Funding Basic Income

Scoping the funding of basic income

The UK population is 66m of which the population of adults over age 16 is 53.5m.

Every £1,000 of basic income paid to adults would therefore cost £53.5bn

To put this in context, **£53.5bn**

- represents
    - 2.6% of GDP
    - 4.4% of consumer expenditure
- compares to
    - £74.5bn new loans to individuals in 2017
    - £13.7bn unsecured loans to individuals in 2017
    - annual government deficits of £40bn-£115bn over the last 10 years
    - £174.5bn by which earned income fell short of consumer expenditure in 2016
    - £217bn in welfare benefits
    - £172.5bn in income tax take
    - £131.1bn in NI contributions

The options to fund each tranche of £1,000 basic income, costing £53.5bn are

- increasing orthodox tax take
- reducing other traditional welfare benefits
- introducing new taxes eg wealth, land, pollution etc
- displacing consumer credit
- increasing government deficit

Of these

- increasing tax take within the present tax system is a strategy designed to be revenue neutral and therefore makes little overall difference to the macroeconomy
- reducing other welfare benefits also has a low net effect on the economy, and an indefinite effect on social justice
- revenue neutrality does not counter austerity policy or avert economic crisis
- introducing new taxes requires extensive rationalisation of how wealth taxes would work – how would wealth in its various forms of cash, plc shares, primary housing, secondary housing, productive assets etc be taxed, how would the tax be paid, and how would the receiving institution manage the wealth it takes?

whereas

- displacing consumer credit and household debt meets the fundamental problem of the current system of economic management which fills the inevitable gap between output GDP and disposable consumer income with consumer credit which is then unsustainable and leads to economic crisis as in 2007

- deficit financing, or money creation funding, accords with the precepts of modern monetary theory, ie that a sovereign state can issue money without incurring debt and should do so to raise demand to the level of output GDP

Looking at these in more detail,

1 Increasing tax and reducing means-tested welfare benefits

The CBIT scheme proposes a working adult basic income of £63/week.

This tapers to £40/week for pensioners and young adults not in education, £50/week for young adults aged 20-24.

The scheme costs £164bn gross as shown in table 1

Table 1 CBIT scheme cost

	Population	**Weekly**	**Annually**	**Total**
Pensioners	13,104,343	40	2,080	27,257,033,440
Age 25-64	33,168,409	63	3,276	108,659,707,884
Age 20-24	4,207,341	50	2,600	10,939,086,600
Age 16-19 in education	2,000,000	20	1,040	2,080,000,000
Age 16-19 not in education	1,176,192	40	2,080	2,446,479,360
Child benefit	12,383,944	20	1,040	12,879,301,760
Total	**66,040,229**			**164,261,609,044**

CBIT proposes to fund this from the following current funds

- Income tax £172.5bn
- NIC £131.1bn
- Means tested welfare benefits £217bn

Since CBIT proposes a net scheme cost of only £2bn, this requires £162bn to be funded from these three sources.

The scheme achieves this by

- reducing income tax personal allowances
- increasing income tax rates by 3%
- equalising NIC at 12%

The scheme intentionally has no macroeconomic impact, does not address austerity or economic crisis, and yields small numbers of losers from the redistribution of income it implies. Its main advantage is in the reduction of intrusion, cost and low take up of means-tested benefits.

2 Raising new taxes

Principle new tax proposals for funding basic income are

- wealth tax
- land tax
- pollution tax

UK wealth is estimated at £12tn. A proposal for a 0.5% wealth tax could therefore generate £600bn and fund a £10,000 basic income costing £535bn.

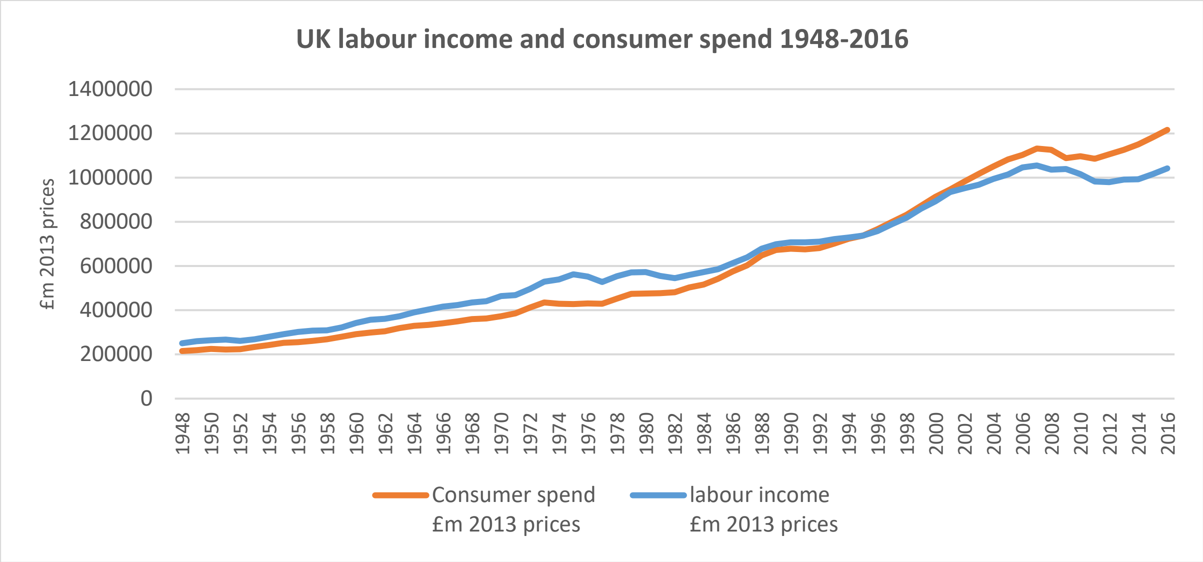
However, **wealth taxes** need careful practical specification. Individuals required to pay a wealth tax either have to i) pay the tax from current income, ii) relinquish ownership of the asset to the state, or national wealth fund, or iii) sell the asset to release funds. The first option becomes a sophisticated income tax. Other options generate knock-on effects. How will the state or national wealth fund manage ownership of widespread assets such as property, company shares, luxury goods etc? And sale of even 0.5% of the wealth in the economy, whether property, shares or luxury yachts, would have substantial destabilising effects. Wealth tax is ultimately a one-off tax unless equivalent new wealth is regularly generated.

Land taxes refer to an agricultural economy where land was a major economic resource. Land is a far less significant resource in an industrial economy, and an almost negligible resource in a virtual economy, where huge value added is generated from very little land resource input. The FANG economy (Facebook, Amazon, Netflix and Google) is not going to make a proportionate contribution from its profits via a land tax.

Pollution taxes are ecologically very defensible, but for that very reason are not reliable sustainable sources of tax revenues, since they target activities with high cost elasticities, ie they aim to deter pollution and therefore become self-eliminating.

3 Displacing consumer credit

There is a fundamental structural problem in the UK economy. Due to the long term increase in productivity, the wage share of output has declined, meaning that aggregate earned income is insufficient to purchase output GDP. The following diagram shows that consumer expenditure has grown faster than earned income since 1948, becoming and remaining greater than earned income since 1995.



Source : UK ONS (note that ONS define 'Labour income'=wages + self-employed income) with thanks to David Matthewson and other staff at ONS for valuable help in defining and interpreting UK income data streams

The dangerous trend is for the gap between earned income and consumer expenditure to be funded by increased consumer credit and household debt.

This happened notably between 2001 and 2017 when output GDP grew by 24.8% but disposable consumer income by only 16.1%. The gap was met by a 52.1% increase in household debt. This is what caused the economic crisis and led to subsequent austerity policy.

The same danger is emerging in 2018. £74.5bn new loans were made to individuals in 2017. £30bn of these were unsecured, but even extended secured mortgage loans are often taken for the purpose of consumption. Household debt is again rising to unsustainable levels, threatening a repeated economic crisis.

If instead of £74.5bn in new loans, £53.5bn were extended as basic income, accompanied by more rigorous loan conditions, then consumer income would be sustained without creating default in loan repayment.

Basic income therefore has an important role in avoiding economic crisis, and by sustaining consumer income, also avoids the counter-productive disaster of austerity policy.

4 Money creation

Modern monetary theory claims that

- Money has no inherent value, but has value imputed to it by output GDP in the real economy
- Money is therefore not the criterion or arbiter of affordability – real economic output determines what consumption is affordable
- Money is virtual and not real, does not obey the first law of thermodynamics, and can be created or destroyed
- A sovereign state can issue money, up to the value of output GDP, without incurring debt

- It is a category error to regard macroeconomic budgets in the same way as household budgets which have to balance. This is not true. Deficits can run long term, even in perpetuity.

'Quantitative Easing', or 'Overt Money Funding', or 'Helicopter Money' has been implemented in the UK in recent history. This did alleviate crisis, but was constrained since the funds were lodged with banks who at the same time were required to raise their reserve/loan ratios, meaning that much QE funding stayed with the banks rather than reaching the consumer. Once the Bank of England base rate reaches 1.5%, banks have to repay some £465bn of QE which will cause an economic shock. Hence the proposals for a 'People's QE'.

Separate papers are available showing that in advanced technology economies, not only is basic income a necessary component of macroeconomic demand, but financial deficit is inevitable and manageable.

Basic income can therefore be funded by money creation, ie by new money creating neither consumer nor national debt, but limited by the constraint that the total of consumer disposable income made available fits within the envelope of output GDP.

A radical pilot project

A radically funded pilot project proposal is therefore to eliminate £74.5bn of new household debt and transfer this into basic income paid to the population on value holding electronic cards, with the value expiring over a year if not spent. This amount could then be increased each year following evaluation of the national economic pilot project.

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