Presentation for the Basic Income and the Euro-Dividend as Sociopolitical Pillars of the EU and Its Member Countries

UBI as a Mean to Peace

The European Case of a Toleration Premium

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Structure

- Motivation: The distribution problem in the EU
- Introducing the Paradox of Power by Hirshleifer
- Analyzing the UBI
- Discussion

Motivation I: Goals

QA5 What do you think are the two most important issues facing the EU at the moment? (MAXIMUM 2 ANSWERS)
(% - EU)
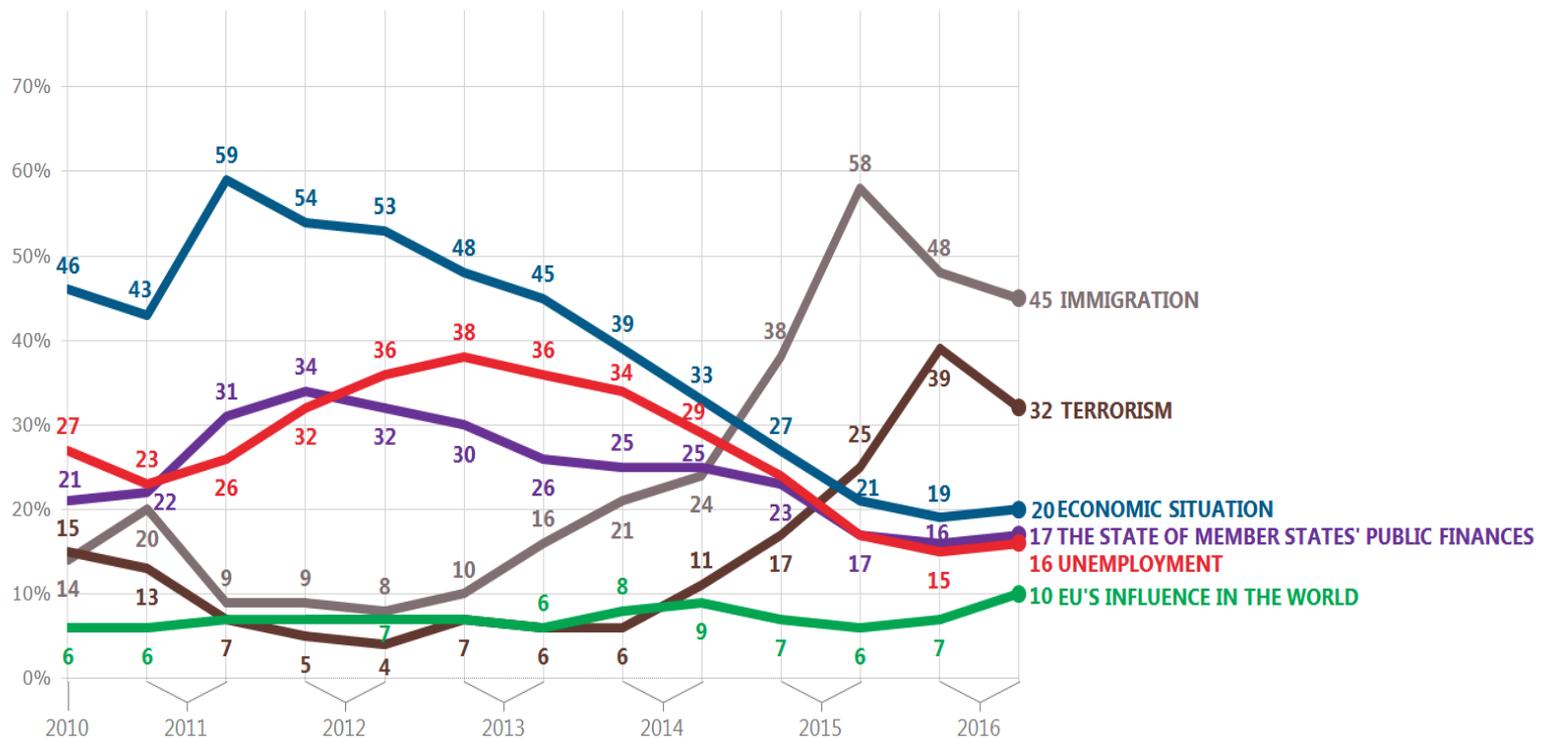
- Source: Standard Eurobarometer 86 in 2016, p. 5.

Motivation II: Distribution

- „The **economic situation** is seen as one of the most important problems facing the EU by one in five´Europeans"
  - Standard Eurobarometer 86 in 2016, p. 6.

- "If we want the opportunities which markets give us, we have to live with unfairness."Sugden 2004 p. 235.

- Thus poor have incentives to protest against the respective order of property. Cf. Wyss 2011.

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Motivation III: Easily punish conflict activities?

- Monetary punishment, if this is not possible:

- Imprisonment:
  - Costly.
  - Restricts freedom.

- Death Penalty:
  - Even more costly. Cf. Cooter and Ulen 2016 Chapter 13.
  - Against human rights and intentions of EU.

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Using the Paradox of Power (PoP) by Hirshleifer 1991

- Assumptions of the modell fit with the distribution problem:
  - Unequal starting conditions.
  - Decission between production and conflict option.
    - Conflict not only in the sense of cirme, but also political rent-seeking and political protest against market results.
  - Secured live and some scope of action.
    - Human and basic rights.
- Disclaimer: This is a stylized ceteris paribus analysis for consequentialist monetary motivated agents.

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The PoP by Hirshleifer: The Setup

- Two unequal contenders.
  - One rich party $i=1$ and one poorer $i=2$.
- Invest their resources R in either:
  - $R_i = E_i + F_i$.
  - Producing a common pool of goods I:
    - Productive effort E_i.
  - Or in appropriating a larger share of that pool.
    - Fighting effort F_i.

The PoP by Hirshleifer: The Modell

- Aggregate production function A yields the common pool income I:

  $$I = A(E_1, E_2).$$

- Contest success function C yields the share p each party earns:

  $$p_i = C_i(F_1, F_2). \ (reffered \ to \ as \ C)$$

- Individual payoffs:

  $$I_i = p_i I.$$

- PoP occurs depending on A and C iff:
  $$I_1/I_2 < R_1/R_2.$$

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The PoP by Hirshleifer: Conclusion

- „when a contender´s resources are small relative to the opponent´s, *the marginal yield of fighting activity is higher to begin with than the marginal yield of productive activity*.“
  - Hirshleifer 1991 p. 187.

- Driven by:
  - Increasing marginal returns of E_i in A.
  - Decreasing marginal returns of F_i in C.

- Concluding:
  - Status quo is likely to come at the costs of the waste in $F = F_1 + F_2$,
  - and yields a certain (unequal) distribution.

Suggesting an UBI?

- Does an UBI <u>improve</u> the situation?
  - Increase efficiency?
    - Increase $E = E_1 + E_2$.

  - Improve the poor's situation?
    - Increase $I_2 = p_2 I$.

  - Improve the rich's situation?
    - Increase $I_1 = p_1 I$.

Modelling the UBI

- ▪ What does an UBI affect (concerning the model)?

  - Redistribution from rich to poor.
    Cf. Van Parijs 2004, p. 9 f.

    - Equalizing starting conditions by a bit: Decrease R_1 and increase R_2.

  - Makes it possible again for the poor to be punished financially.

    - As F_2 comes at the risk of getting punished for the poor, consider a new $I_2 = p_2I-S(F_2)$, with S being the expected sanction for providing F_2.

Analyzing the UBI: Redistribution

- Equalizing R_i:
  - Depending on C.
  - But for convex choices of E_2 and F_2 and for corner solution at $F_2 = R_2$ the poor will increase investment in F.
  - This is likely to motivate the rich to also respond with higher F_1 to keep her share high.
- If fixed $R = E+F$, then $E = R-F$.
- Thus if $F = F_1+F_2$ increases, E declines.
- → Redistribution seems inefficient.

Analyzing the UBI: Financial issues

- Makes it possible again for the poor to be punished financially.

- $I_2 = p_2 I - S(F_2)$.

- $I_2 = C_2(F_1, F_2) A(E_1, E_{2(F2)}) - S(F_2)$.

- If S hurts more than $C_2 A$ justifies at an increase of F_2, then F_2 will not increase.

- This also applies to a too high F_2, so sufficient punishment can lower F_2.

- A lower F_2 would allow the rich to reduce F_1 to optimize her share.

Conclusion

- ▪ Who is better off then?
  - Poor: As punishment gives monetary incentives concerning gifted money, she can not be worse of.
  - Rich: Depends on functions and parameters: Only if S enforces mutual disarming, the free resources could outweigh for the payment of the redistribution.
  - Efficient: Disarming could also compensate efficiency losses caused by redistribution.

Discussion I:

- Giving someone to tolerate the situation is known as the toleration premium. Cf. Wyss 2011.

- Granting an UBI enables for a cheap punishment option in taking the money away afterwards.

- Examples: Workfare systems, Social Credits (China).

Discussion II

- Remember if F also covers political activities, it is vital for democracy.
  - Cf. Dahrendorf 1958.

- If UBI can be taken away afterwards, is this a real <u>U</u>BI?

Backup slide concerning CSF

- The CSF´s generating the winning probabilities based on the ratio of F_i or their difference satisfy conditions of consistency. Cf. Skaperdas 1996.

- Flaw of ratio: Peace ($F = 0$) can not occure. Cf. Hirshleifer 1989.

Sources

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