

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)

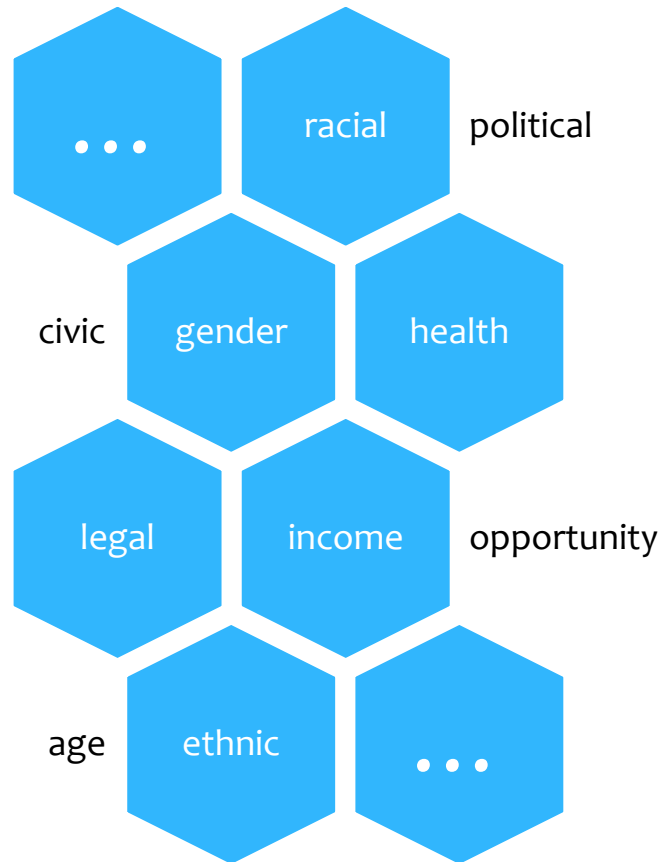


Content

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?

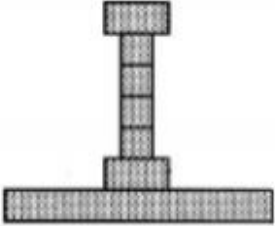
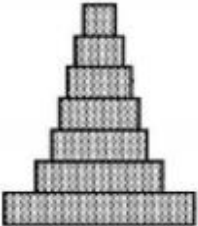
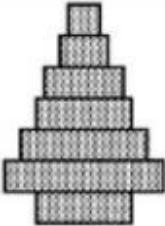
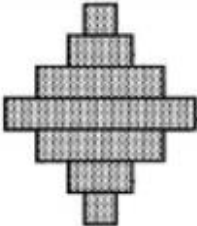
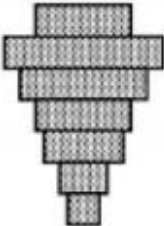
1. Inequality

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> ..				
				
Type A	Type B	Type C	Type D	Type E
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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