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A BASIC INCOME OR A BASIC CAPITAL?

Paper by
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Ladies and gentlemen, it's a pleasure for me to be here and to give you my answer to a question which I consider fundamental : will the social problem be resolved by a basic income or by a basic capital ? Will social justice be achieved by the welfare state or by the stake holder society (from the title of Bruce Ackerman and Anne Alstott's book) ?

As you may already have guessed, I am in favour of a basic capital and I would like to begin by telling you why . After giving you my main reasons, I will describe what I think is the best way to implement this idea.

My first reason is that a basic capital would greatly improve equal opportunity. A big step has been already made in this respect with free education. But inequalities regarding wealth remain excessive and what must be done is not to impoverish the rich but to enrich the poor. Our nations claim to be founded on freedom and responsibility but these are empty words if we do not provide people with the means to exercise them and at the age where money is necessary to start and settle down a family, buy a dwelling, bring up children, set up a small business, build a social life, etc.. Today, having a capital at one's disposal to get started in life is a privilege. It should be a basic right.

My second reason is that a basic capital is the only possible answer to the dramatic debate which has been dividing the world for more than a century. This debate began when Karl Marx explained, 140 years ago, why capitalism was leading to unacceptable economic and social inequalities . His conclusion was that the only way to solve the problem was to transfer the ownership of the means of production, of the capital, to the State.

We know now that Marx's conclusion was a terrible mistake. But the issue is still pending. All of us here think that the market economy (the word capitalism has gone out of fashion) fosters freedom and prosperity, but we also know that it leads to excessive, harmful, inequalities. And we are looking for a solution. This solution, ladies and gentlemen, is a basic capital. Marx was wrong when he said that the only answer to his analysis was communism. There are two answers : the first one is indeed to transfer the capital to the State; the other one, the right one, which had already been proposed at the time he wrote "The Capital", is to provide every citizen with a share of the capital.

My third reason is globalisation, which will impose the stakeholder society as the only way to keep on achieving social progress in developed countries. As we all know, globalisation is rapidly changing the world we live in. The integration of all nations in a single economic zone founded on free trade is an event of historic proportions whose consequences are not yet fully visible. But as far as social problems are concerned, we are fully aware of them. Our industries are in full competition with countries whose standards of living are much lower

than ours and it is more and more difficult to improve the conditions of life of wage earners. Those countries which have ignored this development have had to endure massive unemployment, harmful levels of taxation and huge debt. They must now face reality and come to terms with it.

Of course we may suppose that this is a temporary situation and bet on the fact that, when emerging countries will have managed to catch up with our level of development, competition will abate and the pressure on wages will decrease. This however is quite a long term bet! For the time being, global labour markets are dominated, as Europe was at the beginning of the 19e century (which is not a pleasant analogy), by strong demographic growth, massive rural depopulation and spectacular increases in productivity!...How could the pressure on wages vanish, particularly for unskilled labour? The probability is low, unless our currencies plummet, which would relegate us among poor countries.

So, I ask the question : how shall we continue to achieve social progress if we cannot raise wages, if we cannot increase taxes, if we must reduce public debt? How shall we maintain social peace if globalisation means a golden age for shareholders and austerity for the others? Here again, I can find only one answer : a basic capital. The best way to face globalisation, in our highly industrialized countries, is to remain competitive and to offset the resulting decrease or stagnation of income by a distribution of capital. As corporations do!

My fourth reason is related to demographic trends. Because of a large drop in birth rates and of continuous increase in the prolongation of life, our countries must face the various consequences of a rapidly aging population. First of all, a huge increase in the number of retired people threatens our pension systems, especially when they are not based on capitalization, as in France and Germany. As far as pensions are concerned, the young already know they will have to pay more to get less. On the other hand, the prolongation of life results in an increasing concentration of wealth in the hands of older people. When one formerly inherited between the ages of twenty and forty, at a point in life when capital makes it possible for young households to settle down and assume the cost of having a family, one often inherits today after reaching the age of retirement. Capital is well on its way to being monopolized by the old! Here again, a basic capital is the best way to cope with these growing, alarming imbalances.

As you can see, ladies and gentlemen, we have many compelling reasons to decide to provide each citizen with a capital from which, of course, he or she would get a basic income!... But how to do it? Here we come to my proposal.

I propose to create in every country a national bank, the stake-holders bank, whose only purpose would be to make a loan of 20, 30, 50 thousand dollars, according to the wealth of the nation, to every citizen who turns 28. Why 28? Because it seems to me that most people reach maturity between 25 and 30.

This loan would be interest free (but could be partially indexed on inflation) and would be considered as an advance on inheritance. Every one would pay back his loan as soon as he or she receives an inheritance or a donation. This is the only real difference between my proposal and Bruce Ackerman's. People do not pay back their loan when they die, but when their parents die. Those who belong to poor families and have no chance of inheriting from anyone would not pay back. But their children would have a chance to!

Being an advance on inheritance, this loan would not be granted to those who, at 28, have already received an inheritance or a donation. Their number is limited (between 5 and 10% of this age group) but could be raised by fiscal incentives encouraging families to dower their children whenever they can. The purpose here is of course to limit, as much as possible, the application of the system to those families who really need it and thus reduce the need for financing.

Based on the principle of a bank loan, the system would be easy to implement. Once the amount of the loan fixed, the only real problem would be to plan the adequate financing. Assuming that people get their loan at 28 (which means that for each age group the repayments would spread over 40 years) and that 20% of them would not pay back, we can roughly estimate the rate of repayments to 2% of the principle every year.

Regarding the amount of the loan and its financing, each nation would have to choose between two different approaches. The first one would be to give the maximum amount from the start and to count on repayments to progressively self finance the system, at a rate of 2% a year. One can imagine for example that the United States adopt stake holding and, taking advantage of their big budget surplus in the years to come, decide to loan the amount suggested by Bruce Ackerman : 80 000 \$. It would cost 250 b\$ the first year and, thanks to repayments, 245b\$ the second year, 240 the third year, 200 ten years later.... The decrease may seem to be slow but if we take into account a 3% growth rate of the GNP during that period, the cost of the system would go down from 2.8% to 1.7 % of GNP in only a ten year time.

Other nations, which do not enjoy such big budget surpluses, would probably opt for a much smaller amount but they could use the yearly repayments to increase it year after year. Let us suppose, for example, that Germany decides, starting in 2000, to allocate every year

about 1% of its GNP to set up a stake holding plan. The amount of the loan would be 50 000 DM in year 2000 and, assuming a 2% repayment rate and a 2% growth rate of the GNP, would grow steadily by 4% a year. Which means that it would amount to 52 000 DM in 2001, 61000 DM (or the equivalent in Euros) in 2005, 74 000 in 2010 and so on...Supposing Germany goes on allocating one percent of its GNP each year to this scheme, the German citizens who are 3 years old today would receive 135 000 DM in 2025 (270 000 DM for a couple!). We can work out the arithmetic with only half a percent of the GNP. The result is the same, but it takes more time! Ladies and gentlemen, these figures prove that it is possible not only to eradicate poverty but also to democratise wealth. It's a matter of time... and of political will!

Whatever the percentage of the GNP allocated to stake holding, it would not be a trivial amount and would have to be financed. In fact, four main sources of financing could be used : new taxes, budget reductions, the sale of public assets, savings on welfare (especially for stake holders), and public borrowing. Each country would of course make its choice according to its economic and financial situation.

In deciding to give a capital to every young adult, society would not be heading in a revolutionary, adventurous direction. It would only generalize what is a tradition in affluent circles and would re-establish the antique practice of allotment. Ancient agricultural civilisations of China, India, Indonesia, the Celts, the Incas, etc.... were indeed stake holding societies. In these ancient times, every young couple was given a farm and a piece of land which would be returned to the community upon their death!...With hindsight, we can say that the real innovation of modern times has been not to give our children the means to settle down!...

In deciding to give a capital to every young adult, we would not take a big economic risk

With their capital, young people would buy houses, apartments, land. They would create new companies, and probably be more numerous to get married and have children, which would not be insignificant for our aging countries. Of course some of them would squander it, buy drugs or sports cars, as some do today with their welfare allowances. But it would be a small minority. All in all, stake holding would invigorate the economy and probably society as a whole.

In deciding to give a capital to every young adult, the stake holder society would not institute a "just" distribution of incomes and wealth (only God could do it. From this point of view, social justice is a pure utopia). But it would change the system of rights and obligations on which depends the distribution of incomes and wealth! What John Rawls, in his book "A

Theory of Justice”, calls the basic structure of society and that I prefer to define as the rules of the game! And this change in the rules of the game would be a new deal for social justice, to which we can apply a remark made 18 centuries ago by Tertullien, a Latin author : “A law is not fair in and of itself. It is fair if it is considered as such by the people who must obey it..” Which means that if a basic income led people to think that society is fair, then social justice would be achieved!.... Ladies and gentlemen, that would be a great achievement and the beginning of a new age. Thank you for your attention.

Bernard Berteloot, author of “A Capital”. Picard Paris 1996.