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Basic income and Consumption Tax

The world owes none of us a living but we all owe one another a living. Henry Ford in “My Philosophy of Industry”.

Economic development in Germany and the other industrial nations is characterised by rising productivity. This has become possible as a result of better scientific and technological knowledge and its applications and improved production and management methods in the context of the increasing global division of labour and specialisation. The standardisation of workflows that all this has involved is leading at the same time to the automation of more and more operations. When this happens, productivity continues to rise because more and more work can be done by fewer and fewer people. However, if sales revenues do not rise correspondingly the result is so-called overproduction and, consequently, unemployment.

However, productive labour – direct work extracting, transporting and processing natural resources and indirect work through the manufacture of investment goods for producing consumable goods and services – is not the only area of human work. What other fields exist and do they perhaps require the same amount of human labour as that released by productive labour? Is unemployment the only possible consequence of rising productivity and what additional freedoms might develop instead?

The rise in productivity in the industrial nations is not linear. For example, in vehicle construction productivity increases reach 3–4% per year.¹ However, “per year” means year in, year out and starting each year on a higher level than the previous year, thus resulting in a systematic increase in the potential for human beings to shape their lives with greater freedom and self-determination. Why, then, are people with jobs regarding economic activity more and more as a burden and restrictive while at the same time more and more individuals are unable to find jobs in our extended community, ie are becoming unemployed?² Why is it that ten million people in Germany² – in particular, a third of all children³ – are living in poverty even though the gross national product is rising all the time?

Development with a momentous impact in terms of economic history

In less well-developed economies – including in Europe until well into the 20th century – economic life is, in terms of the goods production, predominantly a matter of producing for oneself. In agrarian economies, most of the population produce what they need to exist and sell what small surpluses they have on the market. The more economies and economic production

¹ Cf. Fischer, H. (2005), p. 3.

² Federal Statistical Office (2006).

³ Müller, E. (2006), p. 13.

processes differ from one another as a result of the increasing division of labour and the more the labour force becomes specialised, the more individual economic agents work de facto for other people. “Our social consciousness is lagging a long way behind in terms of the possibilities offered by the division of labour and the resulting rises in productivity.”⁴

This consequence of this momentous change is that human society is becoming more and more efficient. Individuals are no longer subject to the economic compulsion to produce their own food but can focus on what they are able to do particularly well and on the goods and services in demand. Tasks that can be carried out more cheaply using machines and work that human beings do not like doing are being increasingly automated.

In terms of the production of goods, we have overcome shortages and now have more than we need. From the production technology point of view, the situation of our modern economies could not be better⁵. Never before in human history have people been able to achieve so much with so little effort. However, our consciousness is still characterised by the experience of shortages. In this context, the Catholic moral theorist Oswald von Nell-Breuning pointed the way forward as long ago as 1983 when he said that “(e)verything that can be produced using the methods of goods production [...] can be financed, provided that we sincerely and genuinely want this to happen.”⁶

Given the surplus of goods, we have to ask whether artificially maintaining shortages by employing methods of financing that “act as a brake” are in keeping with our times. We remember from when we were children that we were *disciplined* by being threatened with having to do without something. The education we receive from other people in our childhood becomes self-education in adult life.⁷ Would a principle originating from this education provided by other people be appropriate in the context of organising the lives of knowledge-guided adults? What image of humanity would be behind such a principle? A future-oriented one? Would this image be suitable for a future-oriented economic policy?

The work concept

Like work itself, the work concept is continually changing. This change took place in the case of both the transition from the agrarian to the industrial society and from the industrial to the service society. In the last twenty years, the advanced economies have also undergone a further development from the service to the information society. In this connection, according to Erik Händeler an industrial revolution is about to take place in the software industry.⁸ However

⁴ Werner, G.W. (2004).

⁵ Cf. Werner, G.W. (2005a), pp. 72 ff.

⁶ Nell-Breuning, O. v. (1983), p. 62.

⁷ Cf. Werner, G.W. (2007).

⁸ Cf. Händeler, E (2005), pp. 221 ff.

advanced we may be, information technology will impact on and change many more areas of our lives in the next few years. In many areas of the economy, the potential for streamlining structurable, and therefore automatable, information is far from being exhausted. Everything that can be done by machines and by introducing improved methods will also be automated in the future. As a result, a development similar to that experienced in the agricultural sector in the last hundred years can be expected for the industrial and service sector – and for the information economy itself, namely a reduction in the number of people working in this sector to less than two per cent of the labour force, even though production figures are rising all the time.

However, what response that is in keeping with the times can be made to this challenge? Might one response be “A social policy is one where work is valued”? Do the challenges, when considered from another perspective, not provide us with a historically unique opportunity? “At the moment, it is possible to say there is mass unemployment.”⁹ Mass unemployment is, however, “not caused by mistakes made by individuals or by their inadequate qualifications”¹⁰, so what is it then caused by? Could the reason be that our work concept has failed to keep pace with the rapid economic developments and rises in productivity experienced in the last few decades? What do we actually mean when we speak of *work*?

What is work?

Work has been described as “a purposive, social, planned, physical or mental and typically human activity”.¹¹ We can see that

- work has an impact at the physical-material level,
- work is subjectively always experienced as one’s own activity,
- work carried out as part of a division of labour is done intersubjectively/collectively for others and
- work brings about a synthesis of the mental and the material (formal drive and material drive [Formtrieb/Stofftrieb]) in the Schillerian sense). For example, in a work of art – in the visible world – the invisible laws are symbolically portrayed in a form that is perceptible by the senses.

In this connection, work is both a physical-material and a mental-intellectual activity for other people:

physical-material work is primarily work extracting, transporting and processing natural resources, while mental-intellectual work primarily consists of organising work.

Work extracting, transporting and processing natural resources results in the creation of food, clothing, housing, etc, and therefore of economic values (Value 1).¹² The organisation of that

⁹ Straubhaar, T. (2006), p. 6.

¹⁰ Hengsbach, F. (2006), p. 6.

¹¹ Eichhorn, W. (2006), p. 83.

work primarily results in making less work necessary, so that an economic value (Value 2) is created in the form of machines (fixed assets) and production and management methods (know-how).

This may be set out as follows:

Intellect (applied to:) → work (leads to:) → less work.

In systematic terms, two more basic ideas can be mentioned when differentiating between types of work. Today, the work concept mainly refers to work done in connection with the production of goods, ie work *for* people rather than work carried out directly *in relation to* people. This work also includes the field of finance and large areas of the provision of services, insofar as the latter involve supplying people with goods. This form of work can be organised according to business management criteria, with staff *obliged to follow instructions*, and *paid for* on the basis of results (output, yield, etc). In this area of work the principle of the *need to economise* prevails. The various players must make sparing use of natural resources, financial assets and human working (living) hours. Work will always be available in this area. In fact, with the rising demand for the goods and services produced it will even increase. However, it will be done to a lesser and lesser extent by human beings because we will need them less and less owing to the availability of better and better machines and improved production and management methods. That is a good thing since it is these areas in which people typically do not like to work and in fact only do so in order to earn a living.¹³ Human work in this area of what may be termed “old work” will accordingly continue to decline. No one in the business world is considering how they might create jobs. The economy’s task is always to provide goods and services using as few (natural or human) resources as possible. If human labour is needed, this initially leads to the creation of jobs. However, does it really create employment or is it not a fact that jobs are lost elsewhere as a result?

At the same time, new areas of responsibility arise and human work is required where it cannot or can only to a limited extent be done by machines. These are the areas of *new work – cultural work* in the broadest sense – in which the need for human work will continue to increase. They are chronically underfunded today despite the fact that they are so decisive for the future of our society. They include all areas of *direct people-oriented work*, ie everything from family welfare work and child-rearing to care and social work and work in education, science and research. This work and its quality cannot be measured and paid for according to business management criteria. The quality of care work is only measured by the welfare of those cared for, while the quality of family welfare and education work is not seen until the next generation. However, the sustainability of our society depends to a considerable extent on precisely these tasks. The desire to organise work in the fields of science, research, art and religion according to economic criteria also leads to a new form of poverty: “The economic reduction of education subjects the so-called elite itself to the requirement [...] that it should never go beyond what the economic

¹² The terms Value 1 and Value 2 (Werner, 2007) are based on the fundamental economic observations of Steiner (1996, p. 30).

¹³ Cf., for example, Malik, F. (2005), p. 70.

function requires. The result is a different kind of educational poverty: if, of all people, the more intelligent section of the population are trained only to function in the optimum way, they will be made unfit for innovative thinking. [...] An elite that only obeys the rules of the globalised market will become incapable of engaging in critical self-reflection. And an elite with a reduced knowledge of the world threatens to become a separate educational proletariat.”¹⁴

These examples make it clear that we cannot *pay for* this work in the traditional sense of payment by results but only *make it financially possible*. In this area of work, too, it is not the principle of the need to economise that applies but the principle of *generosity*: any work done to help a person in need of care, to provide a child, young person or student with an education and training or to give a researcher the assistance he or she needs will be all the better the more devotion to duty we demonstrate in carrying out these tasks. While the *old work* is based on an obligation to follow instructions, this *new work* involves the *initiative* of the individual. In order to exploit its potential, we must expand the work concept once again and adapt it to the changed realities.¹⁵ We succeeded in doing this when we made the transition from the agrarian to the industrial society and from the industrial to the service society and we are now succeeding in doing so during the current transition to the information society, so why should we not succeed in the transition to the *cultural society*?

According to Werner/Häussner¹⁶, society is made up not only of the economy but also the field of culture, which exerts its own productive influence (science and research, education and sport, art and religion). As a result of the tremendous increase in its significance, economic life is threatening to dominate the other areas of society. However, is it not the case that a productive economic life continually renews its *non-material basis* by drawing on a rich cultural life as a source of inspiration for the economic and political world?

From our social-organic point of view, the economy – the *production pole* – can be set against cultural activities – the *consumption pole*. We can express this economy-culture polarity as follows:

Culture – developing skills and exploiting economic values
Economy – exploiting skills and shaping economic values

The productive development of the human potential – ie, the individual as a *creature with skills* – and human requirements with regard to food, clothing, housing, education, etc – ie the individual as a *creature with needs* – should be seen as two sides of the same coin, with *production* on one side and *consumption* on the other. Economic activity does not come about until the work required is properly organised, and all goods and services produced are, when they are consumed, ultimately turned into income, which is either earned income or transfer income for “pure consumers” – children, people in need of care, the sick and the elderly, as well as all individuals

¹⁴ Kurz, R. (2005), p. 9 f.

¹⁵ Opaschowski differentiates in this connection between gainful employment and family welfare work, social work and work involved in teaching and learning a subject. Cf. Opaschowski, H. W. (1998), p. 62.

¹⁶ Werner, G. W./Häussner, L.P. (2006), “Von der Industrie- zur Kulturgesellschaft”, in BoellThema Ausgabe 2/2006.

working as providers of personal social services. The group of “pure consumers” also includes teachers, scientists, clerics, artists, civil servants and politicians.

The people engaged in these areas of activity need a basic income. On the basis of this social fact, it becomes the task of a properly organised state to create the basic statutory conditions for the right to an income so that economic and cultural activities, which are two parts of a counter-circular process, can in the future take place as continuously as possible and at the same speed. The basic income would provide a financial basis for these areas of society.

A tax system based on consumption would skim off part of GDP in favour of the recipients – that is to say, all citizens – of the unconditional basic income and indirectly fund social and cultural activities. An unconditional basic income would make our rigid industrial society more flexible (Göhler 2006) and help bring about a change towards a service, information and, ultimately, cultural society.

At a time of increasing automation, a basic income is an essential part of a future economic and social system that takes proper account of these trends and affects everyone in society. In the opinion of the “experts”, all kinds of reasons can be advanced both for and against a basic income. A quotation from Ludwig Erhard very appositely expresses what we want to achieve with the introduction of a basic income: “We should not behave as though the recognition of economic correlations is reserved for the keepers of the Holy Grail, who put forward their inflexible views with scientific arguments on the one hand and with demagogic arguments on the other. No, each citizen of our state must be aware of economic correlations and be capable of reaching a judgment, because this involves questions relating to our political system, the stability of which it is our task to preserve.”

By imposing income and other taxes in Germany, we impose a burden on work done and on the country’s exports. At the same time, we only impose the current rate of value-added tax on imported goods (7% or 19% at the moment), although half of the price of goods and services purchased – given a ratio of government expenditure to GDP of almost 50% – should be used to finance public services. What impact would it have on companies based in Germany and competing at the international level if non-wage costs were financed by taxes and if wage costs in Germany could continue to fall with the help of a basic income without weakening domestic demand? What would a consumption tax mean for foreign competitors’ prices on the domestic market? What impact would there be on the tax authorities’ working methods and efficiency if combating tax fraud could be concentrated on this one area?¹⁷

The figures

The Hamburg World Economy Institute (HWWI) has established that Germany is financially able to introduce a basic income as the per capita transfer payments made today would be sufficient for it to do so¹⁸. The more extensive proposal that the basic income be increased in

¹⁷ For additional questions on the effect of a consumption tax-financed basic income, see Werner, G. W. (2005b), pp. 47 ff.

¹⁸ HWWI (2006).

accordance with the economy's productivity and financed by a consumption tax is based on this assumption. Fears that the increase in the consumption tax would bring about a big rise in inflation are unfounded as the experience of the last consumption tax increase in 1998 shows that prices go up by less than half the tax rise. The same applies to the expectations for the VAT increase that came into force at the beginning of 2007: a three per cent tax increase is likely to lead to only 1.4% additional inflation.¹⁹ There are various reasons for this. One is that not all goods in the basket forming the basis for calculating inflation are subject to the increased consumption tax. Another is that companies cannot increase their prices owing to the pressure of competition and the fact that, compared with the FED, the ECB is implementing a more deflationary monetary policy.²⁰ The consequence is that the increased costs will have to be recouped elsewhere, for example by raising productivity and making workers redundant.

The figures show that even without the introduction of a basic income the inflationary effect of the consumption tax increase is comparatively insignificant. How much lower would the inflationary effect be if companies had even lower wage costs as a result of the introduction of a basic income?

A comparison between the VAT rates and the economic growth of various European countries shows that the approach to adopt is the introduction of a consumption tax and a reduction in other taxes. Figure 1 illustrates the relationship between a country's VAT rates and average economic growth in 2003, 2004 and 2005.

Abbildung: durchschn. Wirtschaftswachstum = Average economic growth; Mehrwertsteuersatz = VAT rate; Abbildung 1: Mehrwertsteuersätze und Wachstumsraten = Figure 1: VAT and growth rates*

Diesen Hinweis an der entsprechenden Stelle anbringen * The VAT rates indicated are the standard rates in each case. Country names are abbreviated using the international car registration codes. Sources: Federal Statistical Office, EUROSTAT, Cologne Institute for Economic Research.

The slope of the regression line illustrates the correlation: the higher the consumption tax, the higher economic growth tends to be. A principal reason for this is, in our estimation, the tendency for the development of individual initiative to be promoted by a tax system in which a substantial proportion of state expenditure is borne by the consumption tax and a correspondingly lower proportion by taxes on the production process. The higher a country's VAT rate is, the higher the proportion of the costs of public services paid for out of these taxes tends to be. Accordingly, the lower the other taxes that distort the value-added process and inhibit productivity (such as income and corporate taxes) are, the more enterprising and efficient an economy can be and the greater will be the economic dynamism, ie growth.

¹⁹ Op. cit. (2006)

²⁰ Cf. Lipinski, G. (2006), p. 21.

Purchases that were brought forward in 2006 in anticipation of the rise in VAT produced economic growth, and it remains to be seen whether this development will continue in 2007. If it does, this will be a sign of the positive economic impact of the consumption tax. If it does not, this will be mainly because, wherever possible, consumers brought forward the purchases they had planned for 2007 to 2006 and this boost to consumption failed to materialise in 2007. The situation would be different if VAT were to rise by one per cent a year instead of the sporadic increases that have taken place since its introduction in Germany in 1968.

Although these observations do not permit any direct conclusions to be drawn on whether a higher consumption tax definitely leads to higher economic growth, especially as Hungary and Poland, two of the five countries in the top group (as far as economic growth is concerned), are transition countries. The fact that countries in the lower half have lower VAT rates can, however, be considered to indicate a possible connection. The assumption that a higher consumption tax has a positive economic effect is supported by the model provided by Uhlig (2006).

Will a consumption-funded basic income result in inflation?

This is naturally a frequently asked question: many people think that, if the consumption tax receipts are sufficient to cover both an adequate basic income for everyone and all other state expenditure, then prices will rise due to correspondingly high VAT rates. This view is *wrong* in the case of the following economic situation: owing to the abolition of all taxes and to the economies of scale achieved, coupled with an increase in production capacity utilisation resulting from the introduction of a basic income, prices will decline to such an extent in a competitive situation that the VAT rates required will not result in the original price level being exceeded.

This can be brought about by machines, at least in those areas in which work is automated. They are our *modern slaves* and our modern economies owe it to them that it is conceivable today that almost "... all goods will be exclusively produced by machines".²¹ The objection raised that machines are designed, financed, built, installed, operated and maintained by human beings does not in any way invalidate our argument. The individuals who design or are otherwise involved with machines will also have financial incentives in an economy with an unconditional basic income. If the purchasing power of the buyers is high enough, they will even have greater incentives than they do today.

On the basis of this observation, another important aspect for understanding the impact of a consumption-funded basic income becomes clear: the consumption tax does not begin to eat into earned income until the citizens purchase what others have produced, and thus help to satisfy the basic principle of the modern division of labour, which is that people work for one another. *The nominal receipts themselves – the payments for work done – are tax free. Only consumption is taxed.*

²¹ Miegel, M. (1995).

In this way, it becomes clear that the consumption tax in a commercial economy based on a division of labour is the equivalent of taxing (real) income in a subsistence economy (in the Middle Ages, for example, a tenth (known as a “tithe”) of the actual harvest yield was payable as a tax).

The accumulation of value in economic terms is made up of Value 1 (work extracting, transporting and processing natural resources) and Value 2 (work carried out to organise the work process = work saved) and is manifested in the freedom to determine prices. In the business cycle, all goods and services that are produced and then consumed as a result of prices being charged result in income. The added value created in the economy is taxed when the transition to consumption takes place (so-called value added tax). A share of the income that accrues to the community is thus added to the price and can either be used for public expenditure or for the private consumption of *pure consumers* in the economic sense. An unconditional basic income is thus *the* transfer payment in a culture-based society. It provides the financial basis for the cultural activities of a society, but it does so indirectly and allows its recipients the freedom to decide how to use it. Depending on the availability of work and the situation with regard to competition, present earned incomes can be replaced by the basic income. In contrast to the progressive income tax rate, it is not the individual’s contribution that is “socialised” but the added value created by society in the economic process that consists in working for one another. The basic income is accordingly not “financed by the state” but paid for as a result of the country’s economic performance. All that the state does in this connection is to create the statutory framework for this “social advance on income”.

It will thus no longer be necessary for the welfare state funded by income tax and a tax on profits to make the transfer payments that have been granted up to now with a considerable amount of administrative work and expenditure. The individual is no longer the “conditioned citizen” (Sprenger, 2005) but experiences his or her human right to an income as an idea that has been fulfilled, and the result is self-determination and social justice.

Bottom line

Income and profits tax are the taxes typical of particularistic internal economies, the taxes of the pre-industrial age of self-sufficiency and the early capitalist economies. The consumption tax, on the other hand, is the tax imposed by developed economies, ie by a system based on the division of labour and globalisation (the *worldwide division of labour in a global economy*), on goods and services being supplied by others and on a surplus of those goods and services. It is the tax for humane globalisation and for financing a basic income. A great deal will depend on the fulfilment of this idea both for ourselves and our social, economic and cultural future.

We must regard the entire Earth as an asset and learn how to handle it properly
Novalis, *Fragments*

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