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Basic Income and Economic Transformation in New Zealand

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Acknowledgements

Abstract

A new economic model is developed to provide a theoretical basis for the introduction of basic income for all. Basic income is then embedded in a plan for economic transformation based on the new economic model. The transformation package provides for economic sovereignty, financial sovereignty, tax reform and the development of local currencies. These provide a practical platform on which to introduce basic income without inflation or tax increases. Basic income is paid automatically into individual accounts established at the publicly owned Kiwibank*, which* can be accessed by debit cards.

1. Introduction

Basic income (BI) for all has been discussed in one form or another for about a century. Nobody has implemented the idea despite universal child benefits and universal pensions being available as of right in some countries.

BI is put in the "too hard basket" largely because of public concern about people getting "something for nothing" and political concern about funding. There is a deep-rooted belief in "working for a living" and a real risk of voter revolts if taxes are raised to "pay" for BI. Voters and politicians alike do not yet understand that a large part of the "extra" tax needed to fund BI in a tax funded scheme reallocates income within existing income earning households rather than to beneficiaries. In effect those paying "extra" tax get it back again.

To assure broad public and political support BI will have to be seen as the end point of a program that benefits business, workers, and beneficiaries alike. Until now, BI has been justified by its supporters on intellectual, social and moral grounds as an idea "whose time has come" rather than on practical grounds. By taking a wider view of economic transformation, this paper introduces BI as part of an integrated plan to improve well-being throughout the community.

The paper introduces a new and unique model of the economy that, for the first time, fully explains the business cycle, and shows how to maximize real growth to enhance public well-being, enabling BI to be funded without tax increases.

2. Outline of a plan for economic transformation

The economic transformation proposed in this paper involves integrating proposals for:

§ economic sovereignty;

§ financial sovereignty;

§ tax reform;

- **§** local currencies;
- **§** basic income;

2.1 Economic sovereignty

The most fundamental economic problems facing the world arise from a growing disconnection between the productive real economy representing real goods and services and the unproductive "paper" economy representing the power of money and financial derivatives. Nearly 99 per cent of financial transactions now take place in the unproductive "paper" economy while just 1 per cent to 2 per cent takes place in the production and consumption of real goods and services. Globalization and speculation continually put the real economy at risk because financial trading takes place in real time, while the real economy needs time to adjust to supply and demand signals. As a result, the "paper" economy now influences the real economy rather than the other way around, ceding economic sovereignty to international financial markets and speculators.

The principle of economic sovereignty recognizes the right of each nation to manage its own economy for the well-being of its people. The right implies that economic decisions should be based on the real economy rather than the paper economy, and that dependency created by international debt should be minimized.

Proposal 1 is to balance the current account (allowing for a progressive repayment of existing overseas debt) by way of a variable foreign transaction surcharge (FTS) on all New Zealand money transferred offshore or exchanged for other currencies. This proposal meets international rules, is simple to implement and has already been successfully used elsewhere (for example in Tonga in the 1970's where the policy was ended once a balance had been achieved). While the surcharge could initially exceed 10 per cent, it will fall quickly and then fluctuate around zero once a stable balance has been reached.

To offset slightly higher import prices resulting from a positive surcharge, money collected from the surcharge will be used to reduce domestic taxation.

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FTS, will eliminate foreign financial speculation, eventually eliminate foreign debt and ensure the nation lives within its means. This will help stabilize the exchange rate so it reflects the country's real economy.

It's primary impact, however, is to provide a safe platform from which to introduce BI.

2.2   Financial sovereignty

With the computerization of money and banking, nearly all money is now created as private interest-bearing debt. According to New Zealand Reserve Bank figures, in August 2001 the total debt of New Zealand residents was NZ$220.7 billion, nearly twice the nominal Gross Domestic Product (GDP). The annual interest on that total resident debt was estimated to be about NZ$14.3 billion/year, more than 12 per cent per cent of GDP.

That NZ$14.3 billion/year interest goes mainly to net depositors in the banking system. Some goes to bank shareholders. In 2001, NZ$1.5 billion of the NZ$14.3 billion was sent offshore as bank profit and even more to service resident overseas debt, adding to the current account deficit.

Renting the use of new money from private banks is regressive because it transfers wealth from the poor to the rich, offsetting social transfers. In New Zealand, for the 2002 tax year, social transfers of all kinds, including welfare and universal pensions were about 12.2 per cent of GDP, about the same as the annual interest on the total resident debt. That additional interest on new money is not initially part of the existing total resident debt and so has to be separately created. There would be no other way of paying it unless people who have borrowed the debt were willing to accept collapsing incomes and a rapidly falling quality of life.

Since in the present economic and financial system the benefit of interest on the total resident debt tends to accrue to the rich, the benefit of real "growth" in the GDP also tends to accumulate to the rich. The tendency exists because the interest on the total debt is a real cost that must appear in the real economy. It is expressed in the prices of the goods and services that make up the GDP. For the

rich, the interest component in prices is offset against the benefit they receive on the interest on the total resident debt, while the poor have nothing against which to offset their interest cost. Growing interest on the total resident debt means a structural and growing gap in purchasing power is developing between the rich and the poor that is independent of income and income redistribution policies.

Leaving aside the inherent instability of the private debt-based financial system discussed in more detail below, its primary outcome is to concentrate wealth in a financial elite, a process that has been apparent worldwide for many years now. A fundamental theoretical basis therefore exists for redistributing income through progressive taxation and social transfers or an equivalent such as BI.

This paper proposes to resolve the problem by changing from a private interest-bearing debt financial system to a public interest-free financial system. This also provides a theoretical basis for the tax reform proposed later in this paper.

2.2.1 A new economic model

Original research suggests a new economic model is available to quantify the various income and distribution effects described above. It also, for the first time enables the business cycle, booms and busts to be evaluated, quantified and managed. Finally it allows for the quantification and management of a public interest-free financial system to replace the existing interest based system.

The terms in the model have the following meanings:

- § *Total resident debt, M* comprises New Zealand Government domestic debt, private domestic debt of New Zealand residents, New Zealand Government foreign debt and New Zealand resident foreign debt at any point in time. In New Zealand, in August 2001, the total resident debt was very nearly twice the regularly published M3 monetary aggregate.

§ *Change in total resident debt* d*M* is the increase or decrease in total resident debt over a period of time d*t*.

§ *Interest on total resident debt, R* is the interest cost accruing on the total resident debt over a period of time d*t*. The interest rates applicable to the various part of the debt may be different. If the weighted average interest rate is *r,* the *interest on total resident debt* is *M. r.* d*t*

§ *Inflation i,* is the rate of change in prices of a defined basket of goods and services regularly published in New Zealand by the Department of Statistics over a period of time d*t.* It appears as the change in *R* over a period of time d*t*, that is, that part of the interest on the total resident debt that has not yet been expressed in prices. *Cost-push inflation* relates to changes in prices in the cost of supply, such as, for example, increases in interest charges on money used during the production cycle. *Demand-pull inflation* relates to changes in prices caused by surplus purchasing power, "too much money chasing too few goods."

§ *Real Growth q,* is the increase in value of the Gross Domestic Product over a period of time d*t*, after deducting inflation regularly published in New Zealand by the Department of Statistics. Real growth, being a product value may also include a term for the velocity of money, *v*, that represents how many times debt is used over a period of time d*t*.

§ *Surplus Circulation S*, applies only in a fully non-interest bearing financial system. It is the residual change in resident debt over and above that needed to fund "real growth".

The model of the current financial system is then:

$$\frac{\mathrm{d}M}{\mathrm{d}t} = R + q.v$$

$$= M.r + q.v$$

or in words:

Change in total resident debt = Interest on total resident debt + real growth

In a fully interest-free financial system, the model becomes:

$$\frac{\mathrm{d}M}{\mathrm{d}t} = M.r + S + q.v$$

but since r = 0, the equation reduces to :

$$\frac{\mathrm{d}M}{\mathrm{d}t} = S + q.v$$

or in words:

Change in total resident debt = Surplus circulation + real growth

Finally, i $= \dfrac{\mathrm{d}R}{\mathrm{d}t}$

Or in words:

inflation = the rate of change of *interest on total resident debt,* the slope of the curve of *interest on total resident debt* plotted against time.

Total resident debt figures are not publicly available in New Zealand. The figure for August 2001, for example, was worked out by a senior Reserve Bank official. It is incontrovertible that in New Zealand, interest on the total resident debt makes up the bulk of the change in that debt (using, say, 5 to10 year moving average increases in the total resident debt to smooth violent year to year fluctuations caused by present monetary policy).

Comparison of smoothed curves with those based on year-to-year figures will reveal how unstable economic management has become as a result of the failure of economists to understand the real nature of the business cycle.

The mathematical development of this model is outside the scope of this paper. For example, the loss in real growth resulting from the debt system can be expressed mathematically, and increases in the change in total resident debt over can be time estimated as an exponential curve of best fit.

2.2.2 The business cycle explained

Figure 1 shows how the new economic model fully explains the business cycle for the first time. (Please see overhead projection for Figure 1, which is not attached to this paper).

At a time *a* under "loose" monetary settings when interest rates are low, total resident debt increases steadily allowing "real growth" to increase. But, at any constant interest rate, cost-push inflation, shown by the slope of the curve of interest on the total resident debt also increases because the amount of interest increases with the increase in total residential debt.

From about time *b*, the monetary authority begins to increase the interest rate to combat inflation. The initial effect is to reduce the rate of change in total resident debt (reduce the demand for money). The inflexion point near b shows this. At the same time, the interest on the total resident debt increases with the higher interest rate. Since the interest has to be found from somewhere, it has to come from a reduction in "real growth" which becomes low or eventually even negative to help fund the interest on the total resident debt. This is shown typically by the reduced distance between the total resident debt curve and the interest on total resident debt curve at time *c*.

As inflation is "wrung out" of the economy at the expense of growth, real growth turns negative, producing a recession. This occurs at time d, the point where the total resident debt and interest on the total resident debt are growing at the same rate over time. The process does not always produce a recession. When a recession is replaced by a plateau where real growth approaches zero before recovering again, economists talk of an economic downturn. Whether or not a recession occurs under current economic management is related to the timing of interest rate interventions and their size and duration.

Returning to Figure 1, at about time *d*, interest rates begin to be reduced again, reducing the rate at which the interest on the total resident debt is increasing, and hence the inflation rate, which is given by the slope of the curve of interest on the total resident debt. By time *e*, the recession has developed and inflation approaches zero. The change in total resident debt is now declining because of the lower interest rates and because low business confidence has reduced the demand for new debt. Deflation frequently occurs, as the slope of the curve of interest on the total resident debt turns negative, as is shown either side of time *f*.

By time *f*, interest rates have been reduced to a level where the change in the total resident debt again exceeds the interest on it, and real growth resumes at the point the two curves intersect. Deflation may continue for a short time during the early part of the new real growth cycle. After a time, interest rates stabilize at a low level and from time *j* inflation begins to pick up again, as the economy begins to "overheat". The overheating occurs because the demand for new debt increases at the low interest rates as business confidence returns. Inflation returns as the demand for new debt increases and real growth peaks and the "business cycle" begins again.

A financial crash occurs when the change of total resident debt tends toward zero and below, usually as a result of banckruptices or banks calling in loans. This is shown on Figure 1 as period *h*. Bankruptices mean writing off debt by transferring it to an accounting loss. Calling in loans reduces the total debt pool. As the total resident debt reduces so, at any particular interest rate, will the interest on it. Inflation becomes negative, deflating the economy as well as preventing any growth. This produces a depression, which can continue even when interest rates are very low or zero. From time *k*, the depression must continue for as long as the total resident debt is being reduced. During this time, business confidence will also be very low, and the best, if not the only way to kick start the economy is to increase the total resident debt by public investment, for example using public works projects like those in New Zealand in the 1930's. Another way to increase the total resident debt, unfortunately used too often in the

past, is to go to war. This perhaps gives a clue why in a recession there is a tendency to increase defence spending.

Despite speed wobbles caused by repeated "business cycles" the growth of total resident debt is exponential, so the rate of drift of wealth from the poor to the rich described above is accelerating exponentially.

2.2.3 The business cycle using interest-free money

The existing economic management model restricts real growth and supports an upward drift of wealth. This paper proposes to change from a private interest-bearing monetary system to a public interest-free monetary system. To avoid inflation, reserve ratios will be reintroduced into the New Zealand banking system and gradually increased to ensure the money supply (as total resident debt) increases at an equal or lower rate than it does now. Reserve ratios are not new. They were used in New Zealand until quite recently and still apply in countries like the United States. The reserve ratio in the first year is likely to increase between 0.5 per cent and 1 per cent above existing prudential reserve levels.

Previous discussion shows that up to NZ$14.3 billion/year could be spent into circulation in New Zealand as of 2001 without inflation if interest-free money were issued instead of interest bearing debt, while a corresponding amount would be available every year after that. At the same time, the drift of wealth that has created the income gaps will be halted, though without further redistribution, existing income gaps would not necessarily be reversed.

The use of interest-free money suggests an independent monetary authority created as an Office of Parliament (like the auditor general in New Zealand) needs to be charged with ensuring that new money is released into the economy interest-free in accordance with sustainable "real growth". The administration of an interest-free financial system is shown in Figure 2. (Please see overhead projection for Figure 2, which is not attached to this paper).

Surplus circulation in Figure 2 can have similar inflation consequences as changes in the interest on the total resident debt shown in Figure 1, except that it can be directly and easily managed by the monetary authority, while the

"benefits" of any inflation accrue to a different group, namely working people and businesses. The economy as a whole will tend towards full employment and rising incomes.

In Figure 2, the change in total resident debt fluctuates about a straight line, *line a*, which is determined by the maximum sustainable real growth rate in the economy. If the total resident debt increases too quickly, the surplus circulation curve *S* has a positive slope, causing demand-pull inflation. The slope gives the inflation rate. Reducing the rate at which new resident debt is introduced into the economy, thereby deflating prices, reverses inflation. This ongoing process creates the characteristic waveform shown in Figure 2 where the surplus circulation curve S is in phase with the curve of the change in total resident debt. To maintain maximum sustainable real growth and zero average inflation, the surplus circulation curve S should bottom out at or near the time axis on Figure 2. If the change in total resident debt is overcompensated, the surplus circulation *S* becomes negative as shown at time *b* on Figure 2. This creates a deficit, which reduces real growth until S becomes zero or positive again.

The regulatory process is relatively direct and very simple compared with the existing economic model, and produces stable prices and maximum sustainable real growth.

The global cost of implementing interest-free money is negligible. The rewards are enormous. There are many ways to introduce NZ$14.3 billion/year into a high "real growth" zero interest economic environment, such as:

		NZ$
§	contribution to basic income	9.0 billion
§	public works and amenities	1.0 billion
§	research and development	1.2 billion
§	free primary health care	1.4 billion
§	education	1.6 billion
§	local currency proposal	0.1 billion
		14.3 billion

The primary impact of proposal 3 (aside from reversing the drift of wealth from the poor to the rich, and revolutionizing New Zealand's well-being and competitiveness in the world), is to provide a supplementary funding base for BI that does not require an increase in taxes.

2.3   Tax reform

Existing tax policy is outdated. It is profoundly unsuitable for the modern electronic age. The present system invades personal privacy, and has extremely high compliance costs. It is the end result of hundreds of years of catering to special interests at the expense of ordinary people. Tax burdens tend to be concentrated on those who can least afford to pay, while large businesses and wealthy individuals are often able to legally avoid tax by keeping a step or two ahead of the taxation net.

Of the total Government revenue of NZ$40 billion in New Zealand in the 2002 year (excluding local authority taxes of about NZ$2 billion), NZ$32.5 billion came from Personal Tax (NZ$17.6 b), Company Tax (NZ$4.8 b) and GST (Goods and Services (VAT) Tax, NZ$10.1 b).

Existing benefits and social transfers also invade personal privacy because they are means and/or asset tested and their administration requires extensive disclosure of sensitive personal details. In New Zealand, benefits and transfers total some NZ$14 billion, about the same as existing interest payments on the total resident debt.

The Revenue department costs NZ$400 million/year to run, and the Department of Work and Income which administers benefits, costs NZ$600 million/year to run.

Proposal 3 will abolish the Revenue Department and the Department of Work and Income. Revenue functions will be replaced by an automatically collected domestic transactions tax (DTT) paid on every withdrawal from a bank account, while Work and Income functions will be replaced by a BI automatically paid into a special bank account set up for each New Zealand resident at the publicly owned

Kiwibank. Residual special social needs (such as accident payments and disability allowances) will be administered by the relevant department on a case-by-case basis, as will the residual indirect taxation set out below. This proposal will apply to all withdrawals from bank account except for inter-bank settlement transfers and transfers to and from certain savings accounts.

While there are many workable ways to create a NZ$40 billion tax package using DTT, one combination is:

		NZ$
§	Domestic transactions tax	30.0 billion
§	Resource taxation	6.9 billion
§	Excise taxes	2.5 billion
§	Gaming duties	0.3 billion
§	Vehicle and other registrations	0.3 billion
		40.0 billion

This makes the tax proposal globally tax neutral, though the quantum relationship between DTT and other indirect taxation is a matter for ongoing debate.

The domestic transactions tax rate depends on the total volume of financial transactions. Current financial transactions in New Zealand exceed NZ$10 trillion/year, overwhelmingly in the form of speculative transactions of various kinds. Speculation will be eliminated by the foreign transaction surcharge (proposal 1) externally and by domestic transactions tax internally. For 2002, New Zealand's gross domestic product was estimated to be NZ$117 billion. Adding an arbitrary estimate of about 150 per cent of the gross domestic product for all other transactions, total financial transactions (including intermediate transfers) might be in the order of NZ$300 billion/year. The domestic transactions tax rate needed to supply NZ$30 billion in tax is about 30/300 or 10 per cent, which is lower than the present GST rate of 12.5 per cent. GST will be abolished under proposal 3 so some goods and services will be cheaper than they are now. However, due to intermediate pricing effects, the relative prices of goods and

services will tend to shift in favour of those with the fewest intermediate stages, which can benefit direct and local suppliers. The more intermediate stages there are the more Domestic Transactions Tax will be collected as a percentage of the final price because the Domestic Transactions Tax is a layered tax, not an added value tax like GST/VAT.

The net tax on foreign companies seeking to repatriate profits from New Zealand will be the sum of the Domestic Transactions Tax and the Foreign Transaction Surcharge, the same as will apply to imports of goods and services from abroad. The cost of importing from abroad offsets the layering effects of DTT in local production. Should it become cheaper to import complex finished goods than produce them locally, increasing total imports, the FTS will rise, automatically adjusting for changes in local resource allocation.

Apart from modernizing revenue collection and eliminating the invasion of personal privacy, this tax reform will enhance business profit; thereby ensuring the business sector also gains from the introduction of BI.

Proposal 3 has profound benefits and implications for all New Zealanders and businesses operating in New Zealand. Personal income tax, company tax and GST (VAT) will all be abolished and replaced with Domestic Transactions Tax. Once the proposed tax reform has been implemented, businesses will need to report only to their shareholders and to regulatory agencies under existing law. As a result, there will be little or no need for tax havens, tax lawyers or special accountants and accounting and audit processes will be greatly simplified. The net saving to business in New Zealand is unknown. Compliance costs in the Unites States of America are reputed to be about 5 per cent of GDP, translating to more than NZ$5 billion/year in New Zealand (based on a GDP of NZ$117 billion). What can be said with confidence is that the proposed tax reform will save New Zealand businesses NZ$ billions/year. Proposal 3 will also increase ordinary New Zealanders' control over their own lives along with large savings in personal compliance costs. Finally, there will be a direct saving of over NZ$700 million in government expenditure from abolishing the Revenue and Social

Welfare departments (apart from small monitoring and audit units) which can be used to help fund BI.

2.4   Local currencies

One of the major objections to BI is the "something for nothing" syndrome. This local currency proposal resolves the problem once and for all by taking a back to basics approach so everyone can participate usefully in the economy. It encourages people to participate but does not coerce them to do so.

The plan has five distinct parts whose implementation can overlap:

- **§** officially encourage, assist and promote the development of local currency schemes nationwide;

- **§** provide professional backup, organizational and management training, and assistance with equipment, software and stationery,

- **§** introduce up-skilling and training courses inside the schemes;

- **§** encourage local authority participation by accepting some rates payment in local currencies;

- **§** introduce a NZ$ tax on local currency transactions.

In New Zealand the plan is estimated to cost around NZ$ 92 million/year after five years. About NZ$180 million/year tax will be raised from a 10 per cent NZ$ transactions tax applied to local currency activity based on total local currency transactions of about NZ$1.8 billion/year.

Over five years, target participation could be 25 per cent of the working age population, 50 per cent of businesses and 100 per cent of schools and territorial authorities (Councils).

The purposes of collecting some NZ$ tax on local currency transactions are to make the proposal politically and publicly attractive and allow the economic

activity to be added to gross domestic product, while maintaining a local currency accounting balance

Fairly taxing local currency activity will make it acceptable to governments, business and most people generally. It is also feasible to tax within the local currency system itself, though not politically advisable in the first instance. Internal local currency taxation would allow elderly or disabled people to be given periodic credits, or local currency to be recycled as interest free micro-loans to promote local investment and employment. Taxing local currency transactions in NZ$ allows the government to more than cover the costs of the plan, making it a development program in its own right as distinct from a handout or subsidy.

Local currency taxation most naturally takes the form of a transactions tax. BI payments will be automatically deposited into a Kiwibank account set up for each person and accessed using a debit card. Using a similar system, NZ$ local currency taxes can just as easily be automatically deducted from the same Kiwibank account. The process is simple and almost costless. The tax level would be the same as or less than the proposed Domestic Transactions Tax (DTT), around 10 per cent or less.

Local currency systems greatly assist the introduction of a BI paid for all (paid in NZ$) because they readily allow able bodied people of working age (18 to 65 years) to participate in the economy. Proposal 4 therefore helps to keep overall BI funding at an acceptable level.

2.5   Basic income

The proposals for Foreign Transactions Surcharge, interest-free money, Domestic Transactions Tax and local currencies provide the platform on which BI becomes realistic and generally acceptable.

While BI (BI) could be introduced with the rest of the platform, it may be advisable for monitoring purposes to implement the other proposals first so the impact of introducing BI can be assessed independently.

BI represents a dividend payable to every New Zealander for the use of the public domain at large (physical, social, environmental and intellectual goods) to generate the nation's market incomes. It will be neither means nor income tested.

BI will be "tax free" replacing all social transfers other than special payments such as disability allowances and will be paid automatically into individual bank accounts established at the publicly owned Kiwibank. Each New Zealander resident in New Zealand will be eligible for BI, and each person will receive a debit card to enable them to draw down their account balance at the Kiwibank. Withdrawals from the individual Kiwibank accounts will be subject to the domestic transactions tax except for transfers to certain savings accounts.

For discussion and analysis purposes, the BI for New Zealand has been set at 23 per cent of national disposable income (NDI).[1] It is further assumed that local currency activity will add a further 1.6 per cent to the value of incomes available to those who choose to participate in the informal economy. Local currency activity is not technically part of BI because it arises from income earning work that can be accessed as of right.

The final BI proposal will be decided after extensive public consultation and participation. One model currently favoured has five components:

§ a standard rate for each person over 65 years of age, (optimal weighting about 4);

§ a standard rate for each person between ages 18 and 65 years (optimal weighting about 1.5). Those people presently receiving benefits will be encouraged to participate in at least some local currency activity;

§ a standard rate for each person under 18 years of age, (optimal weighting about 1.5);

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[1] National disposable income is the total income of NZ residents from all sources available for final consumption or saving (saving = changes in inventory and gross fixed capital formation before consumption of fixed capital) after taking account of current net transfers to the rest of the world. In NZ it is about the same as GDP.

§ a standard housing allowance that will be automatically distributed among all adults for the time being registered on the electoral rolls and resident at each specific address, (optimal weighting about 3.5);

§ a "half way" housing allowance for people living permanently in boarding houses, hotels, hostels, and geriatric homes who are registered on the electoral roll at their specific address (optimal weighting about 1.5).

So if the standard rate is NZ$160/person/week over 65, the adult rate would be NZ$64, (160x1.5/4), the child rate would be NZ$64 (160x1.5/4),the housing provision about NZ$140 (160x3.5/4) and the half-way housing provision about NZ$64 (160x1.5/4).

These figures have been carefully calculated to ensure that very few people in New Zealand presently receiving superannuating are worse off than they are now. Since there is a vast array of income support categories, the simplest way to test the proposal is by checking the formula against practical cases.

Previous BI proposals around the world have failed numerically because, unlike this proposal, they have not properly addressed the major issue of housing costs.

People between 18 and 65 years receiving income support can work out what they need to "earn" after tax from local currency activity to "keep up". All they need to so is subtract what they get under the BI proposal from what they get now. The amount will generally be less than NZ$96/week (NZ$160-NZ$64, see table below), since other provisions in the package are generally better than provided under present income support. The example assumes an average of NZ$43/week for those participating at year five of the local currency programme (proposal 4).

There would be no restraints of any kind on any further income, thereby abolishing the "welfare state" and "welfare dependency" as we know it. People keep the formal income they earn, and they also keep the local currency they earn (less any tax provision).

There would be reduced stress in the housing market. Housing pressure in the main urban centres would be relieved by economic revival in the provinces where rents, housing, and the cost of living are lower. This will improve the economic base of the less developed regions of the country. The local currency plan (proposal 4) will further assist the process of renewal in provincial and rural areas.

Table 1.   The New Zealand basic income structure[2]

Group	Rate	Number	Income NZ$ m
Adults > 65	160	450 000	3 744
Adults 18-65	64	2 323 000	7 731
Children <18	64	1 020 000	3 394
Housing provision	140	1 358 000	10 324
Halfway housing	64	69 000	230
Total (March 2001)	23% NDI		25 432
Local Currency 1.6% NDI	NZ$ 43/wk	25% adults 18-65	1 800
Total incomes under Basic Income Plan	24.6% NDI		27 232

Only adult's aged 18-65 years who are not gainfully employed in the formal economy would need to participate in local currency activity to enjoy the "superannuating" income level. So the 1.6 per cent NDI contributed by local currency activity is notional. The real figure could be more or less and will rise considerably over time.

The major issue for Basic Income has always been "where does the money come from?" The preceding economic transformation proposals enable BI to be funded comfortably without increasing taxation. In the funding plan, NZ$1227 m of the existing entitlements totaling NZ$14268 m have been "retained" pending more detailed planning. The relevant department will administer each of these.

Table 2 shows how the Basic Income will be funded. The proposed 7.6 per cent Reserve Bank interest-free, debt-free credit creation is less than past M3 money growth, which has averaged 8.6 per cent over the past ten years.

[2] On census night 6/3/01 the population was 3,792,654 and there were 1,357,983 occupied dwellings.

Moreover, as indicated by the cross hatched areas on Figures 1 and 2, sustainable "real growth" will be much higher under these economic transformation proposals than it is now.

These figures show BI can be implemented without any inflationary impact and without tax increases as long as reserve ratios are reintroduced to the banking system as proposed under the interest-free money proposal (proposal 2).

Table 2.   Funding of basic income in New Zealand

Funding Source	NZ$m
Existing entitlements transferred to Basic Income (14268-1227)	13 041
Reduction in government debt servicing costs	2 589
Reduction in Revenue and Work and Income administration (net)	800
Less cost of administering basic income	(60)
Interest-free, debt-free credit growth, say 7.6% GDPx117. (Average increase in M3 money supply past 10 years is 8.6%)	8 974
NZ$ tax 10% on NZ$1800m local currency transactions less NZ$92m costs	88
Total sources of basic income	25 432

3.   Conclusion

Basic income is affordable and can be introduced without inflation or tax increases if it is embedded in an economic transformation package designed to ensure public and political support. A new theoretical framework for economic transformation has been introduced to show how real economic growth can be improved to benefit the whole community while providing a sound inflation free platform for the introduction of basic income.