A feasible basic income scheme for Germany
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Germany’s social security system and its income taxation suffers from intransparent and inefficient interdependencies between the two systems. Additionally, work incentives of the current unemployment benefits are reduced by high implicit marginal tax rates. Due to these inconsistencies there is an ongoing debate in politics and economics to replace the current regulations with an unconditional basic income scheme.

In our paper we analyze the effects of substituting Germany’s means-tested benefits by a negative income tax (NIT). Using data from the 26th wave (2009) of the German Socio-Economic Panel (GSOEP) we study the reform’s impact on household labor supply, income inequality, and poverty. The study is conducted using a micro-economic model which simulates the German tax and social transfer system.

Labor supply is modeled by a discrete choice approach following van Soest (1995) and van Soest/Das/Gong (2002). The effects of the NIT-scheme on labor supply are estimated by a multinomial logit model with translog utility functions. It can be shown that by applying adequate values to the relevant parameters, efficiency gains can be reconciled with widely accepted value statements on income distribution. Furthermore, as our proposal includes a universal basic income for families as well, child poverty is reduced considerably.

References


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