

Costs/Benefits of a European wide basic income and how to finance it.

Hello and welcome

My name is Peter Brake, I am a fourth generation Kiwi living in a small village in the far north of New Zealand. I'm a Father of three young boys, a self-employed accountant in public practice, and an organic olive grower. I'm here to discuss what could be done for the surveyed 64% of Europeans wanting a basic income.

Here in Northland New Zealand we have the highest indigenous population & the highest unemployment rate, we are in the most socio-economically deprived region in New Zealand. This deprivation gives us poor health, lower incomes; lower education outcomes and a lower life expectancy. The system is failing us and I can see with even higher unemployment rates, it is failing Europe.

The EUBI - European Universal Basic Income, I am proposing will have a simple structure that will enable other countries to join. The 410 Million Europeans, who will receive this, will show the world that when they prosper their countries grow stronger. Neighbours in Turkey and eastern Europe will want what they have. The EUBI will grow and spread to other nations, all people in all nations could one day have their basic needs met. It's a long way to New Zealand but I am confident that this change will come.

My vision of a modern convenient system is a simple plastic card usable throughout the European Union. The card would have the following features:-

- 1) Can be used to buy food, household items, medicine, clothing & pay for public transport.
- 2) Automatic payments from the account can be setup from your home computer to pay your rent, utilities, rates, power, gas and your home loan interest.
- 3) No cash withdrawals, no cigarettes and no alcohol.
- 4) If you are living with your direct family you will receive either 150 or 110 Euros per week depending on what country you live in.
- 5) If you are in your own home or renting you will receive the full 200 or 150 Euros per week.
- 6) The card only holds 3,000 Euros.
- 7) Aside from rent and mortgage interest the card can only be used in VAT (Value added tax) registered businesses.
- 8) The card will be given to everyone over the age of 18. Pensioners receive a top up from the EUBI (European Universal Basic Income). Virtually none will be disadvantaged.

The reasoning behind these aspects is that this income is to meet our basic needs namely shelter, food, clothing and transportation. I am suggesting the way to do this is from an increase European wide in the Value Added Tax.

The 3,000 Euro limit is to help the system in a number of ways:-

- 1) If you are travelling abroad you are not spending money in Europe and therefore not funding the system from your VAT spending.
- 2) If you are not spending the money – you do not need it.

- 3) If you are in prison not spending the funds is helping pay for your food and incarceration. Sorry - but the good news is when you get out you will have 3000 Euros to spend.

As you can see from the summary I am suggesting two levels of basic income for Europe for two good reasons:-

- 1) The cost of living is different throughout Europe - Spain is 40% lower than in England for example. The different level of payment will stop mass migration within the EU of people looking for the cheapest cost of living.
- 2) The VAT earnings in some European nations are much higher than in others. This scheme will need to be agreed by every Country in the union and therefore must be as close to fair as we can simply manage.

The argument for the fairness of the system, given the VAT income is collected by one pan European agency, and administered to pay all of the European basic income is as follows:-

- 1) Poorer nations & nations with high levels of unemployment will be supported by the whole of Europe to make sure their people will receive enough to meet their basic needs. Without a collective European agreement the increase in the VAT rate in these countries would need to be higher.
- 2) Nations with high VAT incomes have a high cost of living and will receive the higher level of basic income - so people there can afford the same level of basic needs. Additionally these Countries will be enjoying the increase in employment, and income from selling their products to a richer Europe.
- 3) The UK Labour party looked at a UBI financed by VAT back in the 1970's; they didn't proceed because of cheaper goods being available next door in countries with lower VAT rates.
- 4) The VAT rates currently in Europe are aligned; this has created a level playing field. The above needs to be agreed for this to continue – it is in the best interests of almost all of the population of Europe.
- 5) A collective agreement can make it happen today with cheaper imports having VAT added at the European border.

Once the EUBI has started I can summarise what would be the result as follows

- 1) An additional 2.67 Trillion Euros will be paid to the 410million people European wide.
- 2) Cities with big populations will be greatly enriched; more people with money to spend will ensure businesses are busy, more profitable and needing to employ more staff.
- 3) A local politician here in the rural far north of Aotearoa New Zealand has asked whether a UBI would bring about jobs for the many unemployed living here. Our towns and villages will be enriched by people spending their money and the EUBI locally. Businesses, shops, grocery, corner shops, retail, services, utilities and the building industry would be busier. They will need more employees, to cover the additional demand.

- 4) I mention the building industry because home loans will be easier to get as the EUBI would be counted as income towards living costs in calculating your ability to repay loans. More local people will own their own homes and of course build.
- 5) In this supported environment more business will start up, with self employment and joint ventures becoming much less risky – you cannot lose your EUBI.
- 6) This spending by the community at the corner shop, means the shop owners are so busy they have to employ an extra staff member; they also get some shop repair work done and finally replace a vehicle. If we count the number of times this new money is spent within one year it is called “the velocity of money”. This is a strong measure of the health of the Economy - faster is better. Give the money to everyone the velocity cannot be any higher.
- 7) Locals throughout Europe with the confidence of knowing they will always be able to find their next meal will be free to explore both the continent and their own possibilities. Perhaps enter into a joint venture, furthering studies, offer support to community groups or simply working.
- 8) Increased profits and of course increased taxes will be the result.
- 9) Several people have spoken quietly about how organisations and businesses would attempt to cheat and not pay VAT; there is nothing new in this. The calculations are based on the current results with the many incidences of theft already deducted.
- 10) When test UBI’s have been implemented thefts decreased. Which makes sense; certainly we will have removed any survival need to steal from others. Perhaps over time, living in a system that supports all of us, even corporate theft would lessen.

The EUBI will pay your food, costs to live, some home loan interest or a basic rent. In cities across Europe the rent is not basic and I make the following points for clarification.

- 1) In today’s European cities there are very many people living there on rental subsidies. European wide this is the biggest social welfare cost after family support and pensions.
- 2) For the unemployed more choices will come to you as businesses take stock of a changed situation. They will need to be more flexible in employing staff, perhaps offering part time work, which will interest more people, who no longer lose their benefits when they find some work.
- 3) 1/6 of the entire population is either disabled, on a sickness benefit or suffers some form of incapacity.
- 4) City living may offer these people a better level of support than they would receive elsewhere. However building the infrastructure and employing the carers needed for them in smaller cities and town’s maybe just the thing that is needed in both the regions and the cities – it will need a little time for this transition.
- 5) In this one area it is suggested that this subsidy is continued for a few years as people take stock and find their way into either gainful employment in the city or relocate to a rental they can afford on the basic income that they receive.
- 6) I have not added a cost for an extended rental subsidy in this project.

How would the EUBI impact administration

- 1) The EUBI is designed to remove all other social welfare payments excepting family support, which would continue more or less as it does today.

- 2) While some jobs will be created to administer the EUBI they will diminish after the scheme is fully implemented.
- 3) It is envisioned that the same level of staffing required to administer pensions would be needed to administer the EUBI and to put this in perspective in New Zealand the administration of the 65,000 unemployed is ten times the cost of administering the pension of 750,000 people. Or about 100 times as expensive per person.
- 4) There will be many people losing administration jobs.
- 5) The government savings from this are substantial at 452 Billion Euros.
- 6) The private sector would have a boost in employment agencies as this government department would close down. I'm sure the process will go much smoother with willing workers keen for employment, no longer penalised by loss of benefits and not stressed by the need to eat.
- 7) Government would still need to function at some level in funded job training in certain areas, though an enhanced student allowance or student loan schemes may fill in the void left by the closure of unemployment services. I am very much a fan of the student loans being interest free, but all of this of course is the domain of individual member countries.

The financing as mentioned is from a European Union wide increase of VAT (value added tax). I have attached the working for this for those that are interested.

- 1) The calculation of the existing VAT income, crucial to finding the increase required, has relied on the reported European Union's VAT funding.
- 2) In 2014 the EU reported income from 0.3% of Europe's VAT was 17.667 Billion Euros
- 3) On further enquiry of the EU the calculated European VAT earnings are 8.086 Trillion Euros
- 4) All of European VAT rates hover around the 20% rate.
- 5) This would need to increase from between 16.23% to 21.8% to pay for the EUBI.
- 6) This would increase the cost of goods & services by 13.5% to 18.2%.
- 7) The new European VAT rate would be about 38.43%.
- 8) The range is because of two factors, the first being the velocity of money and the second is the proportion of the EUBI spent.
- 9) The UK current velocity is 1.6 the last time it peaked was in 2010 at 2.1; my view is that I can't find a scheme more likely to achieve a higher velocity. Give the money to the poor – they will spend it with the not so poor, stall owners, local shops and businesses. In turn they will pay the rent, utilities, suppliers, other local businesses and of course debt.
- 10) There will be an increase in spending once the people of Europe receive this 7,800 to 10,400 Euros yearly. I selected the bottom end as being 60% of the EUBI and the top end as being 95% of the additional 2.67 Trillion that Europe would receive.
- 11) The EUBI will add the needed stimulus to the economy and the great thing about this is that the increased spending increases the VAT tax raised and therefore reduces the VAT rate needed. The added VAT earnings I have calculated are between 908Billion and 1.36Trillion Euros.
- 12) The existing social welfare payments replaced by the EUBI Europe wide, excluding family support, is 452Billion Euros. The countries in the EU will save this much collectively in social welfare costs. To arrive at the above results, it is assumed that domestic VAT rates have been decreased by between 1 to 3% as this social welfare cost is no longer paid from local taxation.

- 13) To clarify this - in the UK for instance the existing VAT rate of 20% would decrease about 1.3% because of the social welfare savings. While the VAT increases to pay the EUBI would be 19.73%. My calculations merely show the net increase required as being 18.43%.
- 14) This increase in VAT brings about an increase in cost of goods and services of 15.4%.

I have used social welfare costs and proportions from the United Kingdom to calculate the savings European wide from the existing welfare payments, which would now be redundant. I was very surprised to find the numbers of people on sickness, disability & injury benefits there to be 1/6 of the entire population. This added to the actual unemployment numbers for each European country results in social welfare cost of 452 Billion European wide. Again this is excluding family support.

- 1) The UK provided the most complete information available in social welfare costs. Here are some aspects of their existing system that support the use of their results to calculate costs for the whole of Europe.
- 2) The payment in the UK for unemployment is 84 Euros per week this is low for a wealthy European nation.
- 3) The payment in the UK for the basic pension is 149 Euros per week this is low for a wealthy European nation.
- 4) Average weekly payments for beneficiaries range from 135 Euros for incapacity to 50 Euros for carers. This is low for a wealthy European nation.
- 5) The result of this is that given the cost of living in other nations is lower; these low payments will be closer to their actual costs.
- 6) Please note in applying these costs to Greece the calculated cost was half the actual unemployment cost of 5 Billion Euros.

The time for the basic income in Europe is now for the following reasons.

- 1) We are already providing support for about half the population over 18, with the hurdles, stigma, courses, travel, time, interviews, stress, the insufficiencies, discomfort and inconvenience that government requirements place upon it.
- 2) We have an economic structure that doesn't work well for the people. A few do really well and they will continue to do so but not at a cost to everybody else.
- 3) We live in an entirely abundant universe with everything that we could possibly need right here, but live in a system that restricts, inhibits, and deprives and in which people struggle.
- 4) The wealthiest 1% of people owns the same as the other 99%. This scheme helps at least the bottom 96.34% of people. With only 3.66% of people earning more than the total spending required to be disadvantaged of 65,000 Euros. You would have to spend this within a year on VAT goods and have no economic benefit from an overall better economy to be disadvantaged.
- 5) Robotics – will most likely make the reader redundant within a generation. Retraining does not guarantee you a job either. The changing face of employment has already arrived in Europe; there are a few things that could assist the situation but I doubt that we have the political will to take on such world changing projects. Anything I suggest here will also be obsolete within the same few years. The robots will do it cheaper.

- 6) Let us make sure that everyone has their basic needs and then we can discuss what is fair.
- 7) With large numbers of refugees coming into Europe this simple system ensures that they will receive their basic needs no matter which country they reside in. Financed from the overall European universal basic income.
- 8) Current existing financial stimulus has a quick round trip back to the bank with the negative of removing interest from local funds.
- 9) I have heard of some UBI's that request a slow implementation. For this EUBI I suggest we start up in full effect from day one.

The number of European's older than 18 is 410 million people. More than 92 Million of these are pensioners. All will receive the basic income, the pensioners having a top up from the scheme. Once the EUBI has started I can summarise what would be the result for people in the following circumstances.

- 1) On a wage – you will receive a plastic card with an average of 175 Euros added to it each week or \$9,100 Euros.
- 2) On a benefit – you will receive a plastic card with an average of 175 Euros added to it each week or \$9,100 Euros.
- 3) A UK pension - you will receive a plastic card with 51 Euros added to it each week to increase your pension from 149 Euros currently to 200 Euros.
- 4) A German pension – you would receive 36.96 Euros added to your existing pension of \$240 Euros. This is to cover the rise in cost in living of 15.4% from the VAT increase.
- 5) A foreign national living or travelling in Europe would receive nothing and their costs of living would be increased by 15.4%.
- 6) Please note also the tourism industry maybe adversely effected. An increase of 15.4% in cost for overseas visitors may require existing tariffs, airport taxes and the like to be removed to entice travellers to continue to visit.
- 7) The under 18's are still covered by family support. If they have left the family home, left school, or have a job they would of course qualify.

The argument for a UBI to be financed by an increased higher tax rate has the same merits as described above. The following should be noted though.

- 1) Higher tax is a disincentive to working.
- 2) Higher VAT is a higher cost and an incentive to work to pay for this.
- 3) There is nothing collective about raising each individual countries tax rates to pay for the EUBI.
- 4) Raising tax rates brings about a trade or cost of business disadvantage. We want companies coming to Europe, more business more trade and less costs.
- 5) The normal rallying cry to taxation is that the VAT cannot be raised because the poor cannot afford it. Please understand this VAT rise is so the poor can afford everything.
- 6) The tax rate increase only collects tax on some income. Some of the world's wealthiest people make little earnings but large capital profits, untaxed in some European nations. By taxing spending we are truly taxing the rich as it is they that have money to spend.

- 7) There is some literature and talk of the likelihood of inflation with the money available from a UBI. An initial increase in costs of 15.4% from the VAT increase will have a better effect than income tax in preventing inflation as costs have already risen.
- 8) Finally it has been suggested that a financial transaction tax could be imposed to finance a UBI. This would benefit all excepting the big money players. This could be looked at as a targeted tax taking some of the profits away from the gaming of the system. Very little of which is productive. Whether these small margins would result in loss of business and trade to other centres is beyond my knowledge. My understanding is that if the money raised from this is channelled to “growth enhancing public investments” it would turn around any drop in Europe’s GDP. I consider that the EUBI is a growth enhancing investment in the public. This is worth looking at as a supplement to the VAT financing.

Given the UK citizens are at least 96.34% better off, I expect nearly all other nations’ people to be at least this percentage better off. As for the member countries, for some, this will be the life line they need. These and all the others nations will be better off in a resurgent Europe.