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the impact of the financial crisis on daily life, employment and incomes***

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Gilles Dryancour

***"ECONOMIC CRISIS, SOCIAL INCOMES AND
COMPETITIVENESS: TIME FOR A NEW
PARADIGM"***

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ECONOMIC CRISIS, SOCIAL INCOMES AND COMPETITIVENESS: TIME FOR A NEW PARADIGM

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Introduction

Following the bursting of the property bubble in the USA, Europe, in its turn, is being affected by the crisis. It has manifested itself in numerous ways: bankruptcy of sovereign states¹, depreciation of stock market assets², falling property prices³, a series of bank collapses, falling demand, a rapid increase in unemployment, cautiousness of investors etc.

According to the OECD forecasts, published in January 2009, the GDP of the eurozone should shrink by an average of 0.6% in 2009. In all the OECD countries, the number of unemployed people is set to rise from 34 million at the beginning of 2009 to 42 million by the middle of 2010. The trough of the recession is expected to be reached in June 2009. It could be the end of 2010 before the eurozone resumes its growth.

From our point of view, these forecasts are relatively optimistic. The crisis could last longer with a situation like that in Japan⁴. Whatever its length and its scale, the crisis rests on a structural factor which will be slow to be resolved. The global economy is suffering from a surplus of liquidity⁵, which generates financial and economic bubbles.

Faced with the approaching recession, certain Member States have decided to boost the economic machine with huge injections of liquidity into the banks or by announcing large-scale projects and support measures for certain industry sectors. One can legitimately ask the question of whether, at this time, a countercyclical economic policy, which deepens deficits and swells public debt, will enable the western economies to exit the crisis sustainably? Or, on the contrary, whether we are not going to increase the systemic risk of excess liquidity?

In any case, stimulation of the economy by an increase in household demand seems unlikely. The welfare state is established in all developed countries. The welfare budgets of the European Union's Member States are often equal to or greater than the state budget. The levels of compulsory tax and social security contributions are very high in those countries. The average in the European Union is 38%, sometimes reaching 50% in some Member States, as against 25% in the United States and Japan. The levels of these contributions exclude large tax increases for high salaries for the purpose of redistribution.

It must also be noted that, in contrast to the 1930s, the proportion of primary and secondary sector production in developed countries has decreased significantly, to be replaced by tertiary sector activity. This means that any policy of economic stimulation, manifested in increased consumption of manufactured products, will mainly benefit highly export-based economies.

¹ Iceland, Ukraine.

² Between 2 January 2008 and 2 January 2009, Eurostoxx 50 fell from 4392 points to 2451 points (in other words, 55% of Eurostoxx shares were wiped out).

³ Between 5% and 35% depending on the country and region.

⁴ Characterised by a key interest rate of zero or almost zero and poor growth for the past 15 years.

⁵ In the form of Treasury bills.

It is quite clear that the current crisis will make the socio-economic equation difficult to solve. Without a fundamental reform of the social welfare system and taxation of capital and labour, income support policies will translate into either increased tax pressure on companies (accelerating the delocalisation trend) or an inflation of public deficits (dangerously increasing the level of debt). For the Member States, the monetary course to be steered between deflation and inflation will be a narrow one⁶.

The economic picture is quite gloomy for Europe, handicapped as it is by much political and social rigidity. However, the crisis offers a historic opportunity to fundamentally simplify its social and tax systems in such a way as to combine personal economic security and collective competitiveness.

The method proposed here is the establishment of an unconditional citizen's income, combined with tax exemption for the means of production.

1. Basis for an unconditional citizen's income

All compensatory policies founded on the equivocal concept of *social justice*⁷ have been shown to have their limits. Despite the increase in welfare transfers, the erosion of the social fabric has continued from the end of the 'glorious thirty years' (1945-1974) to the present. New categories of socially excluded people have emerged. They live on the edge of the social system, in great insecurity.

One explanation for this phenomenon is linked to the way pluralist democracies function. In the long term, one can observe that the redistribution of income does not primarily benefit the poorest, but benefits the strongest electoral coalition - essentially the middle classes.

Moreover, income redistribution policies have little impact on the richest and best informed. These find ways of paying the least tax possible. In the same way, the social system brings little benefit for the poorest. They are under-informed. Their electoral power is too weak to influence the pattern of income redistribution.

These facts alone, independent of economic cycles, speak in favour of the allocation of an unconditional minimum income that would not be determined by arbitrary criteria such as *social justice*, political patronage or the subjective and bureaucratic perception of individual economic needs.

1.1 The unconditional citizen's income is not a social welfare allowance

One of the inherent weaknesses of state social welfare allowances is that they are viewed as charity. Historically, they have often been introduced as a result of the fact that private charity structures were not adequate to cover the needs of the poor.

Any social allowance is, therefore, branded with its origin. Whatever the criterion used for its allocation, it can only be negative, based on the idea that certain individuals are not in a position to achieve, on their own, a sufficient level of income to satisfy their needs. In this sense, social allowances are a form of income which sanctions economic failure.

⁶ At the moment, the risk of deflation is higher than the risk of inflation. One of the reasons for this is that the policies for stimulating the public economy have little chance of balancing out the level of 'deleveraging' by companies reducing their debts to limit the leverage effect.

⁷ The concept is ambiguous, because some thinkers base social justice on the principle *to each according to their needs* and others on the principle *to each according to their merits*.

1.2 Reasons for the unconditional citizen's income (UCI)

A certain path must be followed in order to move from a negative concept of solidarity to a more positive one:

- a) By their status as a *citizen*, each individual (member of the community) has the right to an unconditional income derived from the capital invested by previous generations. It is an income that enhances a person's standing. The UCI rewards the status of citizen.
- b) Each individual participates in the same way in the social phenomenon of the division of labour. To put it simply, one may argue that it is because one member of the community rejects or is not able to take up a position in society that another member of the community can fill it. In this way, a link of objective solidarity is forged between all the members of the community⁸.

Each individual's production is differentiated economically by the perception of its subjective usefulness. From this perception, differences in value and income emerge. So that each individual can, in an open society, have equal access to inequality of income, there is a necessity not only for equal rules in the social game (the constitutional state), but also equal material starting conditions. In the interaction between the social game and its conditions of access can be found a second, positive reason to introduce a citizen's income. To paraphrase John Rawls (1971), the unconditional citizen's income is an income that creates equal conditions of access to inequality. It is a social cohesion income. It is not an income that creates equal social conditions⁹.

1.2 Definitions of needs to be covered by the unconditional citizen's income

The UCI cannot logically cover all the needs of an individual. These are infinite. To stay within reasonable limits, the UCI should cover the physiological needs - those at the bottom of Maslow's hierarchy of needs.

These are the needs linked to the maintenance of the homeostasis of an organism. They are strongly objective in that they are not created consciously.

These needs are the following:

- breathing,
- drink,
- food,
- sleep,
- shelter,
- warmth.

⁸ *I am what I am because the other is.* The author stresses that this idea is not Malthusian. It is inherent to the social phenomenon.

⁹ Differences in income are necessary for the division of labour, to enable optimal economic production to be reached and to encourage the increase of knowledge. Equalising incomes would result in the opposite phenomenon. If all incomes are equal, the most desirable social position is that which requires the least effort and knowledge.

2 Level of unconditional citizen's income, cost and financing

2.1 Level

The level of the citizen's income depends on the level of prices in each country.

As needs change according to age, it is necessary to adjust the UCI in line with the phases of life:

To take an example:

Let us suppose a UCI of EUR 600 for France (the poverty line is EUR 681 per month for a young adult)¹⁰. The UCI varies in line with the following age bands:

0-16 years: 30% of UCI

16-25 years: 75%

> 25 years: 100%

This produces an average UCI of EUR 500.

2.2 Cost of the UCI

The theoretical cost of the UCI is fixed at equal to the average UCI x number of citizens x 12.

For France, the total cost of the UCI $\approx 63\,000\,000 \times \text{EUR } 500 \times 12 = \text{EUR } 378$ billion. This would be higher than the welfare budget for France = EUR 375 billion (2008) and would represent 18% of GDP (EUR 2067 billion).

This cost is, at first glance, very high. For the state, it is a lot lower if the flow of revenue and expenditure is taken into account. If the UCI replaces, and compensates for, non-taxable revenue in the case of those who have a sufficiently high income (which means that the first euro earned would be taxed), then, from an accounting point of view, it is only paid to those whose personal income is zero.

Supposing 70% of the population receives a non-taxable revenue equal to the UCI (children and retired people have to be included as recipients of income) which would be taxed at 25%, the additional cost of the UCI would be reduced, in the case of France, to around EUR 300 billion, i.e. 75 billion less than the present welfare budget.

2.3 Financing of the UCI

It is in the method of financing the UCI that a true paradigmatic revolution is seen.

To finance the UCI and the requirements of healthcare, the proposal is to transfer all social security contributions borne by companies to an internal tax, by increasing the level of VAT.

For consumers, the price of products originating in the EU would remain unchanged¹¹, since the social security contributions are already part of the retail prices.

¹⁰ It is important to set the UCI close to the poverty line in such a way that it does not form a disincentive to work.

¹¹ Assuming that the system is extended across the whole Union.

The level of social VAT necessary for the UCI still has to be determined for each country, in such a way that the prices of goods remain comparable.

2.4 Reduction of structural costs associated with the introduction of the UCI

2.41 Welfare budget

The UCI is intended to replace all social allowances:

- Family allowances.
- State pension schemes.
- Unemployment benefits.
- Housing benefits.
- Single parent allowances.
- Study grants.
- Other social allowances (Christmas, heating, new school year, holidays, etc.)

All these schemes must be progressively dismantled to ensure the permanent financing of the UCI.

2.42 State budget

As the UCI ensures the creation of equal social starting conditions, it is also possible to envisage the removal of compensatory policies run by the state:

- Regional income equalisation policies (as the UCI is the same across countries and territories, it is not necessary to compensate for the differences in income between regions).
- Employment policies.
- Subsidies aimed at maintaining or creating jobs (subsidies to business).
- Public housing.
- Minimum wage regulations.

2.43 Re-establishment of major budgetary equilibria

To keep the UCI constant, the community must preserve the capital inherited from previous generations. The UCI therefore presupposes the end of public and social deficits. In the long term, these lead to the destruction of the said capital.

3 SOCIAL AND ECONOMIC ADVANTAGES LINKED TO THE UCI

3.1) Social advantages

The aim of the UCI is the eradication of social insecurity. Such a system excludes exclusion. Citizens can be sure that they will not die of hunger or of cold. The income from intergenerational capital is redistributed evenly among all citizens.

3.2 Psychological advantages

The UCI puts an end to the psychological dependency on state assistance. The *income seeker* mentality disappears, since each member of the community is guaranteed an income unconditionally granted.

Only one economic interest determines people's behaviour: the pursuit of sources of finance to meet their subjective preferences as regards saving and consumption.

With the establishment of the UCI, the 'status' of social allowance recipients is no longer applicable. As everyone receives the same income, no-one has to pay for others to be supported. There remain only citizens with equal economic dignity.

In order to increase this feeling of equal dignity, a single level of taxation should be introduced on direct income (flat tax). Each person contributes in the same way to the financing of the UCI and to the state budget.

If one accepts all of these arguments in favour of the UCI, then it must be admitted that setting different taxation levels according to income is no longer tenable. Equal conditions of access to inequality are assured. Financial justice is achieved.

3.3 Economic advantages of the UCI

3.31 Moral advantage

The costs of agencies and controls are considerably reduced. The risk of fraud becomes marginal, given that the only eligibility criteria for the UCI are citizenship and the possession of a bank account.

3.32 Reduced risk of economic crises resulting from macroeconomic policies

The UCI, combined with budgetary equilibrium, an anti-inflationist monetary policy, floating exchange rates, restriction of private credit and constant rates of taxation, would put an end to the effects of monetary bubbles resulting from public deficits. The currency would be stable. Macroeconomic crises would make way for natural microeconomic cycles due to developments in technology and changes in individual subjective preferences.

Under these conditions, investors are better able to predict future developments and can better plan their long-term investments.

3.33 Towards a free society

The UCI will enable each individual to choose their place of residence, their level of saving and their level of pension. It offers each member of society the freedom to follow their subjective preferences.

3.34 The UCI as an instrument of full employment

The transfer of social security contributions from work (companies and their employees) to consumption brings about a fall in the cost of labour. The number of jobs will increase accordingly.

In order to ensure the maximum number of jobs (the level of employment also depends on investors' hopes of profit), it is proposed that company tax be reduced to the lowest rate applied in Europe's main competitor countries.

For the countries which apply the UCI, the production of goods is no longer penalised by

differences in social security contributions. The trend of delocalisation would therefore slow down significantly¹².

In the case of exports, the level of social protection no longer has a direct influence on the competitiveness of products.

In the case of imports, the low level of social protection in third countries has no influence on the competitiveness of imported products.

Removal of unemployment traps:

The introduction of a UCI would mean that a potential source of employment that is currently untapped could come into its own: employment with very low productivity. Today, this demand cannot be followed up, because the hourly salary that would be offered would be below the legal minimum.

If this economic need could be met, this would promote greater collective well-being. To give an example: someone offers his neighbour, who receives the UCI, one euro per hour to take care of his pet while he is away on business.

This increases the well-being of both parties. One increases their income, while the other is relieved of a concern which was detrimental to the organisation of his work.

It will be seen that the UCI enables increased division of labour by increasing the number of tasks which can be accomplished.

4. SOME METHODOLOGICAL REMARKS BY WAY OF CONCLUSION

4.1 Eligibility

The expression 'citizen's income' is preferable to 'universal income'. While all human beings are equal in dignity - which is the basis of equality in law - there is, nevertheless, a distinction between the members of one community and of another: their predecessors have not contributed to the formation of the same intergenerational capital. The members of another community do not therefore have an unconditional right to the UCI. It is therefore not a universal income.

The approximation of levels of income in the Union would make possible the introduction of and access for all European citizens to each Member State's unconditional citizen's income.

For non-EU nationals, eligibility for the UCI could be accorded to legal residents after a certain period of economic activity. Their contribution to the UCI would be provided by their participation in the accumulation of intergenerational capital and by their internal consumption (one could envisage a cumulative points system giving a right to the UCI).

¹² It would not be completely stopped because competition in the direct cost of salaries and environmental costs would remain.

4.2 Obstacles

Theoretically, the introduction of a sustainable UCI does not give rise to any particular difficulties if the management criteria defined above are observed.

Strong resistance is, however, to be expected from all those who have the power to grant allowances in society: spheres of political patronage, bureaucracy etc.

The conceptual revolution to be undertaken is comparable with that which took place in the move from communism to democracy in central and eastern Europe. It therefore lies within the realm of possibility.

Gilles Dryancour
Doctor of Economics
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