Universal Basic Income Funded by the People [1]

- A funding model for UBI in 6 questions and answers -

1. What is it, 'UBI funded by the people'?

There are many ideas as to how a UBI should be funded. This is the one of a UBI funded directly by those it concerns: the people.

2. How does it work?

This UBI works in two stages:

A.	As it is acquired, each citizen[2] discounts a proportion of their income for a common fund: the 'UBI Fund'
B.	At the end of each month, the Fund's accumulated total is equally and unconditionally distributed by all

> *About the proportion that these discounts will have on the income of the citizens see **endnote 1**. As to how both of these stages may be converted to one, with the same result, see **endnote 2**.*

This way, <u>each citizen will simultaneously be funder and beneficiary of the UBI</u>.

The <u>role of the State</u> will be to: **i)** abolish personal income tax, thereby affording each citizen the capacity to contribute to the UBI without overburden; **ii)** manage the UBI Fund, collecting the contributions from, and distributing the shares to the citizens (which will not bring any additional complications or costs to the State, as the necessary practical and human resources are already part of the State's arsenal, and available for reassignment once personal income tax is abolished).

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[1] The original Portuguese version of this document was presented in 2015, simply as a funding proposal for a UBI in Portugal. It was later welcomed by the activist group then called "RBI Lisboa", of which the author was part. Among this group, rather than a simple funding model, the proposal was seen as an alternative scheme of wealth distribution capable of establishing an UBI with very specific characteristics, namely that beyond being funded, it is also controlled and leveraged by the common people, based on solidarity, in which all see themselves as peers. The Lisbon activist group called the proposal "Rendimento Básico Incondicional de Todos para Todos" (Unconditional Basic Income of All for All), and adopted the name "Movimento RBI-TT" under which it operates today.

[2] Translator's note (hereafter t/n): by citizen, it is meant all registered inhabitants of a given country.

3. What will be the value of the UBI paid to each citizen?

The value to be paid to each citizen will very much depend on at what level it is decided to place the percentage of income that is to be discounted to the common fund (see **endnote 1**). It will also, of course, depend upon what that income might be at each moment.

Despite being dependent upon these variables, we can get some idea of what value this UBI would have making the following calculus, based upon data for 2012 (the most recent year with published numbers)[3]:

- For tax purposes, the Portuguese declared ~83 billion euros in earned income for 2012;

- Hypothesising a functioning UBI for that year, based on a 50% of income discount, ~41 billion euros would have been transferred to the UBI Fund;

- Equally distributed by all ~8,000,000 of Portugal's adult population, this fund would have permitted a payment of ~€5,220/year, or **~€435/month**, for each one.

*About certainties and uncertainties surrounding these values see **endnote 3**. About the possible results of a distribution to also include the minor population see **endnote 4**. About things to keep in mind when evaluating the reasonableness of the level of discount suggested, 50%, see **endnote 5**.*

4. What are the costs of this UBU?

- For each of <u>citizen</u> the cost will be the difference between what s/he pays into and what receives from the UBI Fund (obviously, this difference will only signify a cost when the amount paid is greater than that received, which will only be true of citizens with above average incomes).

  This way, if each citizen pays 50% of her/his income to the fund, and receives from it €435 per month, the result, in terms of benefit, will be the following for each of the indicated levels of income (per person per month):

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[3] t/n: all cited data refers to Portugal, the author's country of residence.

Starting gross € monthly income	€ discount to UBI Fund	€ UBI received	Final net € monthly income	Cost of UBI	
				In € value	In % of income
[A]	[B]=[A]x50%	[C]	[D]=[A]+[B]+[C]	[E]=[A]-[D]	[F]=[E]/[A]
0	0	435	435	-	-
870	-435	435	870	0	0%
1,200	-600	435	1,035	165	14%
2,500	-1,250	435	1,685	815	33%
10,000	-5,000	435	5,435	4,565	46%

In conclusion: this UBI will carry costs (only) for those who have an income superior to €870 per month and, for each of these, those costs will be progressively higher the greater their income. For the wealthiest citizens the cost comes near half their income (without ever reaching that mark).

- For the State this UBI will not carry any direct cost, but will have as an indirect cost the loss of personal income tax revenue, which will be abolished. This cost, in annual terms, based on 2012 figures, is ~9 billion euros.

Despite that, the implementation of the UBI will be neutral, or even positive for the treasury. This because will render obsolete an important group of current programmes for social support, anti-poverty and promoting employment, among others. Programmes which should thereby be eliminated or reduced, freeing up sufficient funds to compensate the State for the loss of personal income tax* revenue. In addition, by drastically reducing poverty with its many related problems, the UBI will allow significant savings in public health, education, security, etc., further diminishing State outlays.

A more in-depth and quantified analysis of these savings, and their comparison with loss of revenue, can be seen at: http://pt.scribd.com/doc/234401935/NIT-Em-Portugal [4].

*As to why a single figure for the cost of the UBI is not offered here see **endnote 6**.*

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[4] In the original version of this paper, for a detailed quantification of the savings that, at the Portuguese national level, the implementation of this UBI model would offer, the author refers the reader to an earlier document, entitled "Negative Income Tax in Portugal – analysis of figures", of which no English translation is available.

In that paper, the author estimated the direct savings that a UBI could have brought to the Portuguese public accounts had it been implemented in 2012. He did so quantifying them in three different scenarios, in each of which he added up the amounts applied in different sets of social programmes functioning in Portugal which the introduction of a UBI would render needless in accordance to three different criteria (one for each scenario). In this way obtaining values that he considered demonstrative of the fiscal neutrality of a UBI, or even of its potential positive impact on the accounts of the State.

5. **How does everyone fair: who will win and who will lose with this UBI model?**

Knowing who will win and who will lose with the introduction of this UBI, and how much will that gain or loss be, requires a comparison of **i)** the cost or benefit that the UBI will bring for each one in accordance to the level of their income (according to the analysis made in number 4 above), and **ii)** the personal income tax contribution that the same level of income currently requires. The results of this comparison are (assuming a 50% discount rate for the UBI Fund, and €435/month UBI payments):

Starting gross € monthly income	Current situation		Final net € monthly income	With UBI	UBI vs. current situation	
	Income tax withheld*			Final net € monthly income	Difference in € amount	Difference in % of income
	%	€ amount				
[A]	**[B]**	**[C]=[A]x[B]**	**[D]=[A]-[C]**	**[E] ****	**[F]=[E]-[D]**	**[G]=[F]/[A]**
0	0,0%	0	0	435	435	∞
870	8,2%	71	799	870	71	8%
1,200	12,7%	152	1,048	1,035	-13	-1%
2,500	25,9%	648	1,853	1,685	-168	-7%
10,000	39,1%	3,910	6,090	5,435	-655	-7%

* Income tax withheld applicable to income from salaried work or pensions, earned in 2015 by married taxpayers, with two dependents and residing on the continent. (These tax rates vary depending on the personal circumstances of each individual. In addition, they do not necessarily correspond to the final rates of taxation. Therefore, the values obtained here are merely illustrative.)

** Detail of how these values are reached in the previous table.

In conclusion: The UBI will bring very significant increases in income to all those for whom it is currently zero or very low. From here arises the first of its powerful effects: an <u>immediate and drastic reduction in poverty</u>. The incremental increases in income will be small for those who already have or are near an average income, becoming progressively less until they disappear for those with gross incomes nearing €1,200/month. All those above this level will lose income with Introduction of the UBI. However, under the simulated conditions, this loss should not stop being moderated at any income level (in fact, despite the cost of the UBI growing significantly with increases in income, the penalty brought by its implementation, in comparison to the current situation, does not increase in the same way. This is because the current income tax scheme is already progressive, and the distribution of the UBI's cost to the highest incomes is in line with this current progressivity of income taxes).

From the point of view of the citizen with income clearly above the average, acceptance of the direct personal cost that the UBI carries may be facilitated by the following factors: **i)** as discussed above, this will not be a significant cost (in fact, greater losses of income were imposed on the Portuguese population in recent years, and without any

noticeable benefit); **ii)** implementation will be directly linked to broad and very visible social benefits; **iii)** and will have as a direct and personal return the creation of a permanent safety net, including for those who are presently well off, their children and grandchildren, for whatever may come, and leeway for all sorts of life-change options they may want, or come to want to take. This liberation is another of the great effects of the UBI.

6. **Why this funding model rather than another?**

- Because this model confers legitimacy to the call for a UBI: being paid by the people, the implementation of a UBI should only depend upon the will of the people.

- Because this model is transparent: The UBI Fund will be completely independent from the State's budget. It will belong to the citizens and will not be available for any use which will not redistribute it back, equally and unconditionally, to all of them.

- Because this model is sustainable: beginning by collecting the available part of existing resources, to then distribute the results of that collection, will guarantee a UBI firmly based on reality.

Endnotes:

1 – The proportion of the discount for the UBI Fund on the income of the citizens

In this model citizens will contribute a part of their income to the UBI Fund, based on a rate (single) or a set of them (as in the current Portuguese personal income tax scheme). The rate or rates may be set at any level. This will be a political decision and the system will work regardless of what it may be. However, the higher this or these rates, the more money the fund will have and the higher will be the UBI distributed.

2 - How the 'two stages' can be converted into a 'single stage', with the same result

The 'Negative Tax' model (as proposed by Milton Friedman) converts a mechanism in which the same citizens both make payments to the State and receive them back from the State, into another where only one payment occurs, corresponding to the value of the difference between the two previous ones. For example, a citizen who in the 'two stage' model should contribute €500 to the UBI Fund and then receive €400 from the same, in the mechanism of the Negative Tax (one stage) would pay the fund €100 and would not receive anything back.

All values given in the above 6 points are valid for either model. The two models differ in how they function but not in their results.

3 - Certainties and uncertainties of indicated values

The value of ~83 billion euros corresponds to the total income declared by all citizens for 2012 personal income taxes. But this is not the total value of the citizens' incomes, which will be higher. The difference is: 1) in income not declared to the State to avoid taxation, and 2) in income not declared to the State because the law does not provide for its declaration or taxation. This second factor should no longer represent a difference between the total income of citizens and the basis of contributions to the UBI. This basis should be defined as the total income of citizens, differing in that from that of the current income tax system. That being so, in this same scenario of 2012, the discounts for the UBI Fund would be made based on a value (unknown but) higher than ~83 billion euros; the value of contributions to the UBI Fund would be (unknown but) higher than ~41 billion euros; and the amount distributed monthly to each adult citizen would be in reality (unknown but) higher than €435/month.

However, it must be recognized that this increase in the UBI by increasing the base of contributions could in the end be offset by adverse effects caused by the very introduction of the UBI, such as an overall decrease in paid activity by citizens, or the return, motivated only by the UBI, of a large number of emigrants.

4 - The possible result of a redistribution to include minors

The same ~41 billion euros, with which it was possible to allocate ~€435/month to each adult citizen, will, alternatively, also permit, if we want to include minors, the allocation of ~€414/month for each adult and ~€83/month for each minor[5].

5 - The reasonableness of a 50% discount rate over all income

For the citizen, to deduct 50% of their income for a common fund like this UBI Fund will be very different, in terms of the effects on their individual financial sphere, than paying a personal income tax at the same rate of 50%.

The contribution to the UBI Fund will be directly associated to (will create) a financial benefit: the receipt of the UBI. Therefore, the weight placed on the citizen by this contribution has to be measured with the counterweight of this benefit taken into account. In this case, the weight and the benefit do not exist without each other, which does not happen with any existing tax (no citizen can demand a direct personal benefit from the State for having paid a tax).

So in this model, someone who has, for example, a monthly income of €870 will be asked to contribute €435/month (50%). But, because of the same mechanism that requires the

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[5] This is an example based upon arbitrary values intended only to demonstrate how such an alternative scheme might work. The calculation was: Portuguese population 8,000,000 adults + 2,000,000 minors. UBI for adults only: 8,000,000 x €435/month = €3,480,000,000/month. UBI to include a payment to minors of 20% of the value paid to adults: (8,000,000 x €414.29/month) + (2,000,000 x €82.86/month) = €3,480,000,000/month.

contribution, he will soon have guaranteed the receipt of €435 (in the same scenario). For this citizen the UBI will not have a cost of €435; In fact, it will not have any cost.

For this reason, a hypothetical 50% rate for the UBI Fund would really mean, for the overwhelming majority of citizens, a much smaller effort than it may seem on first sight.

6 – Why not simply present a global figure for the value of the UBI

We are used to programmes with a funder on one side and a set of recipients on the other. But this UBI will be a network connecting many points, and in all of them you can have both funders and beneficiaries simultaneously. This requires a different approach than usual in quantifying costs, to know not only how much it costs, but how much it costs to whom, at every point in the network.

It would be possible, of course, to calculate the sum of all contributions across the network. The value of this sum would not always be the same over time, it would vary with inequality. If one day there is no inequality at all this UBI will have no cost to anyone. But if inequality increases the total cost of the UBI will also increase. An increase borne by those who are richer, as the benefit increases for the poor.

The cost of this UBI, given its diffuse nature, is dispersed across the network; it is ambiguous, because what is cost at one point is a benefit at another. Therefore, the cost must be determined in its individual effects, felt at each point of the network, because this is what has meaning and utility; not a total value, which would not, after all, be the cost to anyone.

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