The Eurogrant

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Published in *BIRG Bulletin* (Basic Income Research Group, London) n°15, July 1992, pp. 4–7

Presented at the 4th Conference of the Basic Income European Network, Université de Paris-Val-de-Marne, 18-19 septembre 1992

[NB: Tables are missing]

In June 1985, the Dutch Scientific Council for Government Policy handed in to the Dutch government a controversial report which recommended the introduction of a low but fully individual and unconditional income (or "partial basic income"), financed by an increased taxation of the firms' value added and accompanied by a corresponding reduction of other benefits and post-tax wages (see WRR 1985). This is still to date the only official proposal of a genuine basic income that has been made in Europe. The Dutch government turned it down. Prime Minister Ruud Lubbers says why in a long reply to the Council's report. Commitment to the principle that work and income should remain closely associated played an important role, but also the conviction that "it is not easy to imagine that the Netherlands could carry out such a large operation in isolation", mainly because of the migration capital which the latter would bring in its wake (see Lubbers 1985: section 2.3.1). If this is true, and if similar propositions hold for the other member States of the European Community - which is more likely than ever at the eve of the Single Market -, it is more than urgent that those advocating basic income should start working out detailed proposals for the introduction of what we shall call a *Eurogrant*, i.e. an income unconditionally granted to all permanent residents *of the European Community* on an individual basis, without means test or work requirement.

The path briefly illustrated by the Dutch discussion on basic income provides one way in which one can be led to think about a Eurogrant. But it is not the only one. Despair at the prospect of ever being able to give any substance to the European Social Charter by integrating or harmonizing highly different social security systems, speculations about ways of protecting farmers' incomes without the rigidities and wastes of the common agricultural policy, concern with the standard of living of the poorest in case a European tax on energy is levied at a level that matches the associated environmental costs, the tension between achieving solidarity on EEC scale and preventing member states and their regions from making others pay for the consequences of their decisions, all these considerations point to further paths along which people not previously interested in basic income can hit upon the same idea.

In this short article, we shall not try to provide anything like a systematic case for a Eurogrant from any of these perspectives, nor to

provide anything like a detailed, realistic proposal. All we are aiming at is to get the discussion started by spelling out one rough scenario, calculating some of its implications and thereby pointing out a number of difficulties which must be faced and solved if we are to go forward along this route. At several junctures, our calculations are based on rough approximations. But the orders of magnitude revealed by our inquiry can safely be considered accurate enough to provide a useful point of departure. Here is, then, the scenario we would like you to think about.

A small grant funded by ecotaxes

The Eurogrant, introduced, say, at the same time as the ECU (and as a way of making it gain a badly needed popularity), consists in a small grant paid unconditionally to every grown up European and financed by a uniform European tax on energy. More precisely, each person over 18 who is a permanent legal resident of an EEC country is to receive every month onto his/her account a grant of exactly 100 ECUS (about £17 a week), whatever his/her income from other sources, family situation, ability or willingness to work.[1] This Eurogrant is being financed by a uniform tax on the use of all types of energy at a level that significantly exceeds current levels of energy taxation in EEC member countries. Why choose this source of funding? A strong negative reason is that any substantial harmonization of social security contributions or personal income tax schemes is most likely to raise formidable political difficulties. A strong positive reason is that political decision makers are now increasingly aware of the need to dramatically increase the taxation of energy on a European scale, but are held back by the fear of worsening the competitiveness of their country and by concern with the negative impact any such measure would have on the material situation of the poorest households. Levying the tax on European scale and distributing the proceeds in the form of a Eurogrant could go a long way towards abolishing these obstacles. The whole scheme could be viewed, at least roughly, as a attempt to make consumers pay the true cost of the (very unequal) benefits they get out of industrial society, while compensating residents in uniform fashion for the (roughly equal) nuisances they have to put up with as a consequence of industrial society.

The tax base consists of all energy uses of oil, gas, coal and electricity. Non-energy uses, for example the use of oil as raw material for the production of plastic, are excluded from the tax base. And so are, to avoid double counting, the uses of coal, gas and oil in the production of electricity. Such uniform taxation can in principle be designed in either a multiplicative or an additive variant. In the multiplicative variant, an equal *percentage* tax is applied to the pre-tax prices in each country. The problem with it is that pre-tax energy prices vary considerably from one country to another, and that the impact of such a tax would therefore further deepen price differences and unfairly penalize countries which, for whatever reason,

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[1] To get this figure into perspective, note that the (unweighted) average level of the guaranteed minimum income for a single adult in the member States which possess such a scheme is about 350 ECUs (1987-88 figures, quoted in Milano 1989).

already suffer from high energy prices. The additive variant solves this problem by imposing an equal *absolute* amount of tax on each unit of each particular type of energy. It is, moreover, more in tune with the aim of reflecting the social cost of energy production and consumption. (There is no reason why a unit of energy whose pre-tax price is higher should be assumed to be more damaging for the environment.) This is why our scenario opts for the additive variant. It also opts, but only for the sake of simplicity, for a tax that is not differentiated according to type or source of energy. Electricity, for example, is taxed at the same rate, whether produced in thermic, hydroelectric or nuclear power stations. Whatever the source or type of energy, each ton-oil-equivalent (or TOE, corresponding to a calorific value of 41860) gives rise to the same absolute amount of tax. A more sophisticated scenario could incorporate some degree of differentiation so as to reflect more finely estimated social costs. But this refinement, if judged desirable, does not matter for our present purposes.

How much does each TOE of energy need to be taxed if the Eurogrant is to be financed in this way? We can easily find out by multiplying the proposed level of the Eurogrant by the total population over 18, and dividing the result by total energy consumption, expressed in TOEs. This yields a required level of tax of 425 ECU per TOE. Is this much? It certainly is compared to the current level of taxation, which averages close to 100 ECU per TOE. It already looks quite a bit less formidable if one compares it to the proposals made in 1991 by the EEC Commission (see Table 1). And it even starts looking very sensible when put side by side with the most generous estimates of the environmental costs of the consumption of various types of energy made in 1989-90 by various groups of European experts (see Table 2). According to these estimates, the yield of a tax that would capture exactly the estimated social cost would finance a Eurogrant of about exactly 100 ECU. Arguably, therefore, the proposed funding scheme does nothing but internalize externalities, i.e. make energy consumers pay the true cost of their consumption choices.

Massive international transfers

Let us now look at the differential impact of the scenario on the various European countries. Which country would gain, and which would lose from the introduction of the ecotax-funded Eurogrant? To find out, it suffices to work out, on the basis of (1) the size of its adult population, (2) the total amount each country would receive in Eurogrants, and compare the latter amount to (3) its contribution to the yield of the energy tax, which is itself determined by the number of TOEs it consumes, or by its total adult population multiplied by (4) its energy consumption per adult. The difference, i.e. (5) each country's net contribution to or net benefit from the redistribution scheme, appears at the bottom of the next table (Table 4), where it is compared to (6) the redistributive impact of present-day structural funds (Regional Development Fund and European Social Fund).

The gainers under the proposed scheme are of course the countries with below-average per capita energy consumption (Portugal, Spain, Ireland, Greece and Italy, in that order), and the losers the countries with above average energy consumption (Luxemburg, Belgium, Germany, the Netherlands, Denmark, the United Kingdom and France, in that order). The extent of the gains and losses is not perfectly correlated with per capita

GNP, as current energy consumption is affected by many other factors, including industrial structure, climatic conditions, current energy taxation, pre-tax energy prices, etc. It is worth noting, however, that with the exception of the United Kingdom, which is turned from a small gainer into a small loser, net beneficiaries and net contributors are the same as under the current system of transfers. But the most striking outcome of the comparison is that the extent of international redistribution, as simply measured, for example, by the total amount transferred from net contributor countries to net beneficiary countries passes from 2664 to 37918 Mio ECUs, i.e. *is multiplied by 14*. Even with a basic income as low as 100 ECUs a month, European solidarity would be fourteen times stronger than in the form it now takes via the structural funds, quite apart from the fact that, being fully individualized, it would be far more certain to reach the poorest in the poorest areas than the current arrangement is.

Gains and losses for national budgets

Needless to say, this change in the size, if not in the direction, of international transfers is only one of the immediate effects of the proposed measure. Another is the move of some tax revenues and some government (or other publicly controlled) expenditures from the national to the EEC level. In response to the introduction of the Community tax and grant, governments will presumably all give up their own energy taxes, if only because maintaining these would raise the price of energy far above what is justified by its social cost, and they will as a result be left with a revenue loss that is the greater, the heavier energy is currently taxed. The corresponding amounts (1) are shown in Table 4.

What can national governments do to offset this loss of revenue? One option worth exploring consists in reducing all existing transfers to adults (pensions, unemployment benefits, disability allowances, guaranteed minimum income, tax deductions for one-earner families, etc.) by 100 ECUs per person and scrapping altogether all such transfers that amount to less than 100 ECUs. The rationale for such a measure would of course be that, due to the introduction of the Eurogrant, the net (money) income of social transfer recipients would not suffer as a result of it. Table 4 shows (2) the savings that would thus be made by the various countries, (3) the net effect of the abolition of national energy taxes and of the proposed reduction in nationally financed transfers[2], and, for the sake of comparison, (3) current net borrowing requirements. Our rough estimates suggest that the package, as described so far, could be used by some countries (Spain, Portugal, the UK) to reduce their public deficit, while it would worsen the public deficit of the others (especially France and Italy). In this simple version, however, the package is not acceptable, since it would involve a fall in the real incomes of social transfer recipients, as their unchanged money incomes face the higher cost of living that would result from the

[2] Our calculations underestimate the savings that could be made in this spirit, because they ignore the tax credits or rebates which would lose their point if a basic income were introduced.

replacement of national energy taxes by the higher European tax. In order to deal with this problem, one might think of different strategies.

National governments may for example choose to reduce social transfers by less than the amount of the Eurogrant, thus allowing the lowest incomes to increase sufficiently to cancel out the rise in the cost of living generated by the heavier taxation of energy. Countries which currently tax energy comparatively little (and in which, therefore, the cost of living will have risen substantially) and countries in which energy-intensive goods account for a comparatively large share of the consumption of the poorest households (and whose benefit recipients, therefore, are more affected by the price rise) will enjoy comparatively little leeway for reducing nationally funded social transfers. And the smaller the savings thus made, the more money will have to be raised through different means in order to make up for the the national energy taxes foregone.[3] Alternatively, governments may stick to a reduction in social transfers by a full 100 ECUs, while negotiating a reduction of all net wages by the same amount - thus leaving the workers' net incomes unchanged -, in order to reduce labour costs and largely offset, on average, the upward pressure on the price level due to higher energy taxation. The package would then involve a sizable change in the relative costs of labour and energy and justify the expectation of a significant medium-term impact on the demand for labour.[4] One advantage of this scenario is that governments would not have to tinker much with their tax systems in order to adjust to the vanishing of their revenues from energy taxation. But can one really expect the dynamics of prices to keep the net effect on the cost of living roughly neutral? And do enough countries possess the institutional instruments or political mood required to implement national incomes policies of the required sort?

Open questions

Our brief exploration, no doubt, raises more questions than it solves. The two we have just asked are just two of the many it leaves open. By way of conclusion, let us just state a few more that are bound to be asked, together with a hint at how we would respond.

(1) Our exploration has shown that even a very low Eurogrant (about £17 a week) implies a considerable level of redistribution across member countries. Is this not far more than the net beneficiary countries will be willing to bear? Should the level of the Eurogrant not vary, if only for a transitional period, according to a country's average income or some index of the cost of living? Would the increase in net international transfers be

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[3] The net tax burden on the European population need not increase, as the European energy tax is matched by the distribution of the Eurogrant, while the new taxes to be raised reflect the abolition of national energy taxes. However, the net tax burden on the population of countries which consume comparatively large amounts of energy does increase, as the energy taxes raised in these countries exceed the amount redistributed in them in the form of Eurogrants.

[4] As does the package worked out in the report by the Dutch Scientific Council for Government Policy mentioned at the beginning of the article (WRR 1985).

significantly reduced if the introduction of the Eurogrant were coupled to a realistic shrinking of the Common Agricultural Policy? In dealing with such questions, let us bear in mind that the Single Market unavoidably involves a major increase both in the opportunities of the more dynamic regions and in the vulnerability of the weaker ones. A significant and permanent transfer mechanism of the sort we advocate may well be an essential instrument for alleviating the intolerable strain that would otherwise result.

(2) Our exploration has also shown that this low Eurogrant would require an average taxation of energy of 425 ECUs per TOE. Is not the aim of such a policy a fall in the absolute level of energy consumption, and hence an erosion of the tax base? Whether or not this is the case, can European energy taxes be supplemented to make room for a gradual increase in the Eurogrant? In thinking about this second set of questions, let us bear in mind that the proposed tax scheme may have a significant impact on energy consumption - in the sense that it makes energy consumption far lower than it would otherwise have been - even under circumstances in which aggregate consumption does not decline. Needless to say, taking this possibility into account does not make it superfluous to estimate the responsiveness of energy use to taxation, nor to investigate alternative forms of uniform taxation (VAT for example).

(3) Surely, the population of high energy consumption countries cannot relevantly be said to have *chosen* its climate or industrial structure. Is it then really fair to tax energy at such a high rate in order to finance an equal redistribution to all European citizens? This is, no doubt, a strong argument for giving people some time to adjust, but not for indefinitely sheltering people against the true costs of their ways of living and producing.

(4) Finally, is not much of the social cost of energy consumption (acid rain, global warming) borne by non-European populations no less than by Europeans? So, why should redistribution be confined to the EEC? There is no deep reason for such a restriction, but this is hardly a reason for not getting things started here and now. That one might conceive of something even better is a poor excuse for not doing the good we can.

Questions like these - and many others - deserve of course far more than the short responses we have just given them. They need to be faced squarely and urgently, if basic income is not to be, for us Europeans, one of those attractive and important ideas whose time will never come.

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