

# Improving the Social System: Freedom of Innovation for the Next Generation

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(Participants of the Academia Engelberg Summer School on 'Economic Systems'  
directed by Prof. Dr. David Stadelmann)

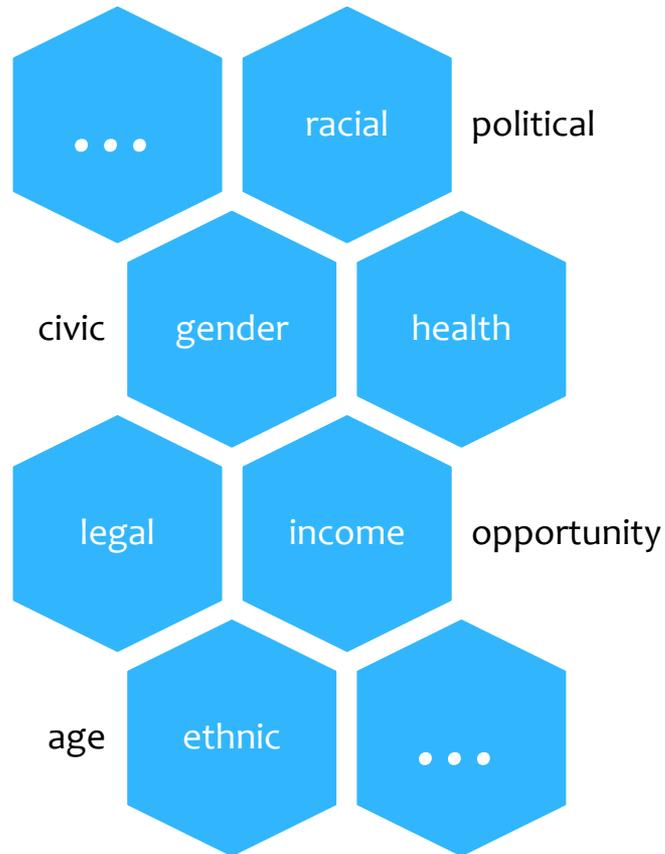


# Content

1. Inequality is not only income inequality
  - a) Diverse forms of inequality
  - b) Perceptions matter
2. Radical but unsustainable reforms
3. Innovation Capital
4. Discussion

# 1. Inequality

Is it  
everywhere?



Do we  
recognize it?

Can we do  
something  
about it?

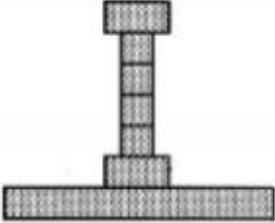
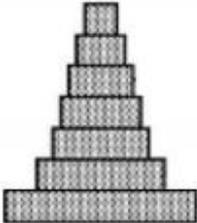
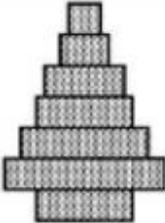
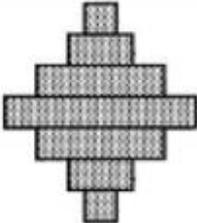
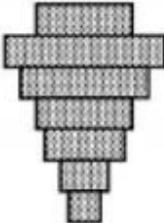
# 1. Inequality

Do we recognize it?

- \* Not really comprehensively...
  - \* Often only focus on income inequality
  - \* But other aspects of inequality relevant too
    - \* E.g. effects of inequality on values (Corneo & Neher 2012), social inequality, legal inequality, etc. (see also Corak 2013)
- \* Perceptions matter: Gimpelson & Treisman (2015)
  - \* ISSP survey, 2009, 40 countries

# 1. Inequality

**Figure 1: Characterizing the type of society**

Q14. These five diagrams show different types of society. Please read the descriptions and look at the diagrams and decide which you think best describes <country> ..				
				
<b>Type A</b>	<b>Type B</b>	<b>Type C</b>	<b>Type D</b>	<b>Type E</b>
A small elite at the top, very few people in the middle and the great mass of people at the bottom.	A society like a pyramid with a small elite at the top, more people in the middle, and most at the bottom.	A pyramid except that just a few people are at the bottom.	A society with most people in the middle.	Many people near the top, and only a few near the bottom.

**Source:** International Social Survey Project survey (2009) questionnaire.

Source: Gimpelson V., Treisman D., 2015, Misperseiving Inequality

# 1. Inequality

**Percentage of respondents choosing the diagram with the Gini coefficient closest to the correct one for their country, 2009**

	<i>If the question refers to:</i>	
	Post-tax-and-transfer income	Pre-tax-and-transfer income
United States	29	12
Austria	28	15
Germany	21	17
Switzerland	24	6

Source: Gimpelson V., Treisman D., 2015, Misperceiving Inequality

## 2. Radical but unsustainable reforms

### **Famous discussion: Universal basic income**

(Individual unconditionally paid minimum income, Parijs 1991, “Why Surfers Should be Fed”)

- \* Important differences to social systems in various European countries:
  - \* Paid to **individuals**, not households
  - \* Paid **irrespective of income** from other sources (not means-tested)
  - \* Paid **unconditionally**

## 2. Radical but unsustainable reforms

Switzerland - the popular initiative for an **unconditional basic income**

- \* 2.500 CHF per month for each adult
- \* 625 CHF per month for each child under the age of 18
- \* at least 208 billion CHF p.a. (> 35% GDP)
- \* Theoretical wishes:
  - \* “real freedom to pursue the realization of one’s conception of life”
  - \* Free individuals that they may work in the profession they want
  - \* Scrap anti-poverty programs, reduce bureaucracy
  - \* Etc.?

## 2. Radical but unsustainable reforms

- \* Many low-paid jobs would probably disappear or be transferred abroad
- \* Women could be forced back into housework
- \* It would weaken the incentive to work
- \* Negative impact on economic competitiveness
- \* Etc.
- \* ***Our contribution 1: Social system would still be needed***
- \* ***Our contribution 2: Taxes would rise considerably***
- \* ...

## 2. Radical but unsustainable reforms

There is still a need for a social system because...

*every income stream can be translated into a capital*

Rough results:\*  
Present value per person  
**~ 1 Mio. CHF**

Evident problems:

- \* Some people may cash-out and fall back on a welfare state
- \* Potential Solution: **restriction to borrow** against... but...
  - \* **then it's not unconditional**
  - \* **then it can't be used to finance "one's conception of the good life"** (education, innovative ideas, travel etc.)

## 2. Radical but unsustainable reforms

Very very very high taxes for a working person...

Tax just to finance UBI:\*

44%

+ other taxes to finance public expenditures for roads, health, etc.

Evident problems:

- \* Progressive income tax: if the average person pays so much... the rich person would move away from Switzerland
- \* Taxes would probably be even higher due to negative impacts on economy

\* Assumptions: 30.000 CHF p.a. UBI – parents, 7.500 CHF p.a. – child, working parent taxable income 115.000 CHF, ¼ UBI financed through savings from the social system (Swiss Federal Council)

# 3. Innovation Capital

Why innovation?

**Because innovations change the world.**

Who can be innovative?

**If given the chance... everyone... anytime.**

...so what do we need?

**Opportunity equality**

Where do we start?

# 3. Innovation Capital

One time unconditional payment at the age of 18

On their birthday the money gets transferred in the person's bank account => easy to control and to calculate costs

What the parents do doesn't matter, social status doesn't matter... nothing else matters... except having lived in the particular canton for at least 3 years (at some point before turning 18) => easy to experiment

... so that all young people have the same opportunities

A particular sum depending on the canton => corresponds to federal Switzerland

# 3. Innovation Capital

## Advantages:

- similar to “Bildungskapital” proposed by Eichenberger&Koukal 2012 -

- \* Better opportunity equality amongst youth
  - \* Study, travel, work, be innovative (e.g. start-up company)
  - \* Focus on education/self-development without having to worry at a crucial age
- \* One time payment
  - \* Easy to finance
  - \* Not bureaucratic
- \* Fosters personal responsibility
  - \* Incentives for innovation and investment at the right age
- \* Financeable

# 3. Innovation Capital

## **Even more advantages:**

- \* Incentive for universities and other organization to provide short and focused training
- \* No change in tax system
- \* Decentralized – cantonal level
  - \* Responsibility for „one’s own children“
  - \* Competition between cantons
  - \* Fiscal consequences can be more easily estimated
  - \* Capital investment can be better controlled
  - \* Possibility to experiment

# 3. Innovation Capital

## Financeable through...

- \* Existing Scholarships for post-compulsory education
  - \* 2013: 317 Million Franks paid by cantons (see BFS) => mean nominal value per recipient approx. 6.500 CHF p.a.
- \* Allows universities to raise tuition fees which may increase fairness
  - \* Because people can now afford to pay
  - \* Currently, students tend to be from rich parents
- \* Savings from bureaucracy reduction
  - \* No more scholarships
  - \* No more financial aid needed for young people

# 4. Discussion

The ideal for everyone...

“... a start in life which would enable them to make the best of their *talents*.” Ferdinand Mount (Joseph Rowntree Foundation)

If this idea solves problems, why does it not exist:

It does: **Thiel Fellowship**

“Two Years. \$100,000. Some Ideas Just Can’t Wait.”

# Thank you for your attention!

For further questions, comments or ideas...

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