



## **Basic Income and the Advanced Economy**

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*The views expressed in this paper are those of the author(s),  
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## Abstract

Competition works. Competitive Monetarism is crumbling human infrastructures, decaying public services, and widening poverty gaps. A large basic income breaks this cycle. To pay it, we must re-think our taxation and benefit systems. Using the latest United Kingdom (UK) Budget data we show how market forces can liberate public bodies from the tyranny of the balance sheet and drive reforms from the economic grass roots of the free-market. All this is workable and “Voteworthy”. The Resource Economics Proposition provides delightful and painless means to achieve this 21<sup>st</sup> Century enlightenment. Putting people and environments first, trade is yet liberalised beyond all commercial expectations.



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## 1. Some practicalities

It is possible that I am approaching the basic income concept from a novel angle. I regard it as an economic issue rather than a social issue. The basic income is, or should be, an essential part of an enlightened economy. This view stems from the reasoning that some fundamental economic reform is essential for our survival on this planet both in terms of the environment and of the social pressures induced by cultural differences and material disparities.

The case for a basic income has, I think been made. A universal basic income paid non-selectively to everyone within an economy provides an efficient means to deal with some of the natural anomalies of distribution arising in technological societies. Even if we consider no more than the question of efficiency we find that the UK government, based on the last Budget figures, and taking account of tax breaks and allowances, already pays as much on its welfare programme as would be equivalent to a basic income paid to every citizen of • 8,000 per year (see Part 3 of this paper).

One man's rights are an imposition on another. The right to a basic income is not inscribed in our cultures. Furthermore, in the democracies, such a Right implies that the rest of society will provide the funds for those who are net beneficiaries of such an income. Personally I believe that, in so far as we have a right to life - as evidenced by the support and emergency services present in our democracies - a basic income is a basic right. The language of survival activity is, in a monetarist system, money itself. Money has to be as relevant to survival as the air we breathe. I will come back to the air we breathe.

### 1.1 Tax considerations

The question has to be asked: “will tax payers - who would be well aware that their money is being used in this way - be content to see their taxes being spent in the local grocer's store by somebody who they felt had not worked for it, or who they felt was rich enough to not to require such a hand out?”

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This attitude to “our taxes” is one of the successes of monetarism and further evidence that consumerism works. Market feedbacks are effective: we read and understand the signals - like quicksilver. There is much historical precedent for sensitivity to taxes: a process associated with pain. Now we do, genuinely, feel that public money is our money. There is a downside. If the basic income is to be implemented it will have to pass the portcullis of political and Treasury sanction. There are votes in cutting taxes, not in increasing them!

## **1.2 Political considerations**

To be realistic we have to accept that “the political right” would not include in their manifestos a policy to distribute largesse, gratis, to those who had made no contribution towards earning it. It would probably be linked to “work-fare” or some such contrivance. On the other side, “the political left” would be exceedingly unlikely to sanction the payment of a basic income to those who patently could afford to get along without it. In their case it would be the means test. Taking a general view of the manifestos of the major UK political parties published at the last election, it is quite clear that the word “targeting” is predominant in the proposals for the distribution of benefits of all types.<sup>1</sup>

I intend to demonstrate the solution to these problems but first we must review the whole of the difficulty. The most important question - particularly in a monetarist regime with money coming from taxpayers - is “how do we pay for a basic income?”. Clearly the money cannot be printed or electronically multiplied - we all know the ills that that would spawn. The money obviously has to be recycled from taxpayers.

## **1.3 Present options and some facts of life**

If we review the tax systems in use at the moment we have to be impressed by the fact that most of the UK’s around 70 different taxes are raised from the results of human effort. Whether it is by earnings, the adding of value, the making

<sup>1</sup> Manifesto of Manifestos (refs. appended) reviews the hundreds of policies submitted to the electorate at time of General Election.

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of profits, the positioning of motorcars or the improving of property, these taxes work as a form of a “punishment” on success.<sup>2</sup> The entire build-up of “price” in goods and services is constituted of labour charges and nothing else.<sup>3</sup> Price is our human concept of value in terms of money. Our tax systems are, quite specifically, people hitting. This is no exaggeration: avoidance is prevalent, legal and encouraged - and a profitable industry. Present monetarist regimes are, in fact built on the acknowledgement that taxation curtails economic prosperity - even though such failure to “soak the rich” undoubtedly widens the gap between rich and poor. And we should care about this because the widening of this gap introduces serious social stresses which one way or another cost us. Another strong argument in favour of basic income.

When addressing the issue of basic income, we must consider some of the other problems to be overcome. Not only would there be resistance to increasing taxes to pay for a basic income but on a simple scientific analysis we would have to rule out all principal forms of taxation at present used. They would simply not function for the purposes of funding a basic income without placing considerable economic disadvantage on any nation that attempted such funding to any amount that would make a significant difference to the quality of life of their citizens. This is true. We must take a cold hard look if we want to find solutions: we have to nail a problem to solve it.

Here are two fundamental scientific facts of life which have been with us from the beginning of time and which have shaped our evolution on this planet and in our cosmos. We must square these if we are to get our basic income.

<sup>2</sup> Value Added Tax (VAT) is, predominantly, a pay-roll tax, i.e., it falls on the labour costs of adding value. In some instances, the profit element may be significant but if this is regarded as the labour of working capital, then this, too, is a human enterprise victim to VAT. It is a common misconception that VAT is a tax on consumption. It is not. It is a tax on production. The proof of this, now widely acknowledged by accountants as true, is available on the RUI website <http://www.rui.co.uk/eunmply/page3.html>. Whether or not this fact was understood when VAT was devised, it appears from this proof that the European nations may have induced their own unemployment which surged after the introduction of VAT in every country that introduced it.

<sup>3</sup> See “Not by Money Alone”, Slessor and King (refs. appended).

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The first is that it is not possible for flow to take place naturally in both directions at the same time in the same conduit.<sup>4</sup> For this to happen, we have to expend energy and introduce elaboration as, for example, when we make water flow (pump it) uphill. The incidental costs and impediments, therefore, of attempting to raise taxation from income to fund a basic income would fly in the face of this natural law. It would require a plethora of rules, exemptions and exceptions, sills and stop-go regulations which would add vastly to the friction and costs of running such a system. And, of course, the higher you make the income tax in order to pay the basic income, the greater the rewards for avoidance and the greater the compounding of the complexity and cost! This is not to say it cannot be done but the exercise of funding a basic income from income taxes is a recipe for the growth in bureaucratic establishments and political activity to the net poverty of the nation. I am going to propose a totally new way of funding which is so prolific that the basic income can be raised, economically, to a level of stand-alone subsistence.

The second scientific factor we have to consider concerns the flow efficiency of administering a basic income, or any other benefit system, while applying means tests or other regulators. This too, is a well-known, well-established and respected scientific fact.<sup>5</sup> The maximum throughput that may be obtained through a controlled delivery system (pipeline) is two thirds of its total value (that is, two thirds the product of flow rate and pressure). In other words, the minimum loss from means tested and other regulated flow systems is one third of the benefits transmitted (that is, one-third of the product of money value and number of transactions). The losses, either or both in reduced take-up of benefit and by money cost, may, in fact, be much higher than this one third. It is not difficult to see where these losses go. Firstly there is the administration of the system itself - and it's frightening deterrence. Then there are the policing of the borderlines and

<sup>4</sup> The ear does not detect the signal switching in discrete frequency channels that occurs during the transmission of multiplex telephone conversations.

<sup>5</sup> For example, Goodman, John, 1919 "Mechanics Applied to Engineering" pp703-4. Maximum power transmitted by a water main.

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the adjudication on what is above or below qualifying thresholds. There is all the cheating that is known to go on, ranging from petty theft to major fraud. There is the cost of judiciary and penal systems and the legislative maintenance of what is essentially a complex system. And there are the debilitating and distorting effects on employment and markets. It is not difficult see how money evaporates to no useful purpose with such procedures. Hardly the “value for money” ethos claimed for monetarism. The answer, therefore, is to ensure that the basic income is paid non-selectively and universally. By these means we can cut out these regulatory losses altogether.

#### **1.4 Looking for the answers**

So we find the dilemma of seeing the basic income as a good idea, in my view, essential, yet where the viable means to pay it simply do not presently exist. Furthermore the tax implications keep it low on political agenda. Where do we go from here?

The answer has to lie in the “trade-off”. Human nature being what it is, the strongest motive for doing anything is the hope of tangible benefit. This is not as selfish as it sounds: it is grounded in our instincts for survival. And it is in our instincts for survival that we may find the key to our basic income dilemma. In the world today there are some issues, which have a very high political profile. The basic income is not one of them. However, I believe that the basic income could inseparably be linked to the comprehensive solution of some of these high profile problems. For example, we have been told on more than one occasion that government order of priorities is “education, education, education”. Supposing, therefore, that we show how total funding can be provided for education at every level and without limit by a reformed taxation system of which the basic income is an absolutely essential constituent. School buildings, sports facilities, books, tuition fees, better paid teachers, research funding, the lot. Add in the National Health Service, police on the beat, and so on. Even re-nationalization of the railways would be financially feasible.

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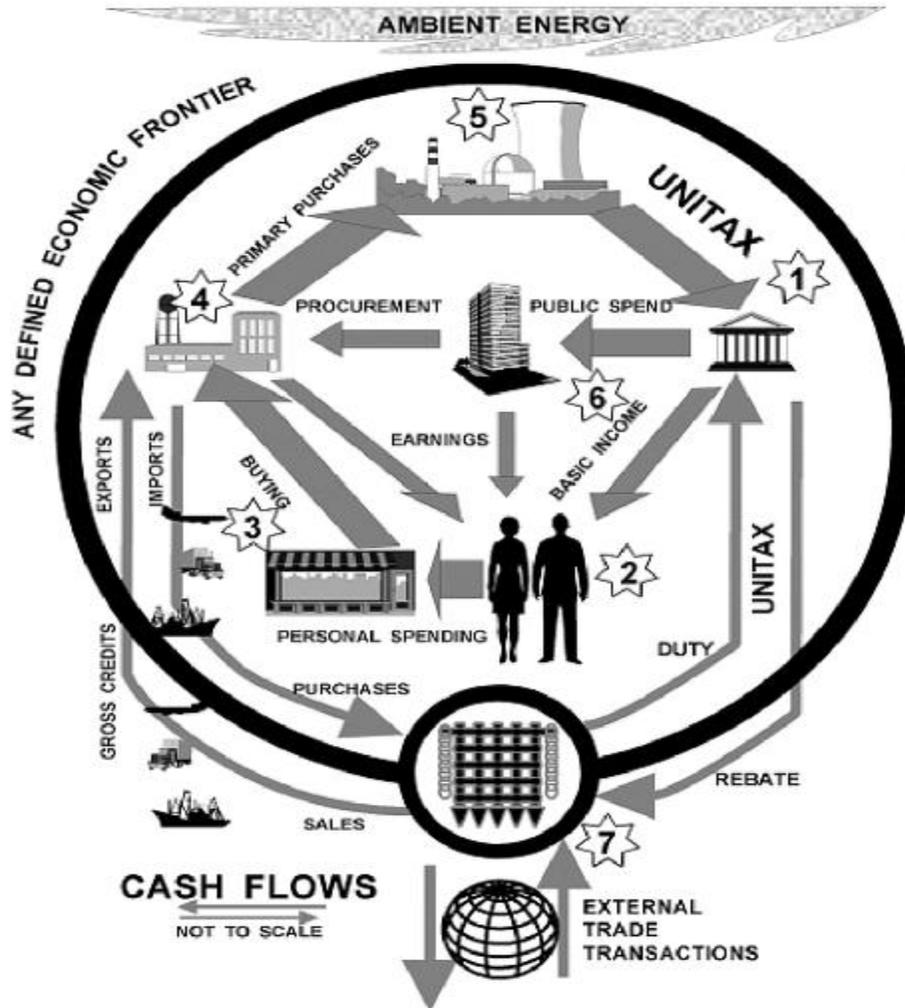
Another important issue, perhaps closer to the heart of our survival, is that of the environment and our control of polluting consumption. This is the air we breathe and, with our present consumption of 7,000 years of primary resources every day, it's not getting any cleaner. Here we touch on a longer survival in which to enjoy our basic income. The proposals that follow perforce integrate a basic income and so emphatically address these environmental issues that they have been described as “green”. Yet they were designed primarily to bring us forward to enlightened and effective, human-serving economics suitable for a technological age of consumerism. The basic income is what makes the proposals work.

But let us go further than that. Even if we can demonstrate how political priorities may be secured it is also necessary to show that, in its own right, the reforms proposed deliver a better taxation system, solve the pensions shortfall and streamline the welfare services. UNITAX (unified national indirect taxation) is just that: a better tax system. More prolific. Less pain. Unevadable. Broad-based. Linked to a basic income, truly progressive. Hardly any paperwork. Unlike present taxes, in the context of this paper dealing with basic income, it is in the flow line contiguous with earnings because the next step of those earnings is: consumption. UNITAX is embodied in ALL consumption.

## **1.5 An overview of the route to a true basic income**

The structure of the proposal is defined by “the Resource Economics Proposition” (figure 1 and table 1). This is based on well-proven and generally accepted scientific principles and integrates the basic income as a compensation for applying the UNITAX “social cost” to natural resources. The strategy is the phasing-in of a series of neutral “package deals” (Table 2 and Ibid. 3.4) so that the “trade-offs” are politically acceptable. The tactics are a progressive reform of tax and benefit systems, which clearly address many of the political objectives, set out by the political parties. The mechanisms: UNITAX (Unified National Indirect TAXation) the basic income distribution system (BIDS) and a border tax adjustment (like VAT) on SPEC (Statutory Primary Energy Content) aimed at meeting Treasury criteria with a balanced budget.

Figure 1. The dynamic economy



Public revenues are raised on the consumption of primary resources by the UNITAX mechanism, giving a continual flow of funds to the Treasury (1). Government revenue is always sufficient to meet whatever legitimate expenditure is required for its spending in the public sector (6). A basic income is paid to every citizen (2) both as compensation for increased fuel prices and as determined by legislation for social needs. Citizens may receive tax-free earnings also from employment in public or private sectors (6) and (4). Income is passed on in spending in the retail or distributive trades (3) by person to business transactions. Prices will embody UNITAX and so, regardless of how high the basic income may be, the funds are rapidly recirculated to the Treasury. In turn the distributors (3) obtain supplies by buying from production or warehousing sources (4) in business-to-business transactions in which the UNITAX is embodied in price. Suppliers (4) may be producers or importers of the goods, and for all production, transport and administrative consumption will draw down resources embodying energy from the primary producers (5) and so recycle UNITAX to the source. Producers and suppliers (4) who export will claim a rebate of UNITAX through customs procedures (7). The customs procedures add UNITAX at the current rate on the embodied energy in all imports. At all levels the system is in perfect balance and under dynamic control.

Table 1. The Resource Economics Proposition – the elements

<p>Economic activity = (net primary energy in) (fact of life)</p> <p>All Energy in ° All Public spending (Unified National Indirect TAXation)</p> <p>Government revenue = Government expenditure (balanced budget ± adjustment to money supply)</p> <p>Citizen well-being = free public services + BI (tax-free)</p> <p>Inland resource cost = commercial cost + UNITAX (UNITAX applies “social value” to all activity)</p> <p>Citizen contribution μ life style (no paperwork, no means tests)</p> <p>Citizen spend = commercial cost + UNITAX (social contribution is embodied in price)</p> <p>Production cost = tax-free labour + resource cost (resource cost embodies UNITAX)</p> <p>Export price = Inland price - UNITAX Import price = purchase price + UNITAX</p> <p>Clean Environment (recycling, economy and ambient alternatives pay)</p> <p>Better quality of life (Fewer official interventions, less paperwork, economic self-sufficiency, accessible public amenities and transport)</p>
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## 2. The Resource Economics Proposition

At this point I must introduce the Resource Economics Proposition. I will not attempt a full presentation of this comprehensive economic package. Anyway, it is flexible in a number of areas where political decision can guide the outcome. However, I must stress that the basic income (as it is now called) was, from its conception, an integral part of the Proposition. There are many reasons why we need to rethink our economic structures. I will not dwell on this either: you may think of a few things that need to be put right yourselves. A major clue was provided by an analysis of a modern world phenomenon, which I described as “technological inflation”. Again, a full description is outside the scope of this

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paper but you can ponder this: “What happens to the money when the value of the washing machine you bought last year has been written down to less than half of what you paid for it?” You will appreciate that this simple question gets near the heart of some of the characteristics of consumerism.

## 2.1 The principles of enlightenment

In 1980 I proposed the establishment of an “Energy Standard” as the basis of human economics.<sup>1</sup> I also inverted the classic production equation and produced a consumption equation. A moment's thought and a look about you will confirm that this is a consumerist age and you may also agree (from the signals of unemployment, poverty gaps, environmental degradation and the like) that some fundamental reform is really rather obviously indicated. Energy is the ONLY common constituent in ALL-economic activity. This is a scientific fact as old as evolution. Even land is disappearing from the equations as Internet activity increases.<sup>2</sup> Energy is a true dynamic: it has to flow to be used, and it can only

<sup>1</sup> “The Dynamic Economy.” IJES, 1980, Vol 15. The Energy Standard is defined as that input (steady-state rate) of energy into an economy that would maintain a given value of wealth at a given level of money supply under zero inflation/deflation (readily achieved, if required, under these dynamics). In effect, the energy needed to maintain a given level of subsistence, replacing depreciation and supporting life, without raising or lowering living standards. Based on this Standard ( $\beta$ ), the dynamics of improving material prosperity link money supply (amount) to changes in energy input (rate). In effect, the “social value” of energy is set by the total public spend and this enables the units of energy to be equated with units of money (solving the elementary mathematics “x apples = y oranges” difficulty). It is not necessary to work out the notional values of total wealth or total money supply because, as a dynamical system, it is only the easily measured or controlled changes in energy and money factors that are of interest. Energy flows are already known. The consumption equation (wealth = function Effort\* and function Energy divided by total value of total environment,  $W=[f(FN/\Sigma)]$ ) introduced an inverse exponential which accommodates the entropy aspects of our consumption. This anticipated the “valuing of the environment” and “age of diminishing resources” arguments of the “green” movements. More importantly, it led to the formulation of means of survival.

\* Slessor and King’s (“Not by Money Alone”: see refs.) factor for “Effort” is “Decision” and this is probably a more accurate description.

<sup>2</sup> The Resource Economics Proposition can be extended to integrate a land factor by virtue of a projected solar land area valuation. This would take account of altitude, orientation, inclination and latitude so as accurately to embody the notional value of solar energy that could be captured by the landowners. Simpler than other land taxes, the Land Registry could record the fixed factor for every land parcel and then a UNITAX duty would be raised annually. This extension, which could frustrate perverse investments, would be covered under the general definition in footnote 12.

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flow once. Land is static, fixed at the base; values must change with monetary parameters. With energy, its flow and “once-only use” characteristics fix for all time its instantaneous money equivalent. Money, also a flow system, can be kept in continual (dynamic) balance with this contra-flow of energy. This proposal had followed some years' work with associates who entailed the analysis of the flow of energy through society and particularly through economic activity. From these studies it was quite clear that there was an inescapable (though complex) link between the primary input of energy to an economy and the activity-taking place within that economy. In turn there was a link between the social requirements, the “infrastructure” and the governance of that economy, and the economic activity-taking place within it. Some guiding principles were established as part of this proposal as the price to be paid for achieving the benefits, which appeared to be considerable. These principles, of which there were surprisingly few, are based upon, or require simple adaptation of, established institutions and functions already operating within most developed economies. For example the flows of energy have, for a long time, been fully documented and the units of measurement are incontrovertible and internationally agreed. The energy application to many industrial processes is also quantified and the “energy audit” widely used.

### **2.1.1 Basic Income Distribution System (BIDS)**

The principal drawback was that energy, being essential for life support, had to be accessible to everyone and any constraints or imposed costs would be a serious, not to say riotous, impediment to the whole idea. Witness the “petrol riots” of 2000. The solution was the first of the package deals. A basic income (as it is now called) distributed non-selectively to every citizen within a defined economic (energy) area or within which the energy standard is applied. The basic income had to be generous enough to cover consumption to a reasonable standard of living. This would give full compensation to those on lower incomes while those on higher incomes would receive full compensation through the remission of taxes on earnings and the ending of all the other taxes as part of the package. Naturally, there is a phasing programme for a smooth transition.

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### 2.1.2 Unified National Indirect TAXation (UNITAX)

In order to work, the new value system has to be injected into a main artery of the system. The largest single category of money flow in any developed economy is at the Treasury heart: taxation. No other general application of funds comes close to the magnitude of around 50 per cent of a developed economy where taxation is used to provide sound and comprehensive public services (social wage) to its citizens. Here is the next package. Without necessarily changing a penny of net revenue, the tax take could be switched from scores of existing complex and costly revenue procedures to a single UNITAX (unified national indirect taxation). The UNITAX is raised at a rate of so many pounds (or Euros, or dollars) per gigajoule of primary energy entering the economy from all sources. This would cause a huge increase in the cost of fuels but every citizen would be protected by the basic income distribution system (BIDS). There are a number of spin-off benefits. Firstly tax-raising costs, on both government and the taxpayers, would be slashed. The net contribution made by honest taxpayers would also be reduced because of the virtual impossibility of evading the UNITAX, which, broad based, would be embodied in every economic activity, legal or illegal. By instituting a Basic Income, UNITAX is truly progressive: the higher your lifestyle, income or property, the more you contribute through the tax cost which is embodied, automatically and without paperwork, in everything you do. Although the demand for fuels would undoubtedly fall as people learned to economise, recycle, to insulate and to invest in public transportation systems and ambient sources, the tax take is unaffected because the UNITAX rate is dynamically adjusted to ensure the required revenue.<sup>3</sup>

<sup>3</sup> Surprisingly even quite experienced economists miss this point. Higher UNITAX (rate) is not an increase in tax to the taxpayer who is now consuming less energy as fuel consumption declines. The tax remains the same (subject to revenue requirements only) as the tax intensity within the primary is adjusted. It is also often pointed out that people will install solar panels and take other measures to trap ambient energy and so reduce their tax costs (their social contribution). This is, of course, good news and will make a significant difference to our drawdown of natural resources. Once again, it makes no difference to Treasury revenues because UNITAX rate is adjusted on primary inputs to give required revenue. Those who generate from ambient sources still have to consume (food, clothing, shelter, mobility) and so we achieve both fuel economy, with a cleaner environment, and assured public funding. As with VAT (*ibid* 2.1.3) there is a qualifying threshold (say 10 GJ/year) after which

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A further benefit, which will not be lost on the reader, is that with the decline in the consumption of energy, there will be a corresponding decline in the consumption of all other material resources. This proposal thus yields a greater by far environmental benefit, reduction in CO<sub>2</sub> and of all other pollutants, than is possible by any other means available or being argued on the international agenda.

It is worth a special mention that under this package the true dynamism of UNITAX becomes apparent. No matter how high the rate of UNITAX is raised, it can always be compensated by a simultaneous and instantaneous adjustment of the rate of basic income. The basic income, being notionally the first money spent, will be back in the Treasury “within the week” because of the embodiment of UNITAX in all purchases.<sup>4</sup> Whilst, therefore, the flow of money may be accelerated through the system, recycling many times in the year, its volume is under such control that unwanted inflation (or deflation) is also avoided and the government is given a new lever for international currency exchange valuations. It is also possible to dispense with the very clumsy interest rate regulator, which so penalises productive industry. Base interest rates could be set at around the contributive one per cent thereby yielding immeasurable benefits to the debt-ridden developing world. The package deal for investors facing a severe reduction in interest rates is that, of course, the basic income, which they also receive, represents the equivalent of a very considerable capital investment. Finally, in this package, a further benefit accrues to government (us) by virtue of the issue of currency itself (seigniorage).<sup>5</sup> The government through its direct employment and procurement in the social and public services and infrastructures, issues currency

commercial sales are defined as primary (see footnote 12) and UNITAXed. Fuels such as petrol and electricity are not primary energies: they are energy products. There is no tax applied by product distributors but the price will, of course, include the UNITAX paid by the primary suppliers.

<sup>4</sup> Once the system is “primed” at an estimated £6bn (UK) of UNITAX in the production and supply chain. Primary stores are bonded. This is the basis of dynamic (rate) assessments: the annual (“budget”) figure is meaningless.

<sup>5</sup> The role of the banks would radically be transformed by the Proposition and a separate study touches on this specialist subject. Although transformed, the general condition that there are no losers is maintained.

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in large volumes. Money is therefore distributed rapidly through the system and the tax element returned to the Treasury as the currency is recycled through economic activity. Here is the key to replacing the budget system with a system of transparent accountability. We have opened the tax throttle, which has been so limiting on monetarist governments.

### **2.1.3 Border UNITAX on Statutory Primary Energy Content (SPEC)**

I will only detail one more of the package deals set up by the Resource Economics Proposition. This also hits very many problems apparent in the world we live in today. It is not a cynical, but a real observation that any procedure, which depends on wide-scale international agreement, is doomed to many years of wrangling as well as to “watering down” in a way that may render the ultimate outcome futile. We avoid all this. The Proposition enables any single economic entity, any single nation or any federated group, to proceed with the implementation of the Resource Economics Proposition without offending essential free trade and other international conventions. The phasing proposals give flexibility, without compromising the essential simplicity and safety of the concept, so as to allow for political adjustments. If we take political statements at their face value as regards environmental issues, the Proposition should be welcomed, given the proposed mechanisms and the available compensations. This package has to be included because of problems consequent upon raising resource costs to Inland production without similarly being able to control these costs on external suppliers. The answer is a border tax. Here we are helped by the fact that value added tax (VAT) has been established in this role for some time. Under the proposition, all VAT is (eventually) switched to the far simpler UNITAX, in effect raising duty on added energy rather than added money value. Exactly the same procedures are used. Furthermore, contributions to the EU can be formulated to yield exactly the same as those from VAT. The EU could, having the same environmental and social objectives, adopt the Proposition throughout its member nations. The UNITAX would be raised on the importation of any goods or services, based on their statutory primary energy content (SPEC), at the first point they enter the economy by acquiring a price measured in local currency

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units.<sup>6</sup> The rate of UNITAX applied at the border would be exactly the same (including moment by moment dynamic adjustments) as that ruling inland. It is thus as even-handed as VAT and is not “protectionist”. Under the same border tax mechanism all exports receive a rebate of the embodied UNITAX (again on SPEC) again at the first point where they are deemed to have left the currency area, and again as in the established VAT procedures. This being the only measure of value for duty purposes it would follow that all tariff and quota constraints can be dispensed with. In fact a further study of this aspect of the Proposition would suggest that the importation of cheap products from the Third World would be lovely and would not cause the present difficulties of unemployment and adverse effects on local industry. The full explanation is crowded out from this paper but you can see how a basic income paid within the importing energy area, no taxes on any form of production but only on consumption, helps. Similarly the CAP (Common Agricultural Policy) can, not before time, be consigned to history. Just think about it:

“You mean the taxpayers of another country pay for part of what I buy? Of course I’ll benefit from it!” And then just think how that simplifies international trade regulations. However, the age of subsidies would fade out: UNITAX carries advantages to all trading nations to adopt the same procedures.

#### **2.1.4 Peaceful survival in a clean environment**

Table 2 summarises a more comprehensive range of the package deals embraced by the Resource Economics Proposition.

I have sought to show that the basic income is an integral part of a far better, cheaper, more efficient, more humane and more sustainable way to run an economy. Owen Ephraim, in the next Section, has put some numbers on it based

<sup>6</sup> Another important definition. The inclusion of the word “Statutory” enables a government to decree what is and what is not a primary energy, qualifying thresholds and what not. The definition also exempts goods in transit, deals with financial services, airport and travel transactions, etc. This definition is also referred to for other extensions and interpretations of the Proposition: Solar Land Area Duty, Domestic Ambient Power Plant. It also acts as a deterrent for avoidance activity: the noise or fumes nuisance of the “grass burning bicycle” paradigm.

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on the latest UK budget information. The Resource Economics Proposition (REP) carries the basic income as an essential element. The REP is more civilised than the outworn classic economics of adversarial class politics. UNITAX is, also, simply, a better tax system. It enables us to achieve enlightenment and the benefits of a basic income. The closing of the gap between rich and poor, the reduction of crime, an end to economic recessions, the abolition of cruel means tests, and the closing down with consequent massive savings of virtually all “social security” operations. You can add the effect of criminals subsidising their own penal servitude - without depriving their families of the income accruing to those who have not been detained. You can consider the impact of reduced labour costs on those industries such as public transport, organic agriculture, the police, health and education where parsimonious labour economy has been so detrimental.

Here is the solution to the looming retirement pensions crisis of chronic under funding in the face of the demographic time bomb. The procedure bears down on the problem of illegal immigration. The whole concept and status of “unemployed”, vanishes. You can see the emergence of “no fault” compensation and an end to ruinous blockbuster legal payoffs. It points the way to solving the IPR/copyright and royalty problems emerging with globalization and the Internet. The Proposition would remove all penalties on work, on adding value and on enterprise, so encouraging employment. It enables the liberation of trade with the developing world. The basic income, and under the Proposition it is above survival threshold, gives a measure of economic independence to employees thereby inducing attractive employment conditions. In return it follows that employers could benefit by the elimination of much costly and impeding “employment protection” legislation. In a backwash of all this we ease the logjams plaguing the legal system. All this would point to a general improvement in the quality of life, better environment, reduced costs and stability within the entire community and, possibly, a natural reduction in working hours and an increase in active leisure.

Table 2. The Resource economics proposition – the package deals

In return for accepting a higher price for materials and energy because of UNITAX the quality of life in a cleaner environment will be enhanced and:

THE PEOPLE

- § Will receive cash compensation for their resource costs to a reasonable standard of living in a basic living wage (basic income).
- § Will not be assessed for, nor pay, income tax, property taxes or VAT.
- § Will have a fully funded health service free at the point of use.
- § Will benefit from free education to all levels.
- § Will be secured by a fully funded police force with a visible presence.
- § The basic income is a state pension good enough to live on.
- § All means tested and other handouts will be ended.

BUSINESSES

- § Will not have to pay VAT nor administer any other tax (except primary producers and international traders as below).
- § Will not have to pay profits or company taxes.
- § Will not have to pay uniform business rates.
- § Base interest rate will be around one per cent.
- § All employment protection, standard week and statutory health and pensions costs will be ended as will "overtime" and the standard working week.
- § With the exception of Health and Safety (for public and employees) all official interventions on lawful business will cease.
- § There will be no CAP or any other subsidies or official interventions in the market other than to ensure legal trading.
- § There will be no tariff barriers, nor quotas.
- § No imports will escape the same social contribution as paid by inland manufacturers and suppliers.

PRIMARY PRODUCERS AND IMPORTERS AND EXPORTERS.

- § Will enjoy an extended life for their primary resource.
- § All primary producers will pay ex-bond a once-only duty at the current UNITAX rate on the statutory primary energy content (SPEC) of all inland deliveries of defined primary energy.
- § Exporters of goods and services will receive a full refund of all embodied tax cost at frontier or at point of currency exchange.
- § Importers will pay a duty at the current UNITAX rate in respect of all statutory primary energy content (SPEC) on all imported goods and services at frontier or at the point of currency exchange.

THE GOVERNMENT

- § Will suffer no cash constraints but can issue currency and credit as required.
- § Will always have a balanced budget.
- § Will be able to control inflation above or below zero at will.
- § Will be able to control money supply to obtain any required exchange rate.

As previously published in "The Delight of Resource Economics: The Clean Revolution" (Farel Bradbury, 1998).

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## 3 The numbers game

### 3.1 A UK perspective

This paper demonstrates how a basic income should be an integral part of an advanced economy. That is, a modern, developed market economy integrating the complex needs of essentially technological societies. It also delineates the mechanisms, which while achieving or maintaining “balanced national budgets” will fund a “stand-alone” basic income. That is, a basic income large enough to support fully an acceptable minimum living standard without any other income. These proposals take account of the “social wage” provided by access to free medical, educational and other local and domestic support services with the infrastructures of water and transport of a developed economy. By this means, we also, incidentally, discover the solution of the looming problems of retirement pensions in the face of demographic realities.

Members of the Resource Use Institute and the Unitax Association have examined economic systems in order to ensure “value for money” in the operation of government itself. Using the UK accounts as a basis, the projected • 480Bn annual cost of a Basic Income of • 8,000 (£5,195) per adult/year appears daunting from a present GDP of • 1,620Bn. However, in a “dynamic economy” annual assessments can mislead because the same funds are recycled many times through the Treasury in a year.<sup>7</sup> Most importantly, it must be remembered that “GDP” is a measure of economic activity - as is the flow of energy - but although energy consumption is marginally more accurate a measure of economic activity - because it enters also into non-commercial activity - neither is a measure of the quality of life. You can choke to death in the pollution of excess energy consumption as the armaments, which add to GDP, can kill you. The Resource Economics Proposition changes concepts like “economic growth” to “enhanced

<sup>7</sup> See footnote 7. The term “dynamic economy” is often used politically to mean “active”, “thrusting”, “cutting edge” or some other metaphor implying “good”, “streamlined” or “modern”. The essence of dynamism is change. In this paper the term “dynamic economy” is used in its scientific sense: characterized by a force which imposes or reacts to change viz. the measurements of changes over incremental time for the purpose of determining instantaneous vector quantities. Any economy run on an annual cycle can hardly be described as “dynamic”.

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well-being”. Readers aware that war and waste (including traffic jams!) improve GDP will understand the significance - and the improved priorities in the application of funds - of this new thinking. Also, other factors such as the truly massive savings, which the BI brings about, offset the “bottom line” costs. The BI becomes feasible only with this radical new system of funding. To aid comprehension, in this part of the paper, data is prepared on the conventional year base and numbers given on familiar annual aggregates. These figures are illustrative only because during a phasing programme of politically attractive “bites”, government itself will have shrunk by the closure of whole Departments, and other changes, such as pleasurable public transport and competitive organic husbandry, will have occurred.

### 3.2 Paying for it

Considering the savings. The • 480Bn “cost” of BI is about • 110Bn more than the present total social welfare spend of government, but government presently provides, through tax breaks, up to • 75 Bn of the • 300 Bn a year ostensibly provided from pensions and other benefits paid by private businesses. In the new situation (after a phasing programme), there is no longer any tax paid by companies other than the relatively few companies who extract the primary energy at source. Typically, tax would be collected only from companies in coal mining, oil recovery, uranium mining, gas importing, wind energy generators, solar generators, biomass energy generators, and tidal energy.<sup>8</sup> Companies generating energy from waste would gain great advantage because, untaxed themselves, they would “recover” the embodied UNITAX in their sales.<sup>9</sup> If they generate from primary product, the invoice from the primary extractor would include the embodied UNITAX cost just as it includes profits, wages and other

<sup>8</sup> Nuclear power may be assessed on output and subject to a factor for conversion efficiency. See also footnote 12 regarding the definition of primary energy by statute.

<sup>9</sup> For example. Scrap motor-vehicle tyres have no value as tyres yet their original price embodied the UNITAX on all the primary energy that went into their manufacture. When the residual energy of scrap material is converted to electricity (say), the market price of the electricity will be that ruling with the UNITAX embodied. Clear profit!

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production costs. As with VAT, each stage of production would in turn include the tax on the energy content of anything purchased and incorporated in the end product. Tax breaks would no longer exist, saving up to • 75Bn for the exchequer.

A further • 40Bn would be saved from the cost reductions arising from redundant administrative procedures, the staff being gradually re-deployed in developing enterprise (e.g. energy replacement technologies) or the shorter working week. Savings would arise from the replacement of:

- § means testing and all its administration, policing and corrupt practices;
- § poverty and all its policing and induced criminal activity;
- § replace prison sentences by fines for minor convictions;
- § savings on prisons alone (convicts BI would contribute to their prison costs) could be considerable. Families would continue to receive their BI, a major mitigating effect in allowing the family to overcome the absence of one of its members;
- § health and education would both benefit from the virtual abolition of poverty;<sup>10</sup>
- § eventual abolition of National Insurance, Income tax and VAT would benefit the government for whom “recycled” staff costs are a large constituent of public expenditure, be they from the armed forces, police, nurses, health workers, local authority workers and/or government itself.

The total for BI is thus • 480 less the • 75Bn and • 40Bn savings from the aforementioned changes to the tax system leaving a total of • 365Bn annually to come from the resource tax itself.

<sup>10</sup> We do not presume to have cured poverty, which is also a spiritual state. Read “simple financial deprivation”.

### 3.3 Making the changes

As can be seen from the Money Flow A diagram (Table 3), the UK will spend • 413 Bn on benefits as things stand at present, so the amount required would FALL by • 48Bn. Assuming that none of the savings previously discussed are achieved, we would need an increase of • 67Bn from • 413Bn to • 480Bn. The total result is shown on Money Flow C. Total resource income is • 780Bn, with • 300Bn continuing to finance the current government expenditure on Health, Education etc. and • 480Bn being applied to an average Basic Income of • 8,000 per annum for each of the UK's 60 Million inhabitants.

The Money Flows Table 3 show:

- § A: Current Flow with Current Numbers
- § B: Basic Income Flow with Current Numbers and GDP
- § C: Basic Income Flow with Numbers for • 8,000 per head.

All these reforms would save on government expenditure so that a net saving due to the introduction of Basic Income would add considerably to the financial and non-financial benefits achieved for society. This audience will know many of the arguments and benefits accruing to the basic income concept.

Table 3. Money flows (amounts, UK, 2002 Budget figures), €bn

A (GDP 1620)					
Corporations	à 193	(taxes)	à Government	à 413 (benefits)	Households
Households	à 514	"	à	à 300	Corporations
B (GDP 1620)					
Primary Sources	à 713	UNITAX	à Government	à 413 (BI)	Citizens (€6883, £4470)
				à 300	Public Services
C (GDP 1761)					
Primary Sources	à 780	UNITAX	à Government	à 480 (BI)	Citizens (€8000, £5195)

Nonetheless, in order to achieve these undoubted benefits, some radical adjustments have to be made. It is these adjustments which characterise the "Resource Economics Proposition" and the main work of the Institute and of the Association. The objective has been not only to obtain a painless transition but, in the process, to remove much pain from present systems. Thus every step in the phrasing programme should be politically popular - will even achieve stated

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political objectives - and it will sweep away dozens of anomalies and inefficiencies which are apparent in present tax and benefit systems.

We must look at the structure of our economies. Even if we do not believe that basic human needs, such as health, education, food, heat, clothing, shelter and mobility are incompatible with the “bottom line profits” mentality, there is hard scientific evidence that, in these areas, “monetarism” does not work. The “rationing” of money to that contributed by reluctant taxpayers, has been shown to be limiting. Privatisation is visibly not working. Be it in Group 4, Air Traffic Control, ENRON, Railways, Marconi, Education, or Romanian Steel. Witness the WTO and US readiness to resort to tariffs if private firms are in difficulty.

It is not difficult to find fault with present systems of taxation and benefit. These faults are not minor but are deep-seated, structural, often fraudulent, and born of an age when human and material resources were valued in a manner opposed to the values and priorities of today. The proposal is therefore completely to replace these old systems of taxation and benefit by a series of planned steps each of which is “fiscally neutral” (Table 2).

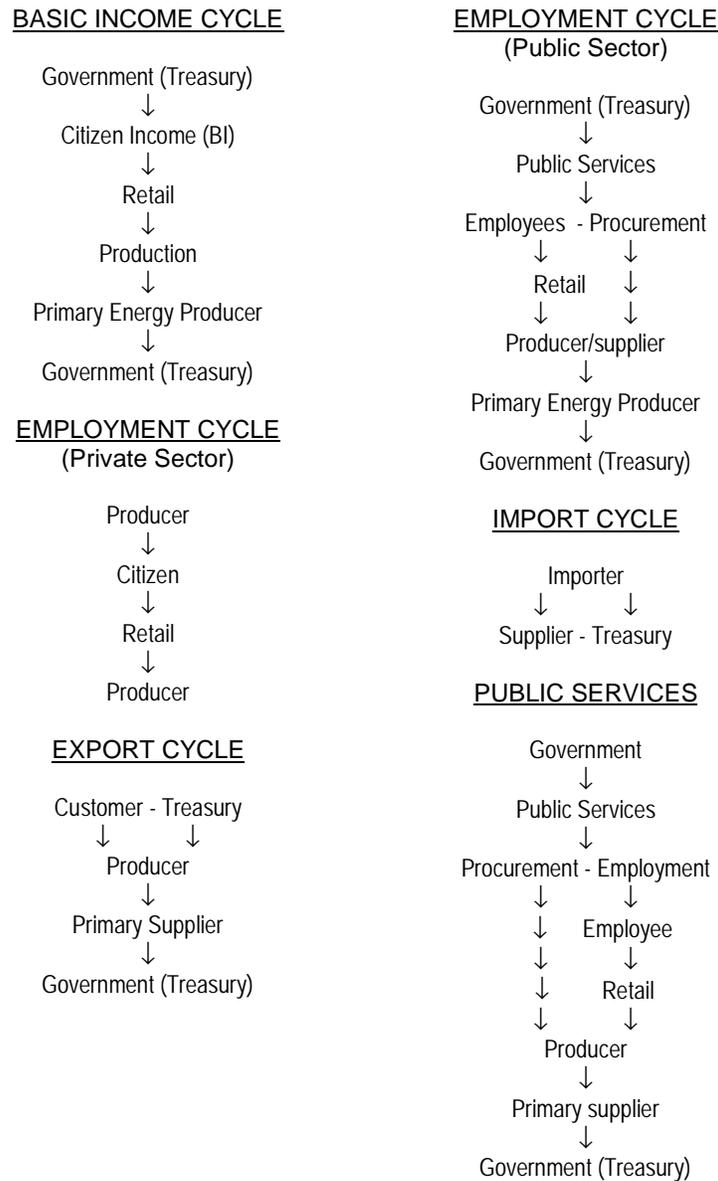
### **3.4 Distributing the benefits**

In a democracy, the fiscal neutrality must be perceived by the public in their day to day activities, not only in government reports. For example people's day-to-day lives can be categorised as:

- § *The Business Group* dealing with earning and spending company money,
- § *The Working Group* earning and spending their own money and
- § *The Domestic Group* spending their own money for the family unit.

Many will experience living in more than one category, of course. Each category will however experience the results of changes in a different way. Table 4 summarises these flows and it will be noted that tax administration does not arise at the level of the individual.

Table 4. Money flows in the dynamic economy (Figure 1)



Category a) would recognise the neutrality of the fiscal changes only if each phased increase in energy or land cost is countered by a concurrently phased reduction in VAT, NIC or business rates or a reduction of input prices reflecting the removal of labour added-value taxes from businesses.

Category b) would recognise the neutrality of the fiscal changes only if each phased increase in energy or land cost is countered by a concurrently phased

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reduction in Income Tax, National Insurance or VAT and/or a phased increase in Basic Income.

Category c) would recognise the neutrality of the fiscal changes only if each phased increase in energy or land cost is countered by a concurrently phased increase in Basic Income and a concurrent phased reduction in Council Tax and concurrent reductions in VAT on services used by the household such as repairs, improvements etc. and reduction of prices reflecting the removal of labour added-value taxes in the supply chain.

Given this fiscal neutrality, there will be no change in net revenue receipts although the improved efficiency of the new UNITAX resource taxation systems (replacing labour added value taxes by resource added value taxation) will, in itself, give a net benefit which more than covers any costs entailed in setting them up. The mechanism for compensating every citizen against any adverse effects from the new systems is the basic income and the subject of this paper. At each stage in the process the basic income provides the means to ensure full equity while the systems are turned around.

The phased reductions in a-v (added-value) taxation and increases in basic income can very accurately be determined because of:

- § the factual data (e.g. on total resource inputs) available,
- § the “macro” nature of the adjustments made (few implementation points for revenue and the generally simpler nature of “Give” compared to “Take”), and
- § the high rate of dynamic response available uniquely from the proposed UNITAX mechanism.

All of these characteristics allow visible and accountable political response to the needs and wishes expressed by democratic process.

### **3.5 The future is possible**

The procedures of the Resource Economics Proposition add a dynamism and responsiveness to economies which are inconceivable by methods prevailing at the time of this Congress. The strengthening and harmonisation of democratic

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forces within society are also achieved. The equity, transparency and simplicity of the proposals allow governments to take a longer view in major programmes of health, education and, security and environment from a controlled inflation base and a fully balanced budget. This longer view is made possible by removing contentious aspects from each phase of reform.

The Resource Economics Proposition provides a toolbox for easier, more accurate, simpler and more effective economic operation: regardless of the not inconsiderable social benefits. More information on the REP can be accessed through: <[www.rui.co.uk](http://www.rui.co.uk)>.

The basic income is an attractive answer to many painful social ills. It obliges us to restructure our economies in order to achieve these benefits. In the Resource Economics Proposition we find yet more benefits may be achieved. These benefits spread, though essentially simple mechanisms, by mutual self interest to the whole of mankind and, as importantly, to our living and working environments. Here is the path to enlightenment through the advanced economy in which the basic income is a glittering measure of civilisation.

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