

**Response by John Barrington, Founder and current leader of  
The Direct Democracy Forum (DDF)  
a registered South African Political Party  
to the Universal Basic Income (Grant) podcast**

## **In Defence of Capitalism**

It seems from many of the comments and opinions included in the podcast that many see capitalism as a problem, wreaking havoc with the world's economies, so I thought I would look at a measure of the growth of personal wealth over the past five hundred years or so. The numbers are divided into two periods – pre capitalist (1500 to 1820) and capitalist (1820 – 2008) and show the growth of the per capita income for the world, Western Europe and the USA over the two periods.

This is taken from a much more comprehensive table published here:

[https://en.wikipedia.org/wiki/List\\_of\\_regions\\_by\\_past\\_GDP\\_\(PPP\)\\_per\\_capita](https://en.wikipedia.org/wiki/List_of_regions_by_past_GDP_(PPP)_per_capita) itself taken from the 2007 monograph *Contours of the World Economy, 1–2008 AD* by the British economist [Angus Maddison](#).

I summarise the results for the two periods and three regions here:

### **Growth of Personal Wealth (GDP per Capita)**

<b>Region</b>	<b>Pre-Capitalist Growth from 1500 to 1820 - 320 years</b>	<b>Capitalist Growth from 1820 to 2008 - 188 years</b>
<b>World</b>	0.06% pa	5.54% pa
<b>W Europe</b>	0.17% pa	9.06% pa
<b>US</b>	0.69% pa	12.35% pa

Angus Maddison's work is not without critics. There are those who argue that his data and conclusions for the Asian region are inaccurate and so on. Nevertheless, I am looking for a broad indication of the growth of wealth and I believe this is adequate for that purpose. It also lends credence to the assertions of supporters of the capitalist system, who argue that the standards of living for almost all in the world have benefited from the capitalist system. I, for one, buy into that assertion as a broad generalisation, but admittedly one with many faults. A notable fault is the ever widening income and wealth gaps, the rich getting richer and the poor getting poorer.

For all its imperfections, it is undeniable that capitalism generates wealth and if there is to be a Universal Basic Income or a Basic Income Grant, who or what else can better pay for it?

One suggestion in the podcasts was cryptocurrencies. This maybe tantamount to printing money. It doesn't matter that it is another form of money. The point is that it would increase the supply of money, and more money debases money's value and would likely be inflationary. The law of supply and demand will prevail.

## What is Capitalism and What is Socialism?

These definitions are the basis of my contribution to the UBI / BIG podcast debate.

**Socialism** is an economic and social system where capital, property, the means of production and the market place are centrally controlled by the state (ie. you don't "own" your own home). In a Socialist system one's choices are limited by the parameters set out by the state where very little opportunity for individual expression, endeavour and personal gain exists. Employment is likely centrally controlled and rewards are limited to what the state deems appropriate for one's occupation and one's standing in the socialist regime. Because the state suppresses opportunities for self expression and self interest, and because this is in conflict with the needs for self expression and self interest found in most individuals, the egalitarian ideal is constantly undermined by individuals expressing those needs, usually in black market endeavours and/or in other corrupt activities.

**Capitalism** is an economic system where property, the means of production and capital are mostly privately owned and controlled (ie. you can "own" your own home) and all have access to the market place. In a Capitalist System, government's role should be more that of an enabler rather than a controller and there should be opportunities for individual expression and endeavour in trade and industry, which are motivated and rewarded by profit. Essentially one is worth what one can earn in accordance with the laws of supply and demand, and except for the circumstances of one's birth (you are born somewhere in the spectrum of from poverty to wealth), there are few artificial constraints on one's choices and opportunities.

Both systems have their weaknesses. Particularly the capitalist theory relies on a perfectly free market place which in practice does not exist, and the capitalist system enables inherited wealth for the few and inherited poverty for the many, and choices and opportunities to change one's social and economic status can be quite limited, except you can lose your wealth very quickly if you are very unfortunate and the capitalist system is particularly unforgiving of blunders and indiscretions. The socialist system may in theory not have inherited wealth to the same extent but such still exists, while the norm probably tends to be inherited mediocrity. There are exceptions to all those generalisations.

It is difficult to imagine the role of a UBI / BIG in a socialist society but in a capitalist society a UBI / BIG will tend to provide opportunities for the betterment of those who are no longer drowning in inherited poverty and if granted unconditionally and universally, all of society can benefit.

### Capitalism versus Socialism:

There are a number of factors explaining how the capitalist systems grows wealth where a socialist system tends to consume wealth.

In the podcast Richard Wolff argued that one should give everyone the same number of scoops of ice-cream in the first place to avoid conflict (socialism personified?). Why should anyone work a 40 hour week and receive the same scoops of ice-cream as someone working 20 hours or 15 hours or indeed not working at all? If all have reasonable work and reasonable pay to avoid the perceived injustices of a wealth redistribution system, who determines what reasonable work is and what reasonable pay is? Then there are always those who try to game the system, to be more wealthy and powerful than their neighbours. Will all of this not be a formula for conflict?

There are many instances of people and organisations gaming the system in capitalist societies as well. In fact, neither system can afford to point fingers at the other. The principle difference is probably that there tends to be a more powerful media representation in capitalist systems than in socialist systems, so the truth of 'gaming' becomes more readily evident to members of a capitalist society than the 'gaming' within socialist societies. There is however a caveat to that. When the media of a capitalist society are primarily controlled by the principle players of a capitalist system, the media itself can become complicit in wrongdoing. We have all heard the term 'Fake News'.

All these problems are expressions of an innate self interest in man which tends to make a mockery of egalitarian living and seems better placed in a capitalist system where self interest is acknowledged as a driving force and can be contained, despite recent experiences suggesting otherwise.

In a capitalist economy, he who works 40 hours and produces something exceptional, is often rewarded exceptionally, while those who just do what is expected of them only get rewarded indifferently and those who perpetually goof-off are hardly rewarded at all. Of course this is not absolutely true. Hard workers are often sidelined and under-rewarded, and the lazy or dishonest are often rewarded lavishly. Obviously that is not fair.

Regarding under rewarding, one reason is that we will never have full employment. The buyers of labour are in a buyer's market where there is too much labour and too little work rather than in a sellers' market with a shortage of labour and an excess of work, and that may seem to be an ongoing problem driven by growing populations. In the podcast, Richard Wolff points out that capitalism will never provide full employment because when the market approaches full employment wages go up and the buyers resist and cut back on employing labour, so as to create an artificial surplus and thus reduce labour's cost. Richard maintains that this is a self regulating system for the over supply and under rewarding of labour.

More recently, this over supply has been exacerbated by the development of globalisation, so manufacturers are now buying their labour in whichever foreign market has the cheapest labour and the least regulation. In the US for example, domestic labour has been displaced by foreign labour through relocating of US manufacturing plant into those cheaper labour markets, causing serious loss of jobs and income for those whose labour has been displaced. We all know this and it has happened in many industrialised countries. This phenomena in part has led to Brexit in the UK and the election of Donald Trump to the presidency In the US.

One response to the pitfalls of capitalism is self employment. Join the capitalist class. If you can't beat them, join them. This is something that a basic income grant can facilitate.

### **Self interest:**

The same self interest that drives the capitalist system's wealth creation undermines the socialist egalitarian ideal. In both systems the worker has to keep coming back, ironically, also from self interest, to labour under unfavourable circumstances. In nearly every socialist system in history, there is an underground 'capitalist' black market thriving on self interest, supplying the population with goods and services which are under supplied by the inefficiencies of socialist systems.

It is the same self interest that drives the superior per capita wealth growth of the capitalist system (see above) which caused the feudal and socialist systems of the past to be displaced, and probably will drive future socialist systems to collapse and be replaced by capitalist systems or state capitalism. One way or another, self interest prevails.

So how can one support an imperfect capitalism or an imperfect socialist system, if that is what it amounts to? Do we need to choose the least imperfect system?

The interesting thing about capitalism is that it needs markets to sustain itself and markets are all about supplying goods and services and choices. In a free market system, provided the market place has not been hijacked by monopolies of one or another sort (in which case it will not be a perfectly free market), there is an element of competition which can help reign in unbridled greed. From a Capitalist perspective, the US is still the largest single market in the world as measured by GDP. If that market collapses or indeed if any other of the major markets collapse, the very reason for the existence of capitalism may become fractured and capitalism itself may collapse. Understandably, capitalists would not want that to happen.

While some would welcome the collapse of capitalism, I believe it would be an unmitigated disaster. Imagine centralised control of all the world's market places. Central control of economies is what happened during the Soviet era and look at how well that worked out for Eastern Europe and indeed wherever socialism was imposed. Look how well state capitalism is working in modern day China (empty cities built only to bolster the GDP rather than in response to any real market demand).

That is not to say that there is no central control of the world's market places under capitalist systems. When the captains of industry buy, or in some other way, control the political system, which they always attempt to do with varying degrees of success, the same effect can be achieved as that of a socialist system, viz. a centralised control of the market place, capital and the means of production. In fact this is very much like the profiles of many western economies and in countries with state capitalism. How well is that working for capitalism in those countries?

These captains of industry are better defined as oligarchs rather than democrats or capitalists. Their grip over the market places of the world is ever tightening and it is a supreme irony that one of their own, Donald Trump, is elected president of the US, as a protest vote against neo-liberalism. In fairness, that is more the will of the electoral college than the will of the democratic majority of the US. Sadly it is their reality and the world marvels at what is seen as a failure of democracy.

I believe it is the fear of economic collapse and fear of other possible repercussions concomitant with social pressures arising from the relocation of manufacturing capacity, labour under-utilisation and the resulting skewing of income and wealth (the rich getting richer and the poor getting poorer) that has many captains of industry looking at the UBI or BIG as the saviour of the system. What they hope for is a replacement for all those job losses and income losses that can rescue their market place, and I think they are hoping that a UBI or BIG will provide that replacement. I believe it can and it should, but not just for the reasons stated above.

## **UBI / BIG as an Investment Opportunity:**

A UBI or BIG is not charity or an attempt to replace lost income, instead, it as an investment in the demand side of the economy and in the market place.

One only needs to see the variety of uses that a UBI or BIG will be put to to understand why I say this. For instance, as was evident from the [Mincome experiment](#) (part one of the podcasts) undertaken the 1970s in Manitoba, Canada, where members of families earning below a certain minimum were given a stipend, primary workers who received the stipend maintained their work habits (so much for the 'nobody would work' bogey-man). Secondary workers such as married women reduced their work hours and spent more time on maternity leave and parental leave. I believe this was a plus for their society. Young unattached males (teenagers) dramatically reduced their work hours which corresponded with an increase in school graduate rates during the period of the experiment, They went back to school!. These young men would have improved their employment and earning prospects as a result of the higher graduation rates, thus improving the strength of the economy, so that was also a plus for their society.

Most people the writer has questioned on attitudes to a UBI / BIG have, after the knee-jerk reaction of 'you cannot give away money for nothing' and 'how will you pay for it?', conceded that a UBI / BIG would make a great difference to their lives, help them pay for living expenses, children's education, grocery bills, clothing, transport, provide opportunity for further education, investments (savings etc.), opening their own businesses, investing in a home or a motor vehicle, travel, being more picky about employment and generally having choices with which to advance their lives, but none have said they would leave their current employment, except to find better employment or go back to school or start their own businesses.

The most common response, however, was and is, that they (the respondents) would manage their UBI / BIG responsibly but didn't believe that other recipients would behave so well. I always think that strange.

## **Freedom of Choice**

My response to those who believe others would waste their grant is "So what?". If people exercise their freedom of choice so as to behave irresponsibly, how does that impact on those who behave responsibly? It comes down to freedom of choice, and freedom of choice is one of the primary benefits of a UBI / BIG. I also argue that as beneficiaries of UBI / BIG receive their cash benefits over time and social benefits such as a more stable, healthy, wealthy and educated society become more entrenched, so the incidence of irresponsible behaviour is likely to decrease.

## **Taxing the Capitalist Economy.**

The Direct Democracy Forum ([DDF](#)) and the [TEAL](#) foundation in South Africa have done some research relating to tax and the South African economy. What they discovered is that there is a fairly consistent relationship between the Gross Domestic Product (GDP) and the amount of money flowing through the banking system (Total Economic Activity or TEA). On average, thirty times the value of the GDP will flow through SA's banking system in any given year.

Most tax systems have as a target 30% of the GDP. As the GDP is the product of the formal economy, and the formal economy is the economy which gets taxed, that means that an on-target tax system will collect on average 30% of the formal economy's income or GDP. So the average tax payer pays some 30% of his income in taxes, excluding hidden taxes such as fuel levies and other levies, vat & etcetera.

### **Total Economic Activity Levy (TEAL)**

For the sake of simplicity, if an economy has a GDP of \$3 Trillion, then the TEA will be in the region of \$90 Trillion. Further, each \$ flowing through the system will represent a deposit at one end of the process and a withdrawal at the other end of the process. So the total TEA flowing in and out of all bank accounts will be twice the TEA or \$180 Trillion. Add to that an estimated 37% which is paid from and into the same bank (that is, it does not form part of an inter-bank settlement process) then the new TEA would be 1.37 X \$180Trillion or \$246.6Trillion.

Getting back to the GDP and tax relationship. In an economy with a \$3 Trillion GDP, the tax target would be 30% of the GDP or \$0.9 Trillion. As an alternative to taxing the GDP 30%, if instead you levied the TEA you would only need to collect 0.365% of \$246.6 Trillion to meet your tax target.

Restated that: 0.365% of \$246.6 Trillion is equal to \$900.09 Billion, being just over your tax target of 30% of your \$3 Trillion GDP.

### **How is the levy collected?**

The proposal is that the levy is collected through the banking system. Thus, each deposit and each withdrawal from an account would attract the appropriate levy (say 0.365%) and periodically (daily?) be paid over to the revenue authority much like any other tax (eg VAT or GST) is levied and collected, throughout the western world.

### **Benefits of a TEAL system.**

The benefits from such a system are significant. The system is simple, it requires very little administration, the cost of tax collection is slashed (probably only 10% or less of conventional tax collection costs), every tax payer will know exactly how much tax he/she/it is paying (there would be no indirect or hidden taxes), and there would be very little tax avoidance if the correct legislative and administrative frameworks were put in place

We believe TEAL should replace all other taxes in South Africa.

## **How is TEAL relevant to funding a UBI or BIG?**

TEAL is relevant to funding a UBI / BIG in that a 'purpose specific' TEAL could collect sufficient money to fund a UBI or BIG and to seed a Sovereign Wealth Fund (a la the Alaskan Permanent Fund referred to in the podcast) and that in time such a fund will generate sufficient investment income to pay for a UBI or BIG, replacing funding by TEAL in part or in whole,.

## **Is it feasible to fund a UBI or BIG with TEAL?**

An exercise done on funding a UBI or BIG in South Africa suggests it is very feasible.

The amounts stated here are in RAND, the South African currency, currently (October 2017) at about R14 = US\$1.

South Africa has an adult population of about 34M citizens and an estimated GDP in the region of R4 Trillion (Rands). We did the arithmetic [here](#) based on a smaller estimated GDP of R2.8T (we like to be conservative). It is true that the total tax may be the same as for conventional tax results but the burden of tax through TEAL is more widely distributed, and that makes all the difference.

We also calculated that the whole of our tax bill plus UBI / BIG funding plus an Advancement Grant funding for tertiary education (tertiary education funding is a big issue in SA) could be funded by a 2.165% TEAL (0.365% Tax + 1.8% Grants). By comparison, conventional tax funding for a UBI or BIG taxing the formal economy would push tax way over the top to about R5.33889 Trillion, approaching twice the GDP, which is clearly unfeasible. What makes all the difference for the UBI / BIG portion if collected by TEAL is that the UBI / BIG is immediately distributed into the hands of the population and put to use in the whole economy in one form or another.

## Summary

Capitalism is the system that most naturally conforms to mankind's tendency toward expressing self interest in everything they do and is the one system that has consistently improved the per capita wealth of nearly all of mankind over the past two centuries, almost beyond all recognition when compared to the previous three centuries.

Far from attacking capitalism or hoping for it's demise, more of mankind should join in the movement and become capitalists and entrepreneurs, either through collective or individual endeavour (a UBI / BIG would enable this objective for many recipients) and existing capitalist endeavours should be encouraged to continue to be profitable and economically sound, but be limited in their ability to monopolize capital, the means of production and the market place. Competitive practices should be encouraged

Socialist societies try to suppress competitiveness and self interest, but fail to do so, thus corrupting the ideal of socialism, and socialism thereby fails by default in its prime purpose, the adoption and continuity of an egalitarian society.

Existing systems of taxation which tax the formal economies as represented by their respective Gross Domestic Products by up to 30% or more of their income, should be replaced by a system of taxation which taxes the entire economy (the Total Economic Activity) by a levy as little as 0,5%. This is a Total Economic Activity Levy or TEAL.

The Levy can be thought of as a Rent Paid for the right to participate in one's economy and provides, inter alia, the necessary infrastructures needed for a functioning economy (roads, rail, centres of commerce and industry, populations, market places & etc.) A big player in an economy will pay big rent, a little player, little rent, but all would pay the same percentage of their total economic activity.

A 'for purpose' TEAL can fund a Universal Basic Income or Basic Income Grant (a UBI or BIG) and help seed a Sovereign Wealth Fund, and a once in a lifetime Advancement Grant for the benefit of all citizens in the economy. Profits from and growth of a Sovereign Wealth Fund can fund a future UBI / BIG.

A UBI / BIG and Sovereign Wealth Fund can provide the means for more of a population to participate in a Capitalist economy, both as consumers and as new producers in the capitalist society, either as individuals and/or as members of one or more collectives (including as members of the Sovereign Wealth Fund).

As such an economy grows and so produces more wealth, which when shared through the UBI / BIG and the Sovereign Wealth Fund will grow the economy more and in turn grow the UBI / BIG and Sovereign Wealth Fund more and again in turn, grow the economy and so on, ad infinitum. So capitalism feeds off the market and the market feeds off capitalism in a mutually beneficial and symbiotic relationship.

I hope these thoughts add to the debate on the Universal Basic Income (UBI) or Basic Income Grant (BIG).

To the producers of the UBI podcasts and all those who participated in them, and in particular Della Duncan and Robert Raymond, thank you. You did well.

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