

The Euro-Dividend

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The EU should pay a modest basic income to every legal resident of the European Union or the eurozone, financed by the value added tax.



Philippe Van Parijs argues that a Euro-Dividend, used as a transfer scheme, would help to buffer asymmetries between EU countries. The Euro-Dividend thus employed would disincentivise residents of poorer countries from migrating. Also, the Euro-Dividend would help the EU's nations to cope with the pressure put upon their welfare systems by the free movement of capital, human capital, goods, and services across borders. Finally, the Euro-Dividend would demonstrate the benefits of EU membership to all its citizens.

Criticising is easy, and our imperfect European Union is a deserving target. Making concrete proposals for improvements is a lot harder. Here is one that is simple and radical, yet – as I shall argue – both reasonable and urgent.

What I propose is a Euro-Dividend. It consists in paying a modest basic income to every legal resident of the European Union or at least of the subset of member states that either have adopted the euro or are committed to doing so once the relevant conditions are met. The idea is to provide each resident with a universal and unconditional income floor that can be supplemented at will by labour income, capital income, and social benefits. The level can vary from country to country to track the cost of living. It can also be lower for the young and higher for the elderly.

A dividend generally refers to the part of the profits of an enterprise that gets distributed among its owners. The Euro-Dividend can be understood as the distribution of part of the gains from European economic integration among the entire population. I suggest financing my proposal with the value added tax. To fund a Euro-Dividend averaging 200 euros per month for all EU residents, one needs to tax the EU's harmonised VAT base at a rate of about 20 percent, which amounts to close to 10 percent of the EU's GDP.

Europe's difference from the US calls for a Euro-Dividend

These are hefty numbers. Why, then, do we need an unprecedented scheme of such magnitude? I will provide four reasons, the most urgent of which is the ongoing crisis in the eurozone. Why is it that the US has been managing for centuries with a single currency despite the diversity of its states and their divergent economic fates, whereas the eurozone teetered on the brink of collapse after just one decade? Why has the US left the damage of the financial crisis largely behind it, while Europe still suffers from it? Economists from Milton Friedman to Amartya Sen have kept warning us: European States, before adopting the euro, could use exchange rate adjustment as a safety valve to release the pressures of diverging shocks or trends. Europe, however, lacks the two buffering mechanisms that serve within the US as powerful substitutes for this safety valve.

One of them is interstate migration. The proportion of US residents who move to another state in any given period is about six times higher than the proportion of EU residents who move to another member state. Europeans may become somewhat more mobile with each generation. But our entrenched linguistic diversity imposes rather strict limits on how far we can expect — or, indeed, hope — to amplify this first mechanism. Athens' unemployed will never migrate as smoothly to Munich as Detroit's to Austin.

The dollar zone's second powerful buffering mechanism consists of automatic interstate transfers. This is essentially achieved through social benefits largely organised and funded at the federal level. As a result of both buffers, Michigan or Missouri could never sink into a Greece-like downward spiral if they suffer economically. Not only is their unemployment tempered by emigration. In addition, owing to shrinking tax liabilities and swelling benefit payments, a growing part of their social expenditures is de facto funded by the rest of the country. Estimates of the extent of this automatic compensation vary between 20 and 40 percent, depending on the methodology used. In the EU, by contrast, the dampening of a member state's downturn through adjustments of net transfers across states amounts to less than 1 percent. Given the reluctance to both emigrate and to receive immigrants, the potential of the migration mechanism is poor. This, in turn, only strengthens the argument that the eurozone cannot afford to neglect the mechanism of interstate transfer payment. What form should it take? In theory, one can think of an EU-wide mega welfare state. However, even the few who believe it to be desirable have to admit that it is unlikely to ever come about given the great diversity of existing national welfare states and the extent to which European citizens are understandably attached to them. What is required is something more modest, far rougher, more lump-sum. If it is to be viable, our monetary union needs to equip itself with a number of new tools. One of them is a buffering mechanism for economic imbalances that can only be something like a Euro-Dividend.

Europe's diversity calls for a Euro-Dividend

The second reason why we need such a transnational transfer scheme applies to the EU as a whole, not only the eurozone. The linguistic and cultural diversity of the European continent does not only make interstate migration costlier and therefore less likely for the individuals involved. It also reduces the benefits and increases the costs for the communities involved. Integration into the new environment, both economic and social, takes more time, requires more administrative and educational resources, and creates more lasting tensions than is the case with interstate migration in the US. Migrants from not only poorer, but linguistically and culturally different countries flocking into the more affluent metropolitan areas can create a feeling of invasion among the local population. Denouncing such reactions as racism does not make them any less real and potentially dangerous. They feed the drive to reinstate thick

boundaries and repudiate both free movement and non-discrimination. Fast migration of large numbers of people also undermines the social fabric and economic prospects of their homelands. There is a much less disruptive alternative, however: Organise systematic transfers from the centre to the periphery. People will no longer need to be uprooted and driven away from their relatives and communities by the sheer need to make a living. Instead, populations will be sufficiently stabilised to both make immigration more digestible in the magnet areas and to stop emigration being badly debilitating in the peripheral areas. If it is to be politically sustainable and socio-economically efficient, a European Union with free internal migration must introduce something along the lines of a Euro-Dividend.

The four freedoms of the EU's single market call for a Euro-Dividend

Third and most fundamentally, the free movement of capital, people, goods, and services across the borders of EU member states erodes the capacity of each of these states to perform the redistributive tasks they discharged reasonably well in the past. Member states are no longer sovereign states able to democratically set their priorities and to realise solidarity among their citizens. Free movement without some interstate transfer system to buffer economic imbalances forces the EU's states to behave more and more as if they were firms: obsessed by their competitiveness, anxious to hold onto or build more financial and human capital, eager to eradicate any social expenditure that cannot be sold as an investment, and keen to phase out any scheme likely to attract welfare tourists and other unproductive folk. It is no longer democracy that imposes its rules on markets and uses them for its purposes. It is the single market that imposes its laws on democracies and forces them to give competitiveness top priority. If our diverse ways of organising social solidarity are to be saved from the grip of fiscal and social competition, part of it must be lifted to a higher level. The power and diversity of our welfare states will not survive the murderous pressure of competitiveness unless the united European market operates against the background of something like a Euro-Dividend.

The EU's defective legitimacy calls for a Euro-Dividend

Finally, the European Union will only function – and, indeed, survive – in all its dimensions if the EU's citizens regard its decisions as legitimate, so that both national governments and citizens will not feel entitled to circumvent them in all sorts of ways. One important aspect of legitimacy is whether citizens perceive very tangibly that the Union does something for them – that is, for all of them, not only for the elites, for the movers, for those who are in a position to seize the new opportunities, but also for the underdogs, for those left out, for the stay-at-homes. Bismarck helped cement the shaky legitimacy of his unified Germany by creating the world's first public pension system. If the Union is to be more in people's eyes than a heartless bureaucracy, if it is to be perceived as a caring Europe with which all can identify, it will need to find a way of bringing about something totally unprecedented: a universal Euro-Dividend.

Some objections

Are there any reasonable objections to this proposal? Of course there are, even if surprisingly few have turned up in the Twelve Stars online debate. Some, for example, may question the wisdom of using VAT to fund the scheme. VAT is the most Europeanised of all major forms of taxation. But would it not make more sense to use the financial transaction tax proposed elsewhere in this volume? Or a carbon tax, for that matter? The issue here is magnitude: What

these two taxes could fund, even under optimistic assumptions, is an EU-wide monthly Euro-Dividend of no more than 10 and 14 euros, respectively. Why, then, not use the more progressive personal income tax? Because the definition of the income tax base varies greatly from country to country and is highly sensitive politically. Moreover, today's income tax is de facto hardly more progressive than VAT. But would a 20 percent rate of VAT added to national rates not be unbearable and thus unsustainable? The answer is that a VAT for the Euro-Dividend does not need to be added to unchanged VAT rates. Rather, the national VAT rates could be lowered as the sheer presence of the Euro-Dividend makes room for increasing the income tax without lowering the net income of taxpayers and for reducing social benefits without lowering the net income of benefit recipients.

Others may well object that each of the four functions of the Euro-Dividend listed above could be served better through some more complicated, more sophisticated device. Most of these arguments will be correct. My claim is simply that no other manageable mechanism would serve all four functions as well while being intelligible to the ordinary European citizen.

A more fundamental objection is that, however desirable the expected effects, it would be unfair to give everyone something for nothing. This objection rests on a misperception. A Euro-Dividend does not amount to an unfair redistribution of the fruits of some hard workers' work. It rather amounts to sharing among all European residents, in the form of a modest basic income, part of the benefits of European integration. How much did we save as a result of not having to conduct or prepare for war with our neighbours? How much did we gain as a result of having increased competition between our firms or of having allowed factors of production to move wherever in Europe they are most productive? The exact number is obviously impossible to calculate. What we know for sure, though, is that these benefits are real and substantial. What we also know is that they are distributed very unequally in the European population, depending on whether they are movers or stay-at-homes, depending on whether or not the situation created by European integration happened to make their consumption cheaper or their skills more valuable. A modest Euro-Dividend is a straightforward and efficient way of guaranteeing that some of these benefits will reach each European in a tangible way.

Is this utopian? Of course it is. But so was the European Union until not so long ago. And so was the social security system before Bismarck put together its first building blocks. But Bismarck did not invent the pension system out of the kindness of his heart. He did so because people started mobilising in favour of radical reforms across the whole of the Reich he was trying to unify. What are we waiting for?