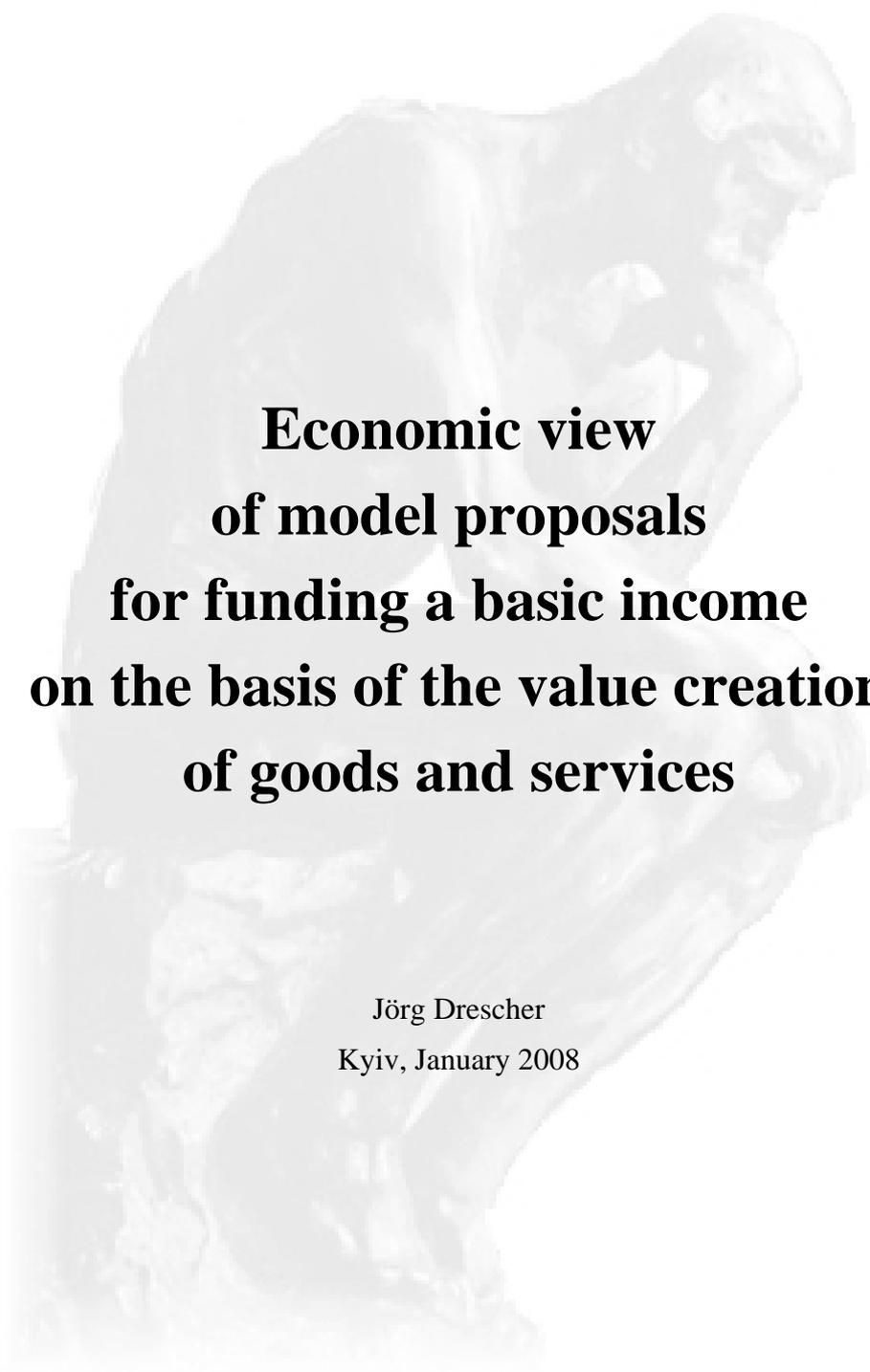


Projekt **JOVIALISMUS**



**Economic view
of model proposals
for funding a basic income
on the basis of the value creation
of goods and services**

Jörg Drescher
Kyiv, January 2008



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Foreword

Still the idea of a basic income is for many people the same spectre, like the communism was. The communism feared lots of owners, that they will be dispossessed. Poor people were given the hope to reach finally the same level like owners (because the communistic idea says, that nobody owns something, but all owns everything).

The idea of a basic income holds on to the idea, that everyone might have ownership, but further it gives everybody the possibility to get ownership.

In opposition to the today's usage of an insurance system, which helps in the case of a need, the idea of a basic income inverts this system, while a case of need is avoided.

The question, why everyone should get a regular payment, can be answered in many ways. Anyhow, background is always the idea, that you need an income in a manufacturing society, which is organized by using an exchange system through money, that you are able to live.¹

Arguments, which say, that nobody won't work with a basic income and there won't be goods to buy, see the human just as consumer. But for sure, there is enough work to be done, because it is further necessary to produce goods, which may be consumed. The big question is just, how we define (paid) work.²

Once, Matthias Dilthey said to me, that it won't be a problem to organize the funding of a basic income, more it would be a problem to distribute the collected money in a fair way³ and which effects these payments could have.

The size of a basic income plays a big role for the work ethics - it shouldn't be too small (enough for living), but not too much, that people may use the offers of additional income by working for the economy.⁴ Human work will further be needed.

Companies should be interested, that people have enough money, that they may buy the produced goods.⁵ Sorrows about subsistence will not apply, if needed money for living is ensured. Moreover, a worker could better concentrate to his/her work and might be more motivated.

It matches my opinion of a "jovial society"⁶: everyone should benefit from all, but everyone should add his/her part for that. This is given by the need to consume and its taxation.

Of course, there are aspects, which speak against this idea, mainly the fear of the politics, how the freed people could be governed.

¹ Appendix: Exchange system and the freedom to say "no" (page 11)

² Essay: "On work" (from Matthias Dilthey), page 23
http://www.iovialis.org/counting.php?file=Dilthey_model.pdf (English)

³ Comparison of the models, page 12
http://www.iovialis.org/counting.php?file=Dilthey_model.pdf (English)

⁴ Urey-Effect for a basic income in "Explanation and substantiation of the taxes of the Dilthey-Model", page 9
http://www.iovialis.org/counting.php?file=explanation_Dilthey_model.pdf (English)

⁵ In the middle of the 20th century Henry Ford increased the wages of his workers, that they can buy more goods.

⁶ Economic system in Jovialism:

The ultimate goal is to establish an economic system which, on the one hand, would allow companies to satisfy people's needs to a sufficient extent and, on the other hand, conduct a tax and social policy, which would allow people to retain enough resources for consumption and use of goods produced in the economy.

<http://www.iovialis.org/?id=1&lang=en> (English)



Others are talking about unforeseeable impacts to the work market and changes in the (work-) behaviour. For sure, there will be a decrease of work, which is done today, because people are (economically) forced (e.g. prostitution). Work, which nobody wants to do, will get more expensive to give more impulsions, that such (necessary) work will be done. This essay should show, that this influences the prices of goods, too.

Further, it's a question, if it is possible, that one country could roll out a basic income on its own, because this country would be like a magnet for people, who want to live from an effortless income.

As conclusion I get the result, that a basic income is payable from an economical point, if it is wanted. In my opinion, the mentioned arguments against a basic income are connected with the fear of freedom, no trust in humans and the ignorance of the idea.

It's neither communism, nor capitalism – but adherents from both parties try to incorporate the idea for themselves.

But the matter concerns neither financing, nor political controllability. Further more the question is: Are we ready and do we have the possibility to realize the necessity to work, to choose, to decide and ... to live? The answer tells more about the ripeness of a human being, than about anything else. Therefore, the discussion about a basic income is also a discussion about the emancipation of mankind.

It's time for a “new enlightenment”⁷ and this essay should help to give an overview about the economical coherences of the production of goods and the discussed models.

Kyiv, 31.01.2008

Jörg Drescher

⁷ <http://www.iovialis.org/?id=0&lang=en> (English)



Introduction

Independently of the (expected) effects of a basic income⁸, in this essay I describe the economic aspects of possible fundings. There is a need, too, to explain, why it is a good idea to pay taxes. The value creation shows, who is finally paying these taxes and how a basic income works with such fundings, including the today's welfare systems.

At first I compare the today's social security system with the idea to finance a basic income through taxation of human work.

After that, I show the derivation to the ideas of professor Götz W. Werner⁹, which are based on a sole value added taxation (VAT). In fact, there is nothing against this idea, if you don't look at a value creation chain. However, if you think about it, this idea has some gaps.

At last I show the Dilthey-Model¹⁰ and how it closes the gaps of Werner's proposal.

At the end I shortly describe another idea: the Alaska Permanent Fund.¹¹ This idea must be mentioned, because it meets the value creation.

Other concepts, like the stakeholder society, aim in fact to social equality and justice, but are not directly comparable with the basic income and therefore are not mentioned here further.

Value creation

The aim of any economic venture is to produce goods by using means of production (MoP) and to generate profits through their sale. Services can be seen as well as goods, with the difference, that MoP is mainly (human) work.

To explain the difference, let's have a look at the work "to do washing". If I wash clothes by hand, I need water and detergent – if I ask somebody else, we call it "service". Water, detergent and human work are MoP to fulfil the service.

If the person is substituted by a washing machine, it's still a service, because the good (clear clothes), we have to pay, is still immaterial.

To produce clothes, we need commodities (e.g. cotton), which are "processed" through work. The good is material.

Form the economic point of view, (human) work is a MoP, which causes costs and will be calculated to the prices of goods. The production of goods is called "value creation" and is defined as followed:

*Value creation is the original aim of any productive activity. It transforms existing goods to goods with higher utility.*¹²

Productive activities **do not aim primary** to supply humans with an income, but rather to produce goods with higher utility.

Value creation is independent of the economic order (e.g. market or plan economy). The economic system tries with its legal framework to organize the supply (production of goods) and demand (need of produced goods). The value creation is influenced by the legal framework and its levy. In the next sections I will describe these influencing factors.

⁸ <http://www.iovialis.org/counting.php?file=BGE-Buch.pdf> (German)

⁹ <http://www.unternimm-die-zukunft.de/?id=76> (English files)

¹⁰ http://www.iovialis.org/counting.php?file=Dilthey_model.pdf (English)

¹¹ <http://www.apfc.org> (English) and <http://www.pfd.state.ak.us> (English)

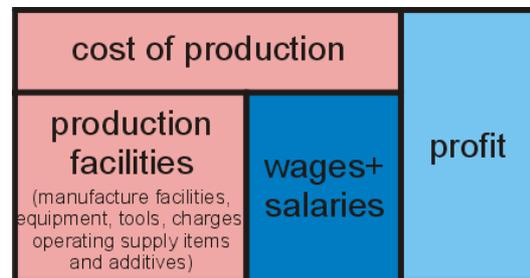
¹² Haller, Axel: Wertschöpfungsrechnung. Schäffer-Poeschel, Stuttgart 1997 ISBN 3-7910-1150-2



Costs of production

To calculate the costs of production, you add production facilities plus wages and respectively salaries. A company produces out of it goods, which are offered with a price premium (profit).

Production facilities are manufacturing facilities (e.g. infrastructure of a laundry), equipment (e.g. washing machines), tools (e.g. to repair the washing machines), charges (e.g. interests for credits), operating supply items (e.g. electricity, water, detergent) and additives (e.g. advertisement). All these things are included in the production facilities, which are necessary for the transforming process of the value creation.



If the transforming process (work) is done by a human, the payment is called wage (e.g. a person, who accept dirty clothes). Salaries (e.g. for a book keeper) are incomes from people, who are not directly part of the production process, but necessary for the company's work. All these wages and salaries must be included in the costs of production, that a company can work with profit.

Taxes

The German „Abgabenordnung“ (General Fiscal Law) from 1977 defines taxes as followed:

*Taxes are cash payments, which are not considerations for any achievements and from a public-legal community for the attainment of income imposed on all, which apply to the fact, the law binds the liability; the attainment of income can be a secondary aim. AO, §3 (1)*¹³

This definition says, that you can not expect any consideration of paying taxes. It rather means, that taxes exist to achieve income for a community, but also to “manage” the sale of some goods over the price (e.g. tobacco, alcohol).

However, this definition doesn't tell anything about the use of taxes or their legitimation. In the German “Grundgesetz” (German constitution) you may find an answer in article 14¹⁴:

(1) *The ownership and the right of succession are guaranteed. Content and limitations are given by law.*

(2) *Ownership obligates. Its use should serve the public welfare at the same time.*

(3) *A dispossession is just permitted for public welfare. It is just allowed by law or in order to a law, which arranges the way and extend of the compensation. [...]*

On the one hand, private ownership (and its succession) is guaranteed, whereas the legislation can give limitations (e.g. that not everyone can own uranium).

On the other hand ownership has to obligate, too. The use (e.g. of manufacturing facilities) should serve the public welfare (e.g. with the provision of goods).

Clause (3) describes the legitimation and use of the levy: dispossession (no consideration for a cash payment) is only allowed for the public welfare. The mentioned law is the German

¹³ I can't say, how it is organized in other countries – it describes just the situation in Germany http://www.gesetze-im-internet.de/ao_1977/_3.html (German)

¹⁴ I can't say, how it is organized in other countries – it describes just the situation in Germany <http://dejure.org/gesetze/GG/14.html> (German)



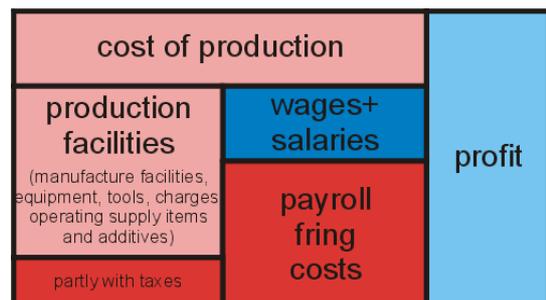
“Abgabenordnung” (General Fiscal Law). The way and extend of the compensation for paying taxes is defined by the German “Grundgesetz”: public welfare.

By requesting taxes the state gets money for the payment of common tasks, which an individual wouldn't pay in that form (e.g. police, officer, politicians and so on; or infrastructure, like streets and so on). Each tax payer doesn't get a direct compensation of his/her payment, but helps the public welfare (e.g. school system, even if he/she doesn't go to school).

The German “Abgabenordnung” (General Fiscal Law) puts the question about what should be taxed to other laws, which define, who and for what you have to pay taxes. This rule remembers to the Latin proverb „*Pecunia non olet*“ (money doesn't stink)¹⁵, because everything can be a matter of fact for paying taxes.

Having analysed the reasons for taxes, let's go back to the costs of production. Taxes are, from the economic point of view, just another cost factor within the value creation, which a company is accounting into the costs of production.

Partly there are taxes on production facilities and (at least) in Germany the main part of taxes is on wages and salaries.



Because taxes are accounted into the costs of production, a consumer finally pays the tax load if he buys goods. But even if a good decays (e.g. bread) or is sold abroad (e.g. machine constructions), the state earns these taxes, which are accounted on the value creation. But let's view this topic more detailed, when comparing the ideas of Werner and Dilthey.

Payroll fringe costs consist today of taxes on wages and of social security payments. These security payments are collected for the social insurance system.

Principle of insurance

The principle of insurance describes basically the collective protection against risks. Payments are collected in one account to pay a compensation in case of an insured event.

Thereby the insurance system assumes, that an insured event is rare. Cases are estimated statistically. Insurance systems work in some aspects like lotteries, because they use probabilities, too.

Legal insurance systems, which are based on the principle of insurance, started in the second half of the 19th century with the beginning of the big industry. In Germany, Otto von Bismarck founded 1883 the first legal health insurance. His comment:

„My idea was to win – or shall I say, to bribe – the working classes, that they accept the state as social institution, which exists for them and wants to care for their welfare.”¹⁶

Beside of this legal insurance, there were some social security insurances from unions and Christian worker associations. After the health insurance an accident insurance followed (1884), annuity assurance (1889) and later an unemployment insurance (1927). The basic principle of insurance coverage still exists in most countries today (2008).

¹⁵ This proverb was said by the roman emperor Vespasian, whose son blamed him, that he introduced an unfair tax for roman toilets. After that, the emperor hold some money under the son's nose and asked, how it smells.

¹⁶ Bismarck, Otto von, *Gesammelte Werke* (Friedrichsruher Ausgabe) 1924/1935, Band 9, S.195/196



The legal principle of insurance doesn't match to the German "Abgabenordnung" (General Fiscal Law), that's why they are called social security payments and not taxes. With an insurance you get only a title on payments, if you did payments. It's like this: the one who is not playing lottery is unable to win something – there is just a legal necessity to play this insurance game. This legal necessity is called "social market economy", whereas the benefit in contrast to a "free market economy" can be seen within this, that if there is a real case of insurance (e.g. unemployment) money is paid.

Aside from how you assert the title of the insurance case, the principle of insurance is like an aftercare: at first there must be a damage (title) before you get something.

The idea of a basic income is more like a foresight: everyone has a title, in order that there won't be an insurance case. Also this matches the criteria of the mentioned compensation in the German "Grundgesetz" at a dispossession (by levy).

Basic income through taxation of income

In principle there is nothing against to tax income, like Milton Fridman proposed with his "Negative income Tax" (NIT). There are some proposals from Germany, which extended this idea and are called "Transfer-limit models" (TL-M) – e.g. from Prof. Dr. Helmut Pelzer or the "Solidarisches Bürgergeld" from Dieter Althaus (CDU). The common of these proposals is, that income is taxed and accounted with a basic income. They differ just in the way how.¹⁷

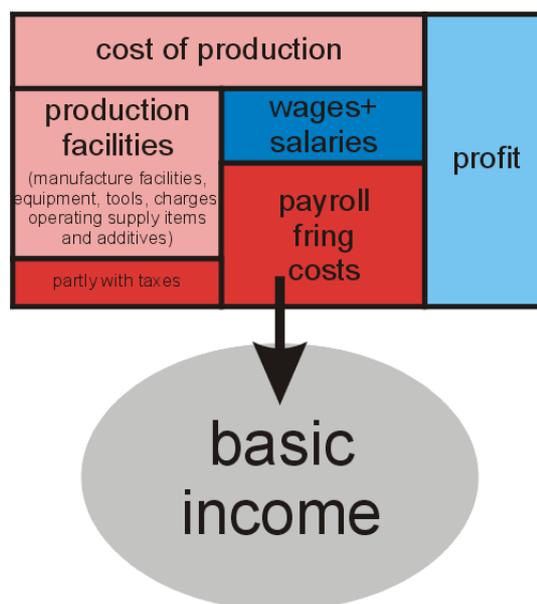
Eventually ownership obligates – this matches what you work out on your own, too. The question is just, if you work out ownership or money, which is necessary for buying ownership.

This question is insignificant for a company. At first, there would be no difference to now and secondly, the tax would be included into the calculation of the value creation.

But if the company will find a machine, which could work cheaper and maybe better, it will replace a human worker with such a machine (e.g. a washer with a washing machine). The income of the company (profit) is further paid by its clients and the company doesn't have to have a bad conscience, because the human worker can survive through his basic income paid by the state (it's a general aspect).

Through the taxation of wages and salaries the basic income would be only paid by human work, which is just a factor of the value creation process. Finally a consumer will pay the basic income.

As a result of this reason, the company leader and professor Götz W. Werner developed his idea to collect all taxes, which are part of the value creation process, in one.



¹⁷ There are studies, which showed with today's income-situation, that these models could work. The main problem is, that the models influence the income-situation, that it isn't sure, how they work in future after their realisation
 Concept of the "Ulmer Model": <http://www.uni-ulm.de/~hpelzer/BG/Text/Titel.html> (German)
 Concept of the "Solidarisches Bürgergeld": <http://www.d-althaus.de/index.php?id=52> (German)
 Study from the "Hamburger Weltwirtschafts-Institut" (Institute of world economy in Hamburg), that it could work:
<http://www.d-althaus.de/fileadmin/PDF/Grundeinkommen-Studie.pdf> (German)



The consumption tax from Werner

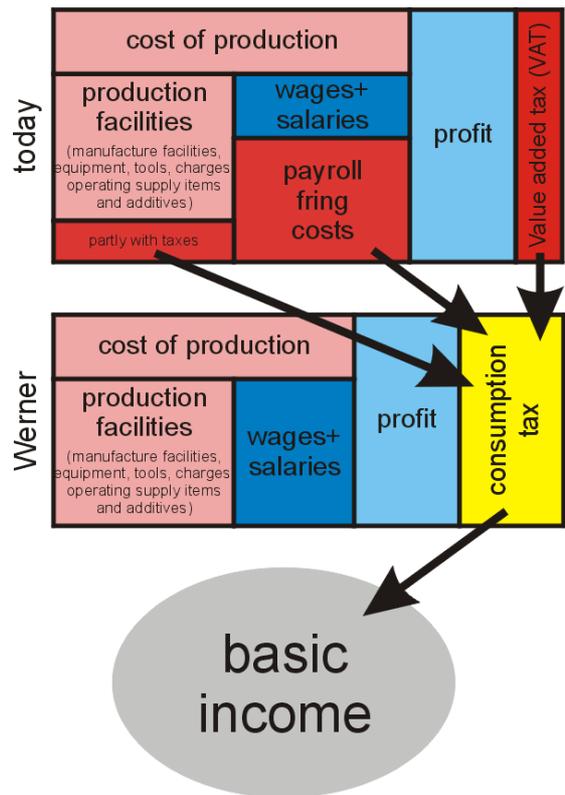
Even today there is a value added tax (VAT), which taxes the whole value creation process. As shown before, this process includes wages and salaries, too. These payments are taxed once more through the value added tax.

Finally a buyer will pay all taxes, which are part of the value creation process.

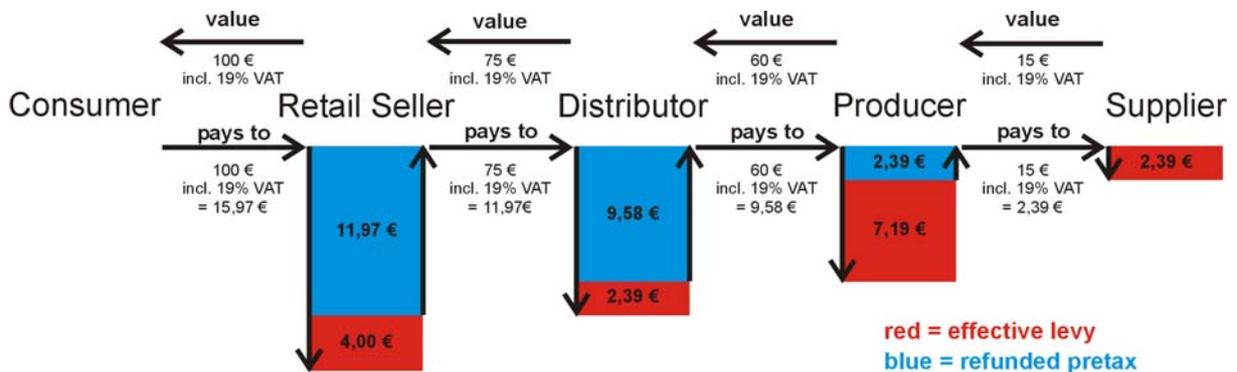
The proposal from Werner foresees to collect all these taxes in one consumption tax and put it to the invoice of a buyer. The income out of this tax can be used for forming a basic income.

If the buyer is a company, which is allowed for input tax deduction, it can (like today) ask for the paid VAT at the state - although the company “consumed” goods from another company to produce goods with higher utility.

If a product isn’t sold (or black sold), decayed or sold abroad, there is no levy for the state, because the company will ask for the paid VAT. Anyhow, in a value creation chain there was “consumption”. After the proposal from Werner the real production is completely free from taxes.



Here an example with the German VAT (19%) in a value creation chain to show, how the input tax deduction works:



Beside of the mentioned problems, the consumption tax will be quite high. If it is omitted, a big sum gets lost. Moreover the German “Grundgesetz” says: ownership obligates, which would mean, that the production (seen as temporary ownership) should be taxed as well.

Matthias Dilthey closed these gaps by forming a gross all-phase tax.¹⁸ He called it social sales tax.

¹⁸ Actually it was not the idea of Matthias Dilthey, in fact in Germany it was handled from 1916-1968, but changed for harmonisation of the VAT-system in the EU to a input tax deduction

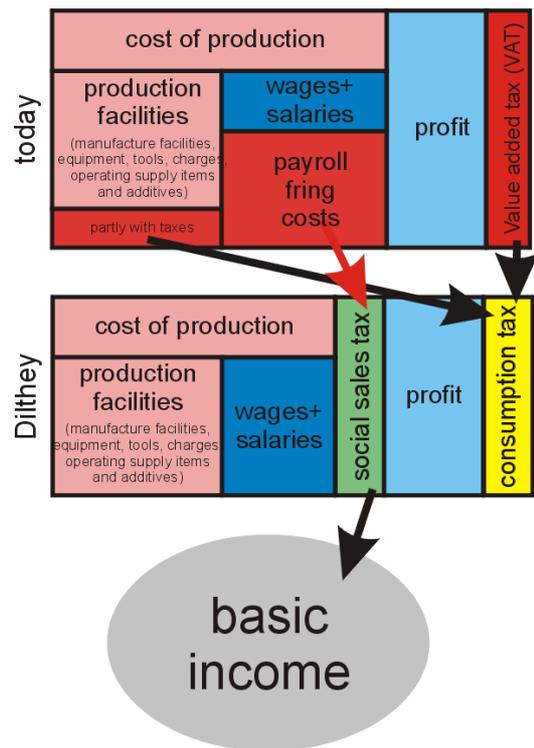


Dilthey and the social sales tax

On the first view there is no difference between the proposal from Werner, but just, that the consumption tax is divided into a social sales tax and a VAT. Dilthey compares today's payroll fringe costs with his social sales tax.

Due to that it can be reached, that the real production is taxed and not just human income. As shown with the example of a laundry, now it is unimportant, who is doing the washing – either a human or a machine. By having a social sales tax, the production is taxed just for funding a basic income – therefore the name “social sales tax”. It must be always paid and it isn't a value added tax on input.

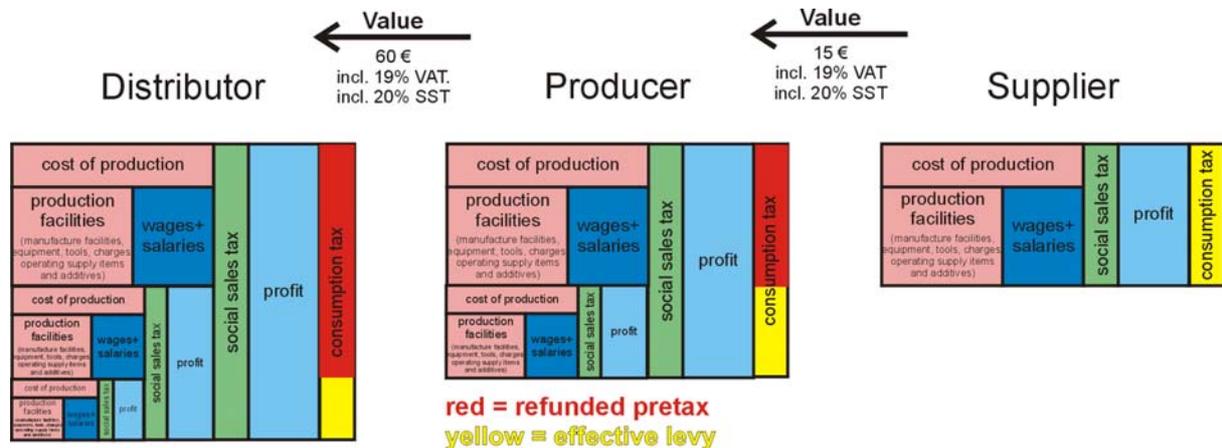
The further existing consumption tax (like today's VAT) is for payments of the state. This division doesn't exist in other models – there, the state-payments are financed by that, what is left after the basic income payments.



Another, but essential difference to the proposal of Werner becomes clear, if you look to a value creation chain. Even if a product isn't sold (or black sold), or decays or is sold abroad, there is still the social sales tax for funding the basic income.

Dilthey hopes, too, that the chain will be shorten (the tax “manages”).

Here an example of a value creation chain, at which the tax rates are fictitious:



Other ideas for funding a basic income

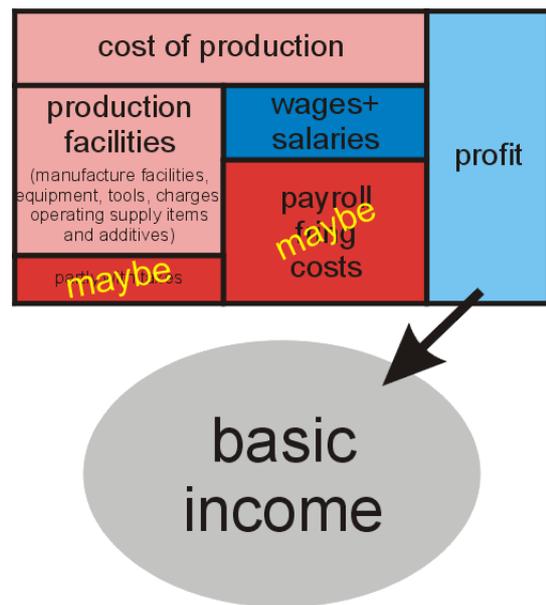
A real example: Alaska Permanent Fund

Regardless if the payment of the Alaska Permanent Fund is enough for living or not, this idea shows another aspect for funding: sale or rent out by state.

States (all people within an area) can be owner of land, commodities or companies, which produce something everyone needs (e.g. energy).

If we have a look to the value creation, the profit by sale or rent can be used to finance a basic income. Finally the costs are paid by a consumer. In comparison to the VAT-idea, there is no difference:

VAT is the profit (for a state) from all sold goods.



Appendix: Exchange system and the freedom to say “no”

Physical laws give a person the opportunity to simply take everything there is around him/her. Restrictions are set only by his/her ideas of moral and ethic.¹⁹ The use of an exchange system significantly influences these ideas.

An exchange system gives default ideas about moral and ethic: quid pro quo – you are allowed to take just the amount of goods as you have means of exchange.

Bertold Brecht once wrote: “First you think about food, then about moral”. In general it means that physical laws are stronger than (self-)imposed rules.

But the use of an exchange system affects the freedom of a person: he/she could take everything he/she wants, but the system says “no”, if he/she has no money.

The only sensible reason for an exchange system is the fact that otherwise a person would take things beyond any measure. Means of exchange should create in common accepted limits of this freedom.

In any case, the exchange system implies neither the fact that a person may struggle for means of exchange without limit, nor the situation that the exchange system interferes an individual in that case, if he/she has no means of exchange in his/her disposal.

Let’s have a look to the system:

If you go to a seller on a market, he would say “no”, if you just want to take something. You are (usually) not allowed to take something without giving anything. If you take it anyhow, he/she would call the police to underline his/her “no” and you might be called a thief.

But as an intelligent person, you may ask the simple question: why am I not allowed?

Now the seller has to explain, why he/she influences your freedom to take something without giving anything. His/her substantiations may vary, but mainly he/she will explain, that he/she did or paid something for the possibility to sell the goods you’d like.

But if the seller is as clever as you, he/she will ask, why you influence his freedom to say “no” and why you just take things, which are not yours. In this case your substantiations could vary, too, but mainly you will explain, that you want to maintain your life.

After this discussion, it depends on the seller’s comprehension, if he/she changes his/her “no” to “yes”. But he/she will be very careful, that nobody will hear his/her answer – consequently there could come another person, who wants something without giving anything, too.

That such discussions won’t occur each day, but the positive effects of an exchange system will stay, there is the idea of a social system. But the today’s usage transfers this discussion just to another place:

The provider of social help (usually the welfare system of a state) wants to know (verified), why you ask for money. You must prove, that you have no income to maintain your life. Actually it’s the same discussion as on the market.

An exchange system influences the freedom “to give” (to say “yes”) and the freedom “to take” (by saying “no”). An unconditional basic income describes a “silent agreement”, that everybody within an exchange system needs means of exchange to maintain his/her life, but also that the exchange system limits the amount one person can take.

¹⁹ In Buddhism there is a golden rule: *I take the decision, not to take things, which aren’t given to me*

