

Manuscript

Joern Hendrichs - „Establishing a Capital Financed UBI Fund to Fight Poverty“

CS 7 - 24th August, 17.00h - 18.30h

Good evening everyone,

After this full day of talks and sessions, it is now my task to see if you have enough energy left for yet one more presentation. This is actually the very first time I speak about this topic in public so in a way, you are witnessing a world premiere. But first, allow me to introduce myself: My name is Joern Hendrichs. I am from Bremen, a city in Northern Germany, perhaps most well-known for the Brother Grimm fairy tale of the Bremen town musicians. This is their statue in the city centre and for some reason our main tourist attraction, usually surrounded by people taking pictures.

Let me also tell you a bit about my background: For the past several years, I've been working with the local government in the Department of Development Cooperation. One of our tasks is to consult and fund development cooperation projects like these, both on the municipal government level with partner cities that we have in Africa and also managed by NGOs based in our city. These projects take place in countries in the southern hemisphere and deal with various topics, such as reforestation efforts, school or orphanage renovations, well digging, or funding small businesses anywhere across Africa, South Asia, or Latin America.

While all these projects have the best intentions, as a funding agency handling taxpayer money, we inevitably face the question of impact and efficiency. We are a relatively small department but nevertheless we grant nearly half a million Euros per year, and every now and then the question pops up whether we are maximizing impact per Euro spent.

Consequently, over time we've conducted research on how to professionally evaluate international development projects and have sought out best practice examples. Quickly, we came across GiveDirectly, a US-based organization that some of you may already be familiar with. In a nutshell, they collect donations from individuals in first-world countries and transfer this money directly to people in third-world countries. It's a classic "take from the rich, give to the poor" approach. Recipients are chosen randomly from very poor areas and receive funds through mobile money transfers, which are especially popular in Africa.

To scientifically support their relatively new approach, some studies have been conducted over the years to measure the impact of direct cash transfers. As you can see, unsurprisingly, these studies concluded that giving cash to extremely poor individuals generally improves their situations. They use the money, for instance, to build stable homes, purchase food, pay school tuition for their children, or even start small businesses. All of this occurs without external influence, as the underlying assumption is that recipients themselves know best what's needed to improve their lives individually.

This donation-based cash transfer approach has inspired other UBI-focused organizations. In Germany, for instance, we have an initiative called "Mein Grundeinkommen," meaning "My Basic Income." This is also a donation-based model. Every month, a draw selects around 20 recipients to receive a basic income of €1,000 per month for a full year, paid by these donations. Participation doesn't require German residency; anyone worldwide can sign up for free on the internet. However, as far as one can tell, most recipients are German.

The feedback from 'Mein Grundeinkommen' recipients is generally positive, though it's not a comprehensive scientific evaluation. That is of course not really surprising: There is just no reason to assume that giving people money will go without having any positive impact on their lives.

However, these initiatives don't truly provide a basic income in the full sense; they're essentially elaborate lotteries that offer a one-time payment, even if spread over a certain period of time like twelve months in this case. So, while you might be fortunate to receive these funds, you're eventually on your own again.

Simultaneously, these organizations have to deal with the challenge of depending on ongoing donations to maintain the flow of funds. And while these are certainly commendable initiatives, I believe that the real effects of a basic income, even at an individual level, can only be measured if the payment is not just unconditional but also ongoing without a predefined end date. But then, this guy here pops up and we inevitably encounter the

common question that arises almost every time when discussing basic income.

And, of course, this is a valid question. However, it's also evident that global wealth has been exponentially increasing over the past decades. At the tip of the iceberg, there are approximately 3,000 billionaires in the world, and this number continues to rise annually. These individuals certainly don't need to work to cover their living expenses. But focusing solely on billionaires misses a broader population benefiting from non-labor income.

Earlier this year, the German statistical office released a graph that illustrates the number of people in Germany able to sustain themselves through non-labor income such as interest, dividends, or rental income. This figure has surged to over 800,000 individuals. This is roughly 1% of the German population, and the number continues to grow steadily each year.

You might have heard of the Norwegian State Fund. Since 2006, Norway has been investing surplus revenue from its petroleum and natural gas industries. The fund has swelled to around 1.2 trillion USD, which translates to nearly 250,000 USD per person when divided among Norway's approximately 5.5 million citizens. If Norway continues this investment strategy, they could eventually use the fund to not only serve as

a financial buffer but also subsidize pensions, their social security, or even distribute the fund earnings as a basic income to citizens. The Alaska Permanent Fund Dividend is laid out roughly the same way, skipping the investment part however and directly paying our oil earnings to its citizens.

This is of course very fortunate for the residents of Norway or Alaska. But these are schemes benefitting residents of two of the richest countries in the world. Unfortunately no human being can choose to be born in Norway or the United States - we all go through what some people call the 'birth canal lottery' and some of us end up being raised in this part of the world and some of us in this part and unfortunately this makes a big difference for your life path.

So, my question is: Why not merge these two impactful concepts - providing money to those in need and funding it through the same means wealthy individuals have relied upon for centuries? Why not establish a capital-financed UBI fund to enable more people to share in the substantial wealth generated by the global economy?

You might be thinking: "That's a great idea, but what about this guy here again? This will require substantial funds, and you don't have the billions of barrels of oil that Norway does." Unfortunately, this is true. However, we shouldn't underestimate people's willingness to support a noble cause.

Let me offer an example: You likely recall the Euro/Debt crisis that plagued southern European countries a few years ago. Greece, in

particular, faced deep trouble and had to make cuts to its welfare system while selling state-owned infrastructure. During the peak of this crisis, a UK citizen initiated a crowdfunding campaign on Indiegogo. This was a rather spontaneous effort; he didn't even make a video or anything elaborate. It was a simple plea for European solidarity with Greece, probably typed in less than half an hour. As you can see, he didn't quite reach his €1.6 billion goal, but even with this basic campaign, he managed to inspire people to donate nearly €2 million within a few days.

Let's now assume he had invested these two million Euros in a publicly traded company, like Coca-Cola for example. As of today, that investment would secure roughly 36,000 shares in the company. Each share pays a quarterly dividend of 0.46 USD, totaling about 16,500 USD every quarter or 5,500 USD per month. This reflects a return of approximately 3% (pre-tax), achievable on the stock market today without specialized investing knowledge.

Historically, a 3% return is not considered on the higher end. And there are many companies that pay dividends over several decades in a row, making them a relatively safe investment. But what about events like a stock market crash, wars or recessions you might ask? Of course, there is no such thing as 100 % secure investment. Nobody knows what will happen in the future. But what we can do, is have a look at the historical development of certain investments.

This topic has been addressed in various articles, notably a study by Philipp Cooley et al. from 1998. In his study, he assumed a thirty-year investment period with different starting points from 1925 to 1990, combining investments in U.S. stocks and government bonds. As you can see, even if you selected the worst starting point possible within this period, you would still achieve a 4% return, most of the time considerably higher.

So, what does this mean for our objective? Returning to our Coca-Cola example, to achieve a \$100 monthly income, we'd need about a \$40,000 investment. Naturally, this is a simplified scenario, neglecting taxes on one side but also not accounting for potentially higher returns, thereby reducing the needed funding.

Here in Korea or anywhere else in the developed world 100 USD will not nearly be enough to cover your living expenses. But if we look at the least developed countries, an extra 100 USD per month can make the difference of sending your kids to school, pay for medication, proper nutrition or even start a business and secure a full living in the future. So I think that a payment of 100 USD per month would be a good starting point.

But how would this look in practice? Well, as seen in our previous example of the Greek bailout fund, an initial crowdfunding campaign could be a good start, not only to raise funds but also raise awareness. These funds could then be invested just as any investment fund does. As soon as this fund reaches a pre defined threshold and sufficient returns are

being generated, we could adapt the lottery model already used by other UBI projects and randomly select recipients from least developed countries. The Fund could grow through ongoing donations and reinvestment of returns, thereby benefiting an increasing number of people.

I believe that this has the potential to improve the lives of many individuals and at the same time be a step to make wealth distribution in this world a little bit more equal. I hope I've piqued your curiosity about this idea. and I invite you to visit the website of this project to learn more.

Thank you very much