

Rethinking Tax

With the current global economic crisis, the existing financial system is being put under new scrutiny. The name of John Maynard Keynes, economist and pioneer of the welfare state is back in the press. The Bush administration's \$700 billion bail out was described as a measure worthy of Roosevelt. Belief in free markets and the self regulating ability of the economy has been prevalent in the past few decades, and this has been challenged by the credit crunch, which has led to people questioning the existence of a self regulating system. If it existed, we wouldn't be in the current situation. Once again, it is clear that our current system has flaws, and various alternatives, principally Keynesian economics, are back on the table.

A radical alternative system is being proposed by Götz Werner, a German businessman and academic. Born in 1944 in Heidelberg, he is the founder of the vast German and now international drugstore chain DM, head of the Institute for Entrepreneurship at Karlsruhe University and author of the book "Einkommen für alle", meaning "Income for everyone." Werner believes everybody should have a job that is useful, that they are qualified for, and that gives them a sense of self-fulfilment. At the moment, millions of people across the globe only do their work for the pay it brings. In order to address this, Werner has developed a new tax system, which he claims will enable people to choose their jobs on the basis of them being worthwhile and suited to them.

The idea he supports is that the government should pay everyone £1000 per month, regardless of whether the person has a job; that virtually all state benefits should be scrapped, and that all taxation should be abolished apart from Value Added Tax, which would increase dramatically. In other words there would be a "consumption tax" rather than income tax. He works together with Benediktus Hardorp, co-founder of HMP, a team of experts on the economy and taxation. They call their idea "Grundeinkommen", meaning "basic income", and support for their idea is widespread, including in Brazil, Alaska, Egypt and Switzerland. Jeremy Rifkin argues a similar case in his book, "The End of Work".

Werner's argument is that we live in great times – we used to need thousands of workers to produce a car, now robots do most of the work. "Global unemployment has now reached its highest level since the great depression of the 1930s. More than 800 million human beings are now unemployed or underemployed. In the United States, corporations are eliminating more than 2 million jobs annually."¹ Our economy today is the most productive ever, and also the least labour intensive. European governments frequently devote themselves to 'job creation', an idea which Werner sees as both unnecessary and schizophrenic. On the one hand, governments are trying to make industry more and more efficient, which means cutting jobs to reduce costs and keep production economically viable. On the other hand, governments try to create jobs and to keep down the unemployment figures.

The point Werner makes is that a worker is paid a wage, while a robot is not, although the same, if not more is produced. Often far more is produced as a robot can work 24 hours a day. Because of this, the traditional relationship between work and pay is outdated. The idea that we should work in order to be paid is old fashioned, going back to the idea of St Paul, that "Who doesn't work doesn't eat." It is no longer the case that nothing is produced if we don't work. Robots and modern technology have freed us from work. Or rather, as Werner puts it, we need far fewer workers than before, and therefore we should receive an income from the government regardless of whether we work. Moreover, the duty of government and the economy is not to provide with jobs, it is to free us from work, and to give us the opportunity to do the work we want to do, rather than work we have to do.

Furthermore, Werner argues that our current outdated idea of pay in return for work is inconsistently applied. Not all work is paid: raising children, one of the most labour intensive jobs there is, and housework, are jobs for which people, usually women, receive no

¹ http://www.basicincome.com/basic_rifkin.htm

pay. This issue is fundamentally important and problematic in all societies today. The fact that women receive no pay for raising children leads to great disparities in incomes between men and women. With Werner's system, a housewife would also receive the basic income.

The big question is how the government would be able to afford to pay everybody this basic income. Focusing on Germany, Werner believes the state is not yet able to pay everyone this basic income, but it is on the way there, and a basic income could be gradually phased in. State benefits such as unemployment benefit, child benefit and pensions, are chronically inefficient and expensive to administer. In Germany, the money spent on these benefits would already suffice to pay everyone £500 per month. In addition to this, billions would be saved in administration costs, and productivity levels would increase together with the standard of living. If workers had a basic income, their quality of life would improve dramatically and they would be able to focus on their work without worrying about losing their job or the welfare of their children. It is no coincidence that the country with the highest productivity rate in the World is Norway, a country with one of the most extensive welfare systems and workers rights.² Long term, this increase in productivity would contribute to the state's ability to pay everybody £1000 per month.

Hardorp continues the argument on the economics front. He recognises that income tax is a phenomenally complicated and inefficient way of generating tax revenue. The bureaucracy is hugely expensive, and billions of pounds are lost through tax evasion. There are plenty of convenient tax havens such as the Cayman Islands, Guernsey and Monaco, which companies and individuals exploit to avoid paying tax. Shares and company cars are just a few things you can pay yourself in to reduce the share taken by the taxman. However, VAT is impossible to avoid, and in this system, VAT would increase by up to 50%, depending on the commodity. Basic necessities such as food would be taxed less than luxury items, so that those who depend wholly on the basic income wouldn't suffer. Once again, the cut in bureaucracy would save billions, and the increase in VAT would make up for the loss of revenue from income tax.

If you depended wholly on the basic income you got from the state, and the rate of VAT was 50%, £500 would go back to the state from your purchases, (assuming you spent your entire income), and you would have gained £500 from the state. If you earned £1000 per month in addition to the basic income, you would have a total income of £2000, of which £1000 would go back to the state in VAT. This means the state would break even. If you earned £2000 a month, you would have a total of £3000 with your basic income, of which £1500 would go back to the state in VAT, so the state would gain £500, 17% of your income. If you had a total income of £4000, £2000 would go on VAT, so the state would gain £1000, 25% of your total income, all of this assuming you spend your entire income. In other words, the more you spend, the more you're taxed, and the proportion increases in relation to expenditure. This ensures that the richer you are, the more tax you pay, unlike in the current system, in which many cleaners pay more tax proportionately than the executives whose offices they're cleaning. Effectively, there would be a top tax bracket of 50%, something which already exists in the more productive and affluent countries in Scandinavia, and something which social democrats in the UK have repeatedly argued for.

The main criticism of the idea, and the question which Werner has faced umpteen times in different interviews, is the issue of whether people would work in this sort of society. Would people still go out to work if they received £1000 per month from the government? Werner claims that surveys he has conducted show that 60% of people would continue working, a further 30% would still work, but fewer hours, and the remaining 10% would take some time to decide, for example using their time to study. £1000 a month, while being far more generous than the state benefits available today, isn't a huge amount to live off, so most people would want to earn more anyway. And secondly, life would be pretty boring without work, and for many people, work is also a means of social interaction. Therefore, the

² <http://ohsonline.com/Articles/2007/09/ILO-US-Leads-World-in-Productivity-Norway-Leads-in-ValueAdded-Workhours.aspx>

economy wouldn't suffer and people would still work. Werner believes we underestimate humanity far too much – we all think “I would keep working of course, but other people are lazy.”

One effect of the basic income would be a shift in power from employer to employee. You would no longer be forced to accept a job with lousy working conditions or pay, as your basic income would be sufficient as a back up. If a company denies its workers the right to form a trade union, as Ryanair did, the workers would no longer be at the mercy of the employer. This system would force working conditions to improve.

Secondly, you would be freer in your choice of career and less dependent on pay. As a result, you could pursue the career you love, without the fear of going bankrupt. The introduction of a basic income would produce a flourishing cultural scene, enabling people to pursue their talents. Paying tuition fees would no longer be an issue and students would be enabled to study for as long as they liked. Financial restrictions on buying books, attending conferences and accessing resources would be vastly reduced.

Of course, there remains the question of who would do the unpleasant manual labour which still has to be done for society to function. We need people to clean toilets, collect rubbish and stock shelves. Werner presents two solutions. First of all, technology can be used to replace many of these jobs. In Britain we still have two men who hold on to the back of rubbish lorries, and who jump off to collect the bins from the kerb. In many parts of Germany, these jobs have already been replaced by a metal arm attached to the side of the lorry. Any unpleasant work which technology can't replace would have to be paid better. Technology can provide the metal arm to lift the bins, but a driver is still required. The basic income would force the economy to provide sufficient incentives for these jobs. This would mean that pay for unpleasant work would increase in relation to other jobs, so the difference in pay between a cleaner and an office worker would decrease, and a more equal society would emerge.

Exactly how the basic income would be implemented is as yet unclear. However, one area where it may be applied is in pensions. Apart from Norway, which has saved up the revenue it has made from its share of North Sea Oil, all western European countries are facing an exacerbating pensions crisis. Several years ago the government proposed raising the retirement age to 68. This provoked a wave of criticism and horror and the government made no concrete commitments as to when this measure would be introduced. But it is clear that with ageing populations, and rising prices, pensions are becoming insufficient for pensioners and unaffordable for governments. A basic income may be a solution, not necessarily the full £1000 per month, but a first step in this direction.

It is an interesting fact that the debate on the basic income hasn't reached the UK. While there is a global debate, with support for a basic income in countries across the world, the fact that those pushing the idea hardest and furthest are German has closed Britain out of the circuit. Theoretically we live in a globalised world, a “global village”, in which everything is available to everyone. But if you search “Götz Werner” on Google, you'll get hundreds of sites in German but not English, and it won't let you translate the site either. It is extraordinary that in the 21st century, with modern technology, the internet and the European Union, the language barrier can still block the movement of new ideas from one country to another

The system wouldn't be flawless, but then our current system can hardly be described as flawless. The system may sound crazy when you first hear the idea, but it is supported by academics and economists such as Werner and Hardorp, across the World. No country has yet embraced it, although the state of Alaska pays everyone \$300 a year, regardless of whether they work, using its oil revenues. The German President, Köhler, has said the system is certainly worth considering. The Basic Income European Network extends across numerous countries. A basic income could transform our lives, open new opportunities and change the way we see work and pay.

<http://www.taz.de/index.php?id=archivseite&dig=2006/11/27/a0146>

<http://www.foet.org/JeremyRifkin.htm>

http://www.basicincome.com/basic_rifkin.htm

<http://ohsonline.com/Articles/2007/09/ILO-US-Leads-World-in-Productivity-Norway-Leads-in-ValueAdded-Workhours.aspx>