

An Unconditional Basic Income for Europe? Between Enthusiasm and Disillusionment

Introduction

Introducing an unconditional basic income (GE¹) for every citizen, especially if applied to the entire European Union (EGE²), can be expected to be greeted with enthusiasm in progressive circles. At last a genuine European social policy would be created, which would help weld together the citizens of the EU along a common destiny. At most, a few skeptics would doubt the feasibility of such a scheme, or dread the resulting aimlessness of people who previously believed the chief task of their life was to work in order to cope with their role in Society. We will show why financing is not a problem and why a general trend to an increase in wages would result, at least if the level of the GE comes close to the level of the lowest salaries. The threat of aimlessness for many people can be met by a solid offer of educational measures, because the dignity of man requires that leisure be filled with gratifying jobs, rather than with jobs valued only on their economic value alone. Whilst for each individual member-state, a single value of GE is not without economic risk, but still conceivable; aiming at a single value on the level of the entire EU would either result in total inefficiency if it were fixed at a very low level. If fixed at a high level it could result in the economic destruction of the industrial infrastructure of entire regions. One should remember that the per capita output in the EU regions varies in a proportion of 1:13. So probably on the level of the EU, there can be an agreement only on the principles that would govern an EGE. For instance the level could be fixed at 60% of the median GDP per capita, so as to be above the relative poverty level. The elaboration of the precise modalities under the agreed principles will probably remain the responsibility of individual member-states.

Consideration should also be given to what could be called a junior scheme; along the lines of the Luxembourgish RMG³, which is a means-tested minimum revenue model. Similar schemes exist in other EU member states. Under the condition, that such a regime be freely accessible and the level of the income granted not very different from the lowest local salaries, the major benefits described above, i.e. the firewall effect between the private sphere and irregular business cycles would still occur, also the general tendency for salaries to rise, as opposed to revenue from capital, can be expected. These important advantages and the relative ease of introduction of such a model as opposed to the “real” Basic Income concept would compensate for its unorthodoxy.

Firewall against economic crises

¹ GE = Grundeinkommen = Basic Income

² EGE = Europäisches Grundeinkommen = European Basic Income

³ RMG = Revenu Minimum Garanti = Guaranteed Minimum Income.

ESU in a reasonable amount allowed for citizens even in times of economic crises, a life in dignity. Here is the result of a genuine GE Schneise fire between the economic cycles dominated economy and privacy. Of course, should not be denied that the prosperity for all citizens only by companies must be earned and then through one or other tax to the state to be removed before it can pay off the GE. It should rather be noted that the ordinary citizen does not wish it, with the unpredictability of the economy to be charged and therefore the state apparatus, the role of such influences to "smooth". The microeconomics teaches us that success or failure of a company very often unpredictable factors (economic, weather, etc.) depends. This should be preserved conventional citizens, unless he is speculating, and so even this "lottery" which is his right. But then he needs no special protection if he has verkalkuliert. This also means that companies, which have plummeted, not necessarily from the state "saved" should be, just because of jobs. The jobs can not be saved anyway, if they have no real value-added features. If these jobs, however, a real value added, then they will get anyway, albeit perhaps under a different name or in another place, which for those affected can not so easily be too disruptive. The job of managers, however, are really threatened, as a failure because they are so easy for a new job. If so state money be wasted?

Definition of the model

To demonstrate the financial viability is a model used offers the advantage that it in itself is closed, so no external demands on fiscal measures and makes it also allowed, on a Marginalanalyse to draw inferences, how the system in some shock effects (eg sudden growth of the category "ESU receiver") is responding. This is the model of the negative control with a constant rate (Negative Income Tax and Flat Tax Rate).

The model underlying this equation for the tax owed, writes as follows:

$$y = -10\,000 + t \cdot x \quad (1)$$

Where x = net purchase, in € per year

T = tax rate; e.g. $t = 25\%$

y = tax, € per year, if negative: social transfers.

Disposable income (R) is calculated as follows:

$$R = x - y \quad (2)$$

By inserting (1) follows:

$$R = 10\,000 + (1-t) \cdot x \quad (3)$$

This is the formula of the basic!

So it is completely irrelevant whether we are from a "Negative Income Tax" or the "Basic Income" expect.

Affordability

To calculate a plausible income structure, as it occurs in the literature, is used.

Groups 1-11 stand for the net acquisition of classes 0, 20 000, 40 000, ... up to € 200 000 per year.

Overall, the bill is based on a population of 250 000 Under these assumptions and under the assumption of a fixed rate of 25% to self-acquisition results in the global account for a small fiscal surplus, as shown in the table below:

Net acquisition of € per year Percentage of population social transfers in M € tax income, M € net annual income tax charge €

- 15%	-375	10.000		
20.000	24%	-300	25.000	
40.000	33%	0	0	40.000 0.0%
60.000	13%	163	55.000	8.3%
80.000	6%	150	70.000	12.5%
100.000	3%	98	85.000	15.0%
120.000	2%	90	100.000	16.7%
140.000	2%	100	115.000	17.9%
160.000	1%	90	130.000	18.8%
180.000	1%	88	145.000	19.4%
200.000	1%	80	160.000	20.0%
100%	-675	858		

On the fringes should be noted that whatever the fixed rate on the net acquisition (25%) to be a progressively higher tax on the total earnings (from 0 to 20%) yields (last column).
Simulation of an increase in the category "Net acquisition = null"

For the purpose of this simulation, we first calculate the rate at which the base case, the social transfers of tax revenues just to be. This is a tax rate of 23.30%.

Allsdann we make the hypothesis that the proportion of "zero-net-profit" from 15 to 16%, ie a relative increase of 6.67%. The shares of other categories according to go back, so that the sum of 100% remains.

Under these assumptions, a rate of 23:49% is necessary to ensure that social transfers are financed by tax revenue. This is a relative increase of 0.82%, or about one eighth of the causal relative increase in the lowest category.

One can thus reasonably confident that small changes within the (lower) income categories, as they result from a simplification of the entrance into the ESU would result, the model does not concern in question would. Remember we are at this point that economic models are generally only for marginal changes with some confidence can be calculated.

Financial sustainability of pensions

Under the hypothesis that the pensioners are to benefit ESU would allow the above model is also a positive statement about the financial sustainability of pensions in ongoing life. Since such an increase if everyone would stop progressive, you are certainly in the hypothesis of marginal change.

The media often as high bogeyman played "pension Wall" is deleted!

Influence on wages

Under the condition that a reasonable level of ESU exists and unconditionally granted to residents, it can be assumed that wages are automatically higher than this threshold will settle. There is probably no one, who would be willing to pay to work, not least the ESU plus expenses (uniforms, transport etc.) covering. This presupposes, however, that appropriate measures are taken against wage dumping, by the uncontrolled immigration of workers from low-wage countries could emerge as it already today in the most member countries of the EU. As described, the lowest wages therefore automatically increase according to the ESU. That this is also for all other wages applicable, will hereinafter be shown. The figure below is the classic representation of a D / S-curve (Demand / Supply), which represents how the market for a product, in this case, the labor market, a balance between supply and demand. The D-curve, the demand for labor by the company, many workers on low wages and less for a high salary. The S-curve represents the supply of workers from the base case, which offer even more work than the wages are higher. Both curves intersect at point E, the market reached equilibrium represents. Is now the offer by the employee, because the introduction of an q' , it moves the Δ ESU a part of today's workers leave the labor market (q curve S to S' and it represents a new equilibrium E 'a. This corresponds to a higher salary ($p' > p$).

This is probably a significant effect of the introduction of an ESU, with far-reaching consequences, which may very well be a "soft revolution" would be equal. The condition that such a development takes place, however, is that the actual amount of the ESU in the vicinity of the lowest wages comes. Also the above approach is too sweeping and should be refined according to qualifications. That detail, however, is beyond the scope of this article.

Monitoring of the ESU by a sound educational policy

A solid education is part of the ESU policy, whether the order of economic compulsion to work liberated people to new dimensions of human existence (the humanistic education), whether to continue to work willing to give the opportunity to acquire new skills (professional training), then new perspectives in professional life can open up. It should provide paid training, education money to pay the costs, provided that the courses would not be free, and Education Award for outstanding achievements, etc. The Luxembourg RMG model

In Luxembourg, has been in existence since 1986 a RMG which we think quite a model for an early stage of the ESU could be. From 1.3.2009 the RMG amounts for a single person to € 1 198.67, for a household of 2 persons at € 1 798.01. Of this amount, 4.1% to sickness and disability insurance. Theoretically, the RMG includes an amount of 10% for housing costs. If the actual rent paid is higher, it may be a limited grant. Access to the RMG will be for younger people restrictive: Residence proof, Proof incapacity. From the age of 60 years, the only access to the residence to be bound, as well as the examination of the resource. Therefore, there are currently only about 12 000 RMG receiver. The law also includes an integration compensation, which for younger people and is thought u. A. includes paid training. The underlying equation is:

$$R = \text{MAX}(10\,000, (1-t) * x) \quad (4)$$

Reminder: x = net acquisition (eg € per year);

T = tax rate (e.g. 25%);

R = income after taxes and social transfers.

The graph below shows the difference between RMG and ESU. It could be the RMG as a junior solution to the ESU describe, but also as a preliminary view, which is certainly much simpler to implement, as the ESU. It brings to the ESU but disadvantages, on the one hand, the administrative burden is greater, on the other hand, is at the pivot point of the curve, the incentive to cheat.

If we as a final goal at ESU holds, it could solve the RMG, the expanded EU, is indeed a pragmatic intermediate stage show. It provides in any event, the overwhelming advantages of Loskoppelung of severe fluctuations in economic activity. This, however, the positive effect to increase the wages are actually set, but would need some of the restrictive conditions to be resolved. The fairness criteria would RMG's regime, after repair, but probably largely meet.

Abstract

A significant advantage of an ESU seems to us the firebreaks effect, especially given the current economic crisis. It is probably the case that violent movements in the economy can never be avoided. The ESU would allow ordinary citizens to such extreme conditions, protecting him by a basic income guarantee would state routes. To affordability is to say that starting from the negative income tax model has been demonstrated that a once existing balance of shock effects in only a factor of 8 decrease in mass is affected. The same consideration is also confident that, with the larger life of the resulting so-called pension wall, an illusion act. The most important consequence of the introduction of an ESU in the amount due would be in our opinion, the positive influence on the development of wages and salaries. On the labor market would reach a new equilibrium higher wages. This would require a new distribution of the added value of enterprises according to L (wages and salaries) and K (capital) are begun and since the eighties, growing gap between income gap will be met effectively. This would be a "soft revolution" equal. Finally, on the importance of a sound education that will enable the public, remains committed to the job market or would like to keep fit in the profession would like to come, as well as those who labor market temporarily or definitively turned their backs has in education finds that his talents or needs.