be ensured of this minimal social protection level for his or her whole life time. It does not matter which type of contract the person has. Tax level and benefits are the same and therefore changes to other types of contracts or mobility within the EU is not inhibited or discouraged by complicated legal rules.

7. Summary and conclusions: benefits of the 40/30 proposal

The solution for the social security trap

Every income will keep 60% of each euro earned, independent on the source of income. For low level jobs, no punishment when earning just above a limit where no or reduced social benefits are entitled. In the present situation, people loses usually

their social funding when they get an income from work, even when this income is just near to the amount of social funding they get without working.

The solution for growing amount of older people in the society

The BIA will replace the legal pension and is budget neutral within the budgetary year. Additional private savings is promoted by tax-deductibility and promotes that people save for their own additional pension. No legal pension age, this allows people to gradually decrease their working regime. It solves the existing discussion on the legal pension age, which is purely based on budgetary considerations.

The solution for a social security policy and a healthy economy

The 40/30 proposal gives the governments a target for a minimal social funding level (30% of the GDP). Now some people claim that social security systems are not payable anymore, because they are not prepared to change the funding of the system from contribution on wages to contributions on the profit of capital investments (which shows a growing trend in our economy). In this proposal the social funding is dependent on the performance of the total economy (GDP). This is a more just system than the existing one, whereby the high tax on wages is designed to destroy jobs in a market economy, due to the higher cost of the wages. The redistribution of income will enhance the social cohesion and sustain a more widely acceptance of a healthy economy in the EU.

Appendix: Governmental administrations paid from taxes

For the sake of completeness, a list of governmental administrations is given in function of the type of the tax they are paid from. These administrations can operate on a global EU level or on a country or regional level. It is a political decision how to implement, but the list shows from which tax each administration is paid.

The Basic Income Tax (BIT) is 40% of the total income (GDP).

- Departments paid from 10% on GDP ($\frac{1}{4}$ of the BIT) are the items of “global political and global economical” importance, i.e. - foreign affairs - defense (army) - treasury – finance - global economy, trade and commerce - immigration and emigration - and justice.
- Departments paid from 30% on GDP ($\frac{3}{4}$ of the BIT = total BIA) are the items of “personal” importance, i.e. - labor and social welfare – health - education and science.

Besides the BIT, also a VAT (Value Added Tax) will still exist on the consumption of products.

- Departments paid from the VAT on consumer products are the items of “regional or local” importance, i.e. - internal affairs (including police) - local economy, trade and commerce - urban and regional development - and culture.

Last, but not least, to obtain an environmental friendly economy, an environmental tax on environmental unfriendly products will be necessary.

- Departments paid from this tax are the items of “environmental” importance, i.e. - the environmental legislation and control, including energy policy.