BIEN The Basic Income European Network

BIEN was founded in 1986 and aims to serve as a link between individuals and groups committed to or interested in basic income, and to foster informed discussion on this topic throughout Europe.

Link to BIEN Online at http://www.basicincome.org **E-mail: bien@etes.ucl.ac.be**

Supplements to BIEN*Online* FAQs

Example and Figures taken from Philippe Van Parijs, *Basic Income. A simple and powerful idea for the 21st century*, background paper to BIEN's 9th Conference, Berlin 2000.

Example: *Marginal rates at the bottom and in the middle: the big trade off*

To keep the reform budget-neutral while remaining able to pay for everyone's basic income, one must compensate the lowering of the rate at which the lowest layer of everyone's income is taxed by raising the rate at which higher layers are taxed. But while every earner has income in the lowest layer, not everyone earns income in higher layers, and the higher the layer, the fewer the tax payers involved.

Suppose one starts from a basic income scheme of the sort depicted in Figure 2, i.e. with a tax rate of 100% on the lowest layer of income which mimics the effective rate of existing guaranteed minimum income schemes (Figure 1). Lowering by 20% the average rate of tax in the monthly income range comprised, say, between 0 and 500 Euro will need to be offset by an increase in the rate of tax higher up. By how much? It depends on how many taxpayers have an income in the income bracket over which the tax increase is being considered. If it is in the 500-1000 Euro range, most incomes will still be affected by the rise, and budget neutrality may be achieved with, say, a 25% increase of the tax rate in that range. But if it is in the 2000-2500 range, a far smaller number of taxpayers will be affected, and the tax rate that balances the budget will need to rise by, say, over 50%. Once this is realised, the following conclusion is inescapable. If one is to finance a significant reduction of the effective marginal tax rate on the lowest earnings, one will have to significantly raise it on a broad range of rather modest earnings. Concentrating the increase on the higher brackets would quickly make them rocket towards 100% and make much of the corresponding incomes vanish (if only for domestic tax purposes).

Figure 1: Conventional minimum guaranteed income (e.g. RMI, bijstand, Sozialhife)

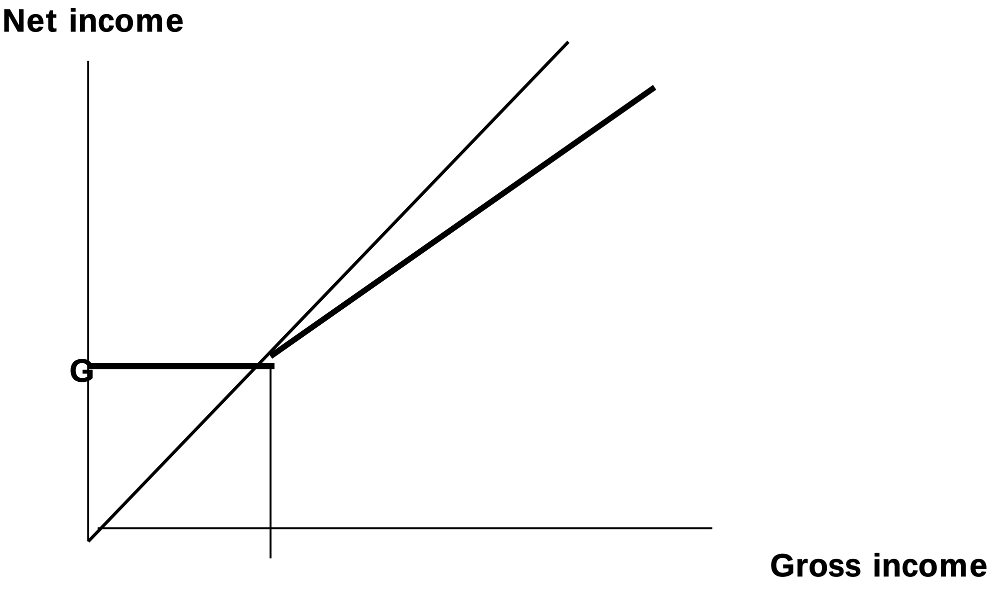

Figure 2: Basic income with trap (e.g. Salverda 1984)

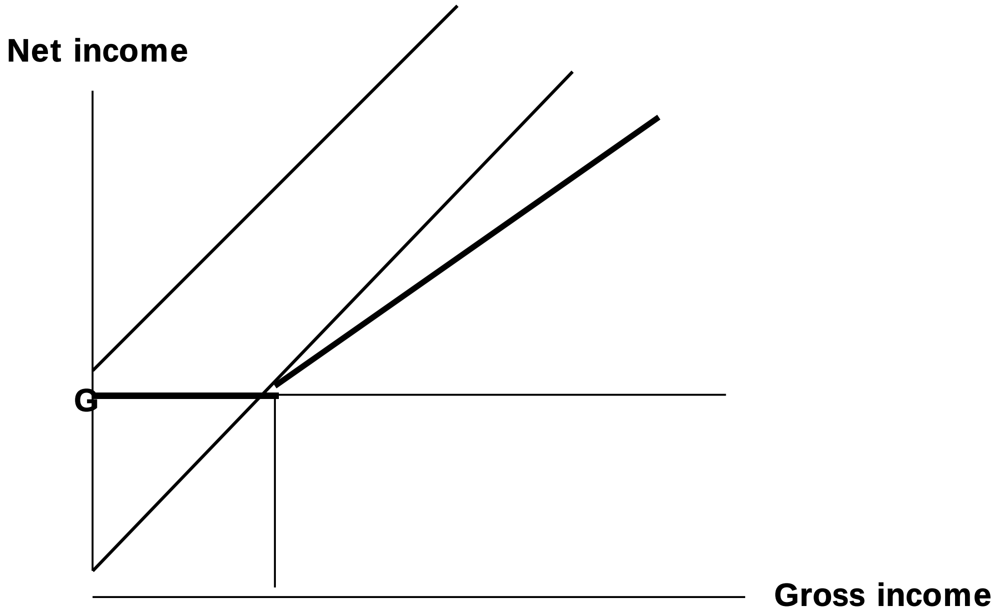

Figure 3.: Linear negative income tax (e.g. Friedman 1962)

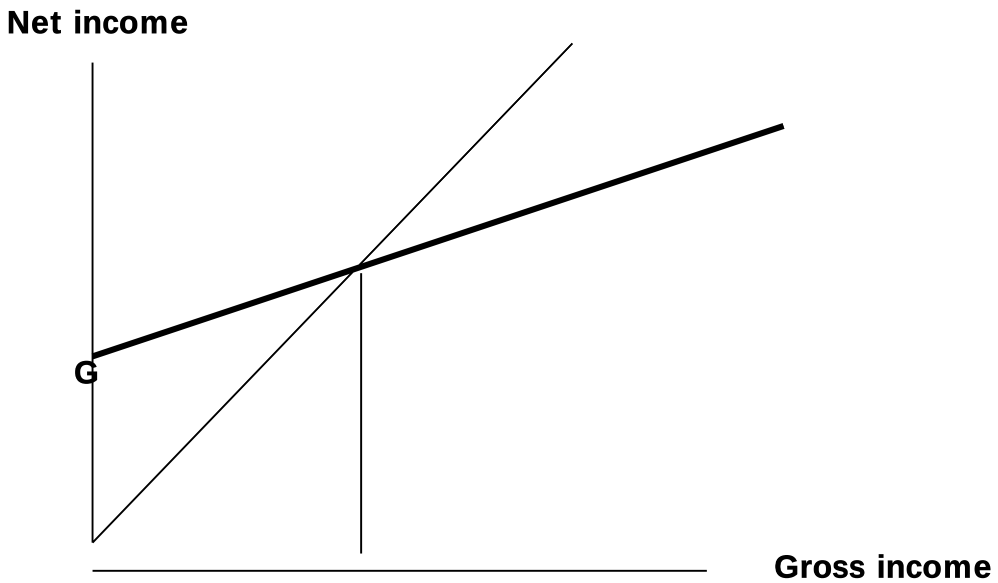

Figure 4: Basic income combined with flat tax (e.g. Atkinson 1995)

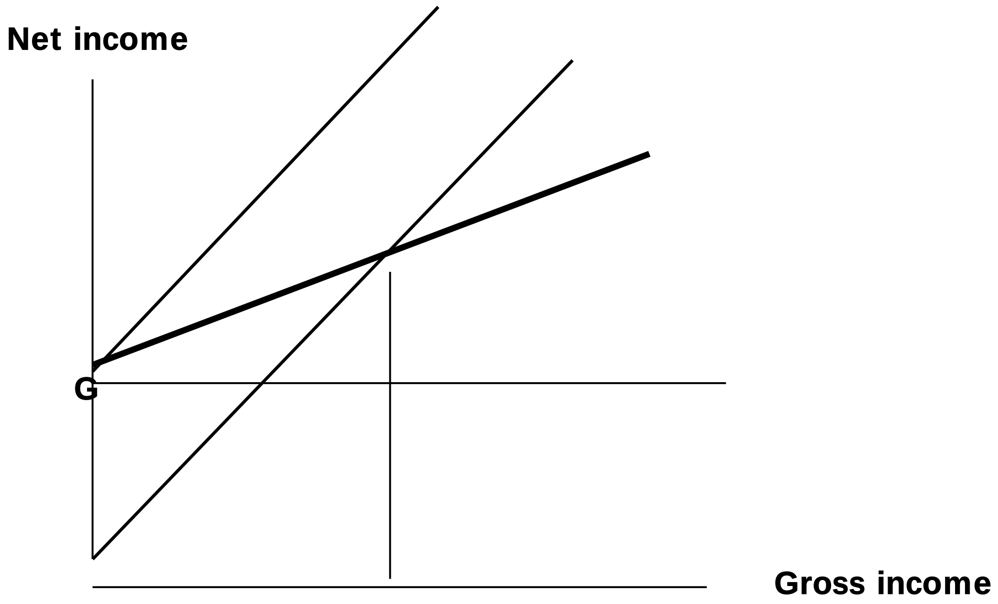

Figure 5: Nonlinear negative income tax (e.g. Mitschke 1985, Godino 1999)

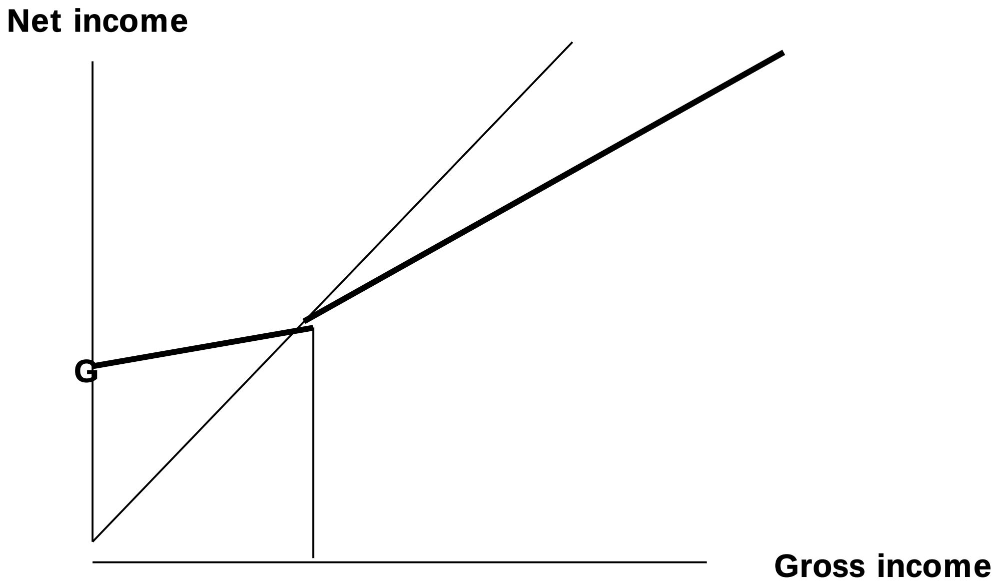

Figure 6: Basic income with low earners' overcharge (e.g. Meade 1989)

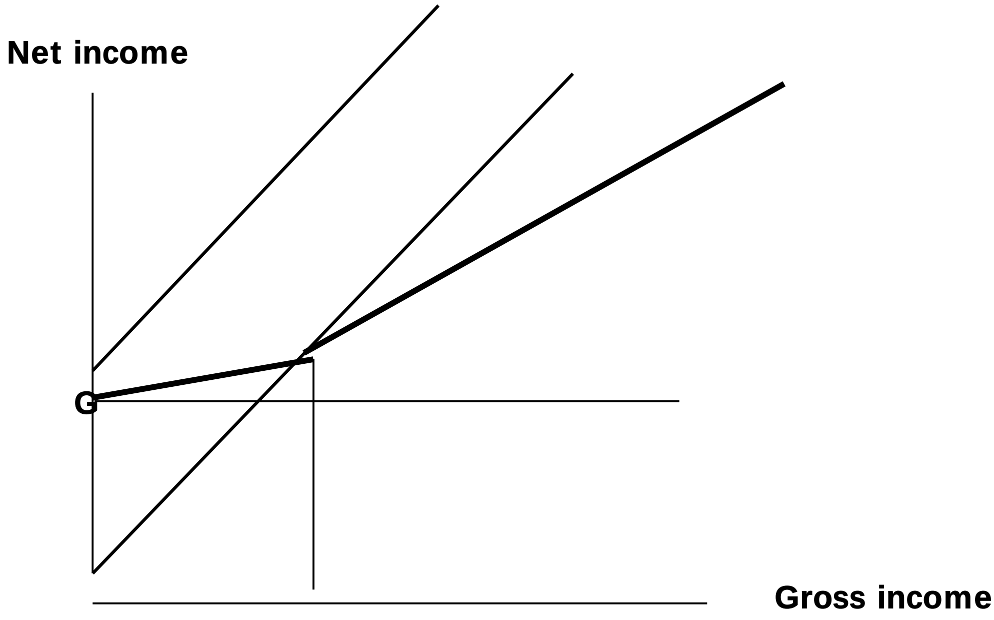

Figure 7: Partial basic income (e.g. WRR 1985, Dekkers & Nooteboom 1988)