

Sovereign Money and Basic Income

A presentation for

London Futurists

Radix Think Tank

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Geoff Crocker

Editor ['The Case for Basic Income'](#)

Author ['Basic Income and Sovereign Money – the alternative to economic crisis and austerity policy'](#)

Partner ['The Economics of Basic Income' research project, IPR, University of Bath](#)

Partner ['Basic Income Conversation'](#)

The case for basic income

- **Social justice**
 - addressing inequality, precarity
 - sharing inherited infrastructure and technology
- **Best welfare system**
 - less intrusive, lower cost, higher uptake than means-tested benefits
 - no unemployment and poverty traps (UBI ≠ work disincentive)
- **Macroeconomic demand**
 - meeting income need as wage reduces vs output
 - avoiding debt, crisis and austerity
- **Ecology**
 - breaking link between income and more output, resource depletion, and pollution
- **Human flourishing**
 - enabling choice of lifestyle

see
**'The Case for
Basic Income'**
at
www.ubi.org

Funding basic income

- ▶ UBI either
 - ▶ too small to be meaningful
 - ▶ too large to be affordable
- ▶ Funding options

Funding option	Comment
Revenue neutral = higher tax/replace other benefits	Only change = unconditionality = less intrusion?
Wealth tax	Difficult to tax range of assets continuously
Land tax	Most profitable FANG companies use little land
Eco-tax	Eco-tax should self cancel
Sovereign fund investment	Requires one of above over time
Sovereign money creation	A heterodox paradigm change

Dysfunctionality in the present economic paradigm

- ▶ economic **crisis**, actual or likely to repeat
- ▶ pervasive **debt**, household and government
- ▶ continuous **austerity** policy
- ▶ extensive **poverty**, including in-work
- ▶ **low pay** jobs
- ▶ increased **inequality**
- ▶ **ecological damage**

This needs

- ▶ **a radical re-think**
- ▶ **economic system re-engineering.**

Explanation – the bad guy theory

- bad banks created excess debt and derivatives
- bad governments failed to regulate

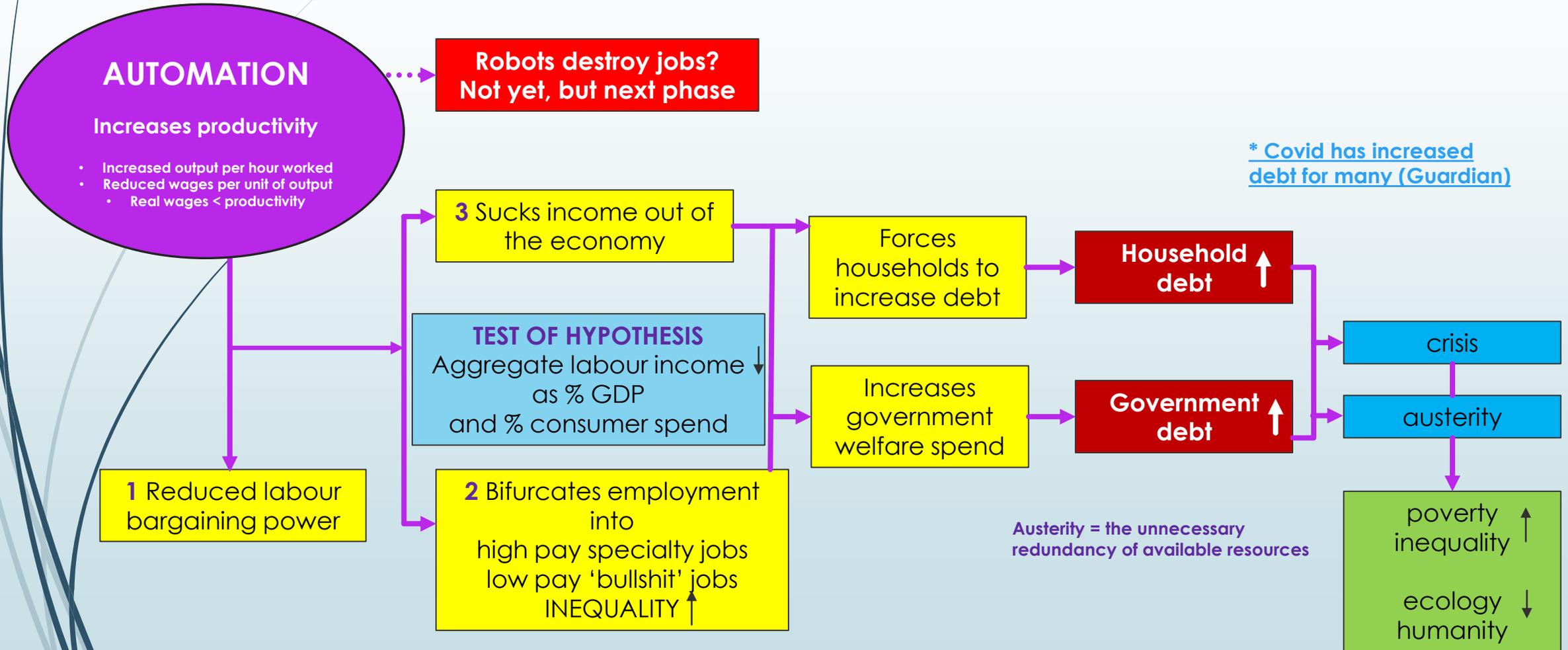
Correction

- Get debt down by
 - tighter bank regulation
 - quantitative easing
 - austerity

BUT (since it's not working)

- is simultaneous universal malpractice a credible hypothesis?
- **what caused the debt explosion?**
- **was US prime debt for housing or consumption?**
- **is crisis structural rather than behavioural?**

The structure of dysfunctionality in high-tech economies



A hypothesis on basic income and sovereign money

► Thought experiment

- plug machine into earth for total GDP, ie no wages
- distribute output via annual voucher issue
- 100% GDP = basic income
- 100% GDP = sovereign money, debt free like coinage

► Nuanced argument

- in high tech economies
- unearned (or **basic**) **income essential** component of demand
- **sovereign money is essential** to fund basic income and government expenditure
- **sovereign money is the consistent proposal for funding for basic income**

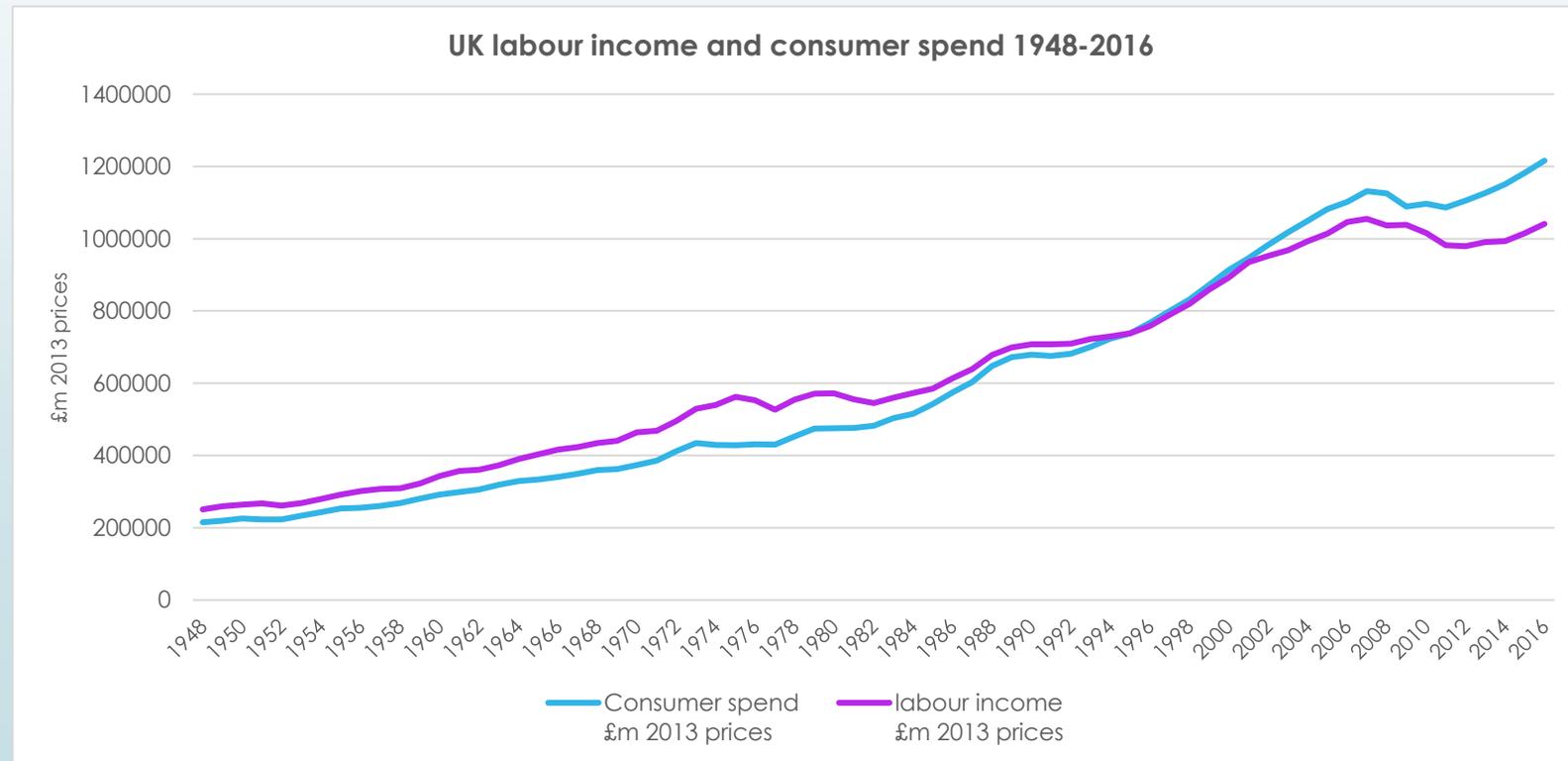
► Empirical evidence

- Earned income has declined against consumer expenditure from 1948-2016
- huge household debt acts as surrogate for missing basic income
- huge government debt acts as surrogate for missing sovereign money
- BoE purchase of £875bn government bonds ≈ debt-free sovereign money
- IPR project on The Economics of Basic Income testing the hypothesis indicates technology reduces labour share of GDP

Empirical evidence

– labour income declines consistently vs consumer expenditure 1948-2016

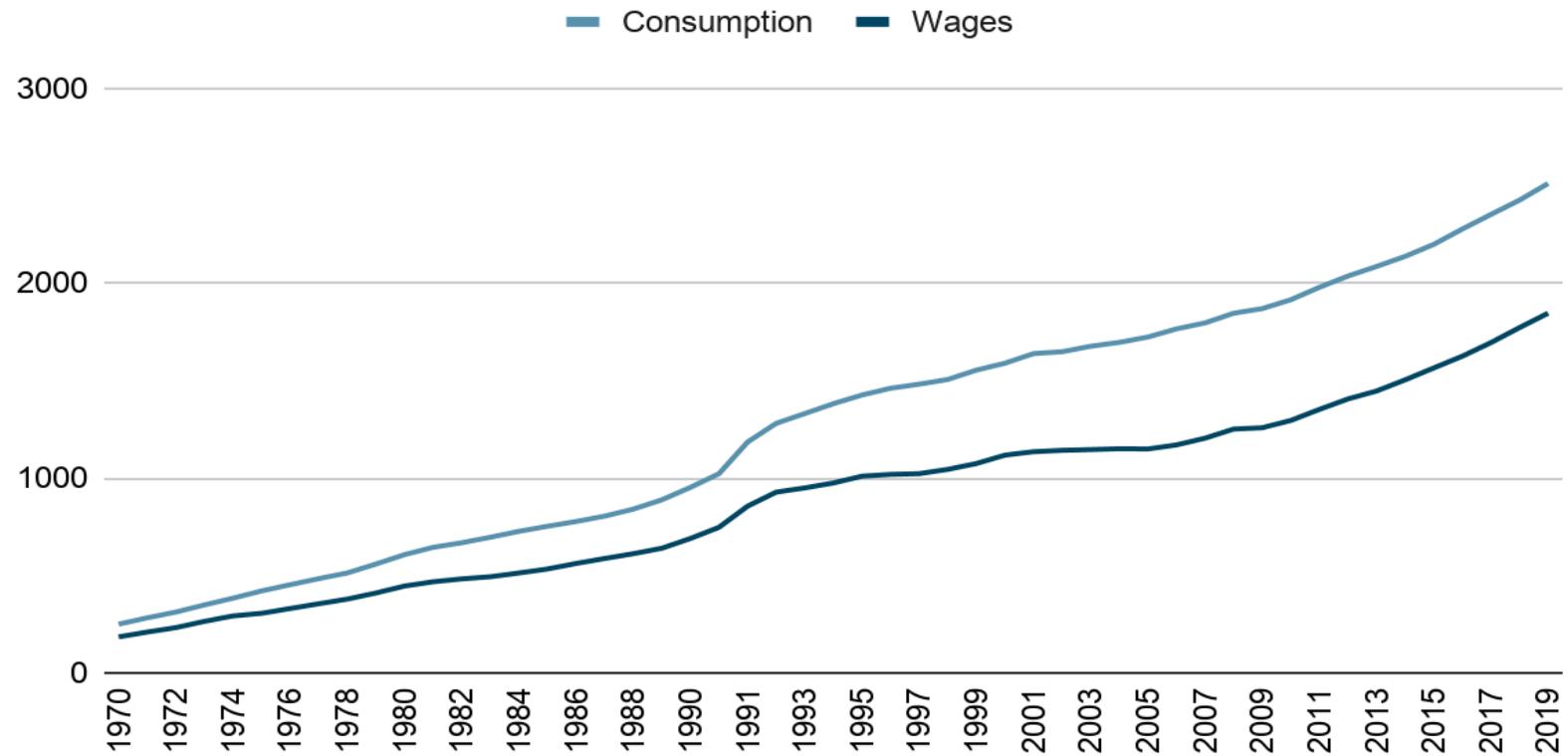
- supports hypothesis that automation is sucking income out of the economy
- delinking of productivity and real wages
- argument relies on automation, not growth, so also applies to degrowth proposals



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

plus German data

Germany: Consumption and wages (in Billion €)



Empirical evidence

- debt everywhere

UK household debt (2018) £1.28tn

= 61% GDP

= £1.16tn property, £119bn financial

£12bn increase 14-16 to 16-18 = £6bn HP, £7bn student loans

Figure 1: Total household debt has been increasing since the period July 2012 to June 2014, after adjusting for inflation

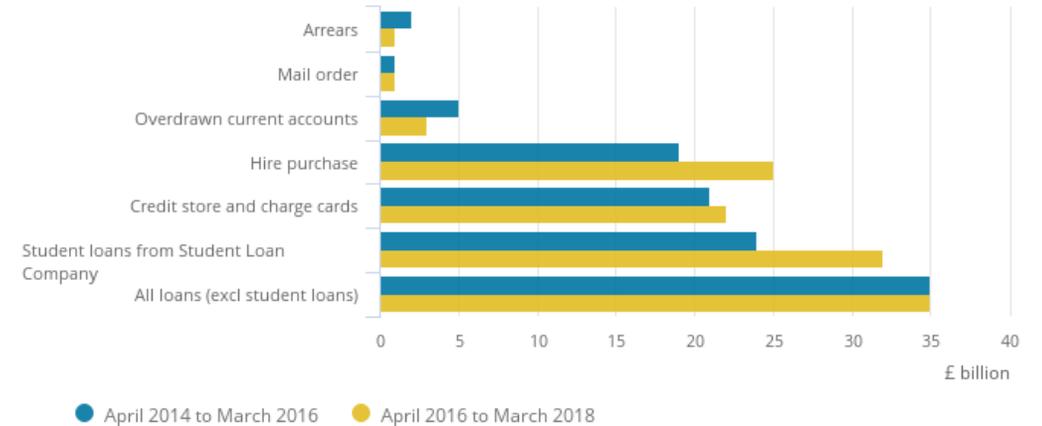
Total household debt by type, Great Britain, July 2010 to March 2018



Source: Office for National Statistics – Wealth and Assets Survey

Figure 4: Total debt increased in April 2016 to March 2018 for loans, hire purchase and credit, store and charge card debt

Total financial debt by type of borrowing, Great Britain, April 2014 to March 2018



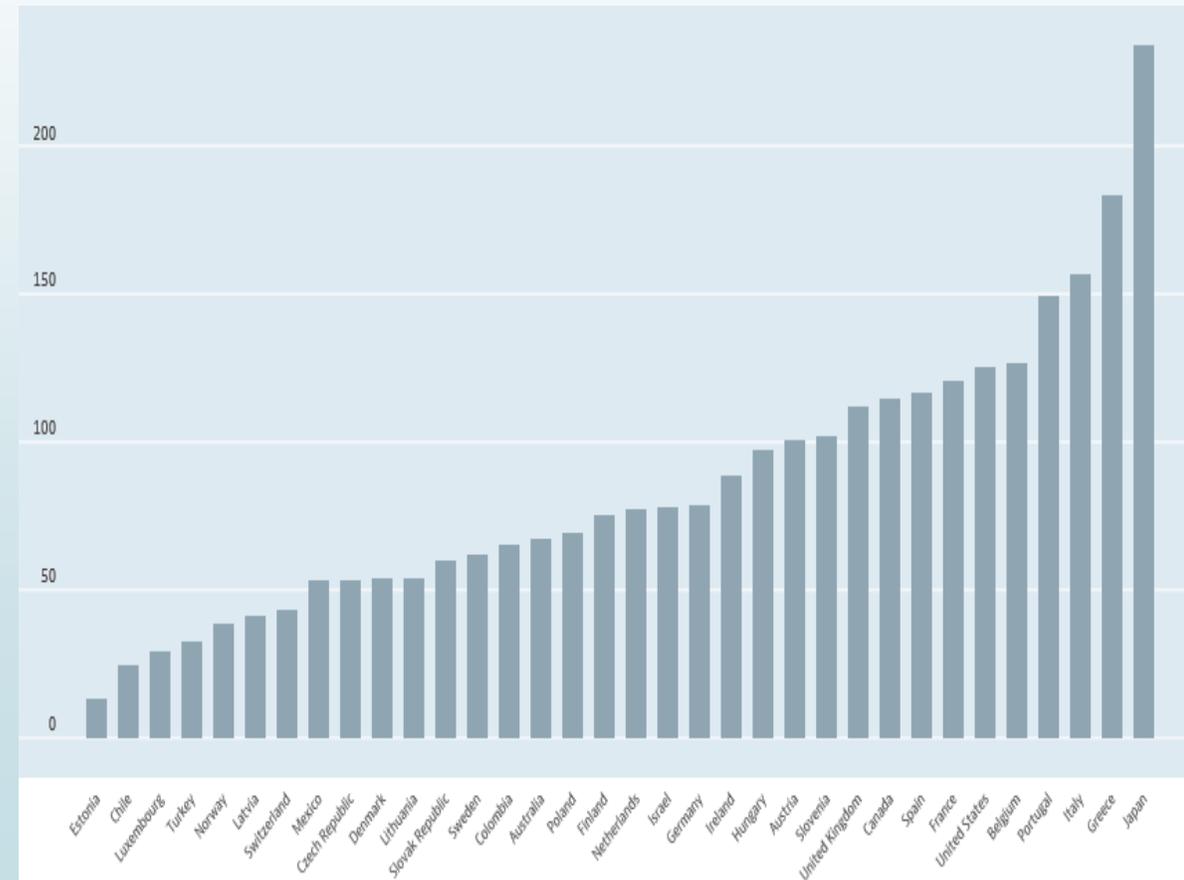
Source: Office for National Statistics – Wealth and Assets Survey

Empirical evidence

- debt everywhere

UK national debt = 98% GDP, Japan national debt = 234% GDP!

UK debt as %age GDP 1994-2017



The Problem

- debt constrains expenditure because of the 'deficit myth'

UK household debt = 61% GDP + national debt = 98% GDP total 159% GDP!

Increasing due to Covid-19

- ▶ Household debt and government debt constrain expenditure
- ▶ Hence poverty (including in-work poverty) and austerity

Therefore, conceptual first steps =

- ▶ Replace household debt with basic income funded by sovereign money
- ▶ Replace government debt with sovereign money and restore austerity cuts

Defining money

- rethink the definition of money in the economy
- take debt as constraint out of the system

From

- **Financial orthodoxy**

- money has inherent value from gold reserves, or sale of government bonds which create debt
- money is real, cannot be created or destroyed
- government budgets must balance
- household and government expenditure become debt financed and therefore limited by debt
- **affordability is defined by government financial reserves**

To

- **Heterodox theory of money = SOVEREIGN MONEY**

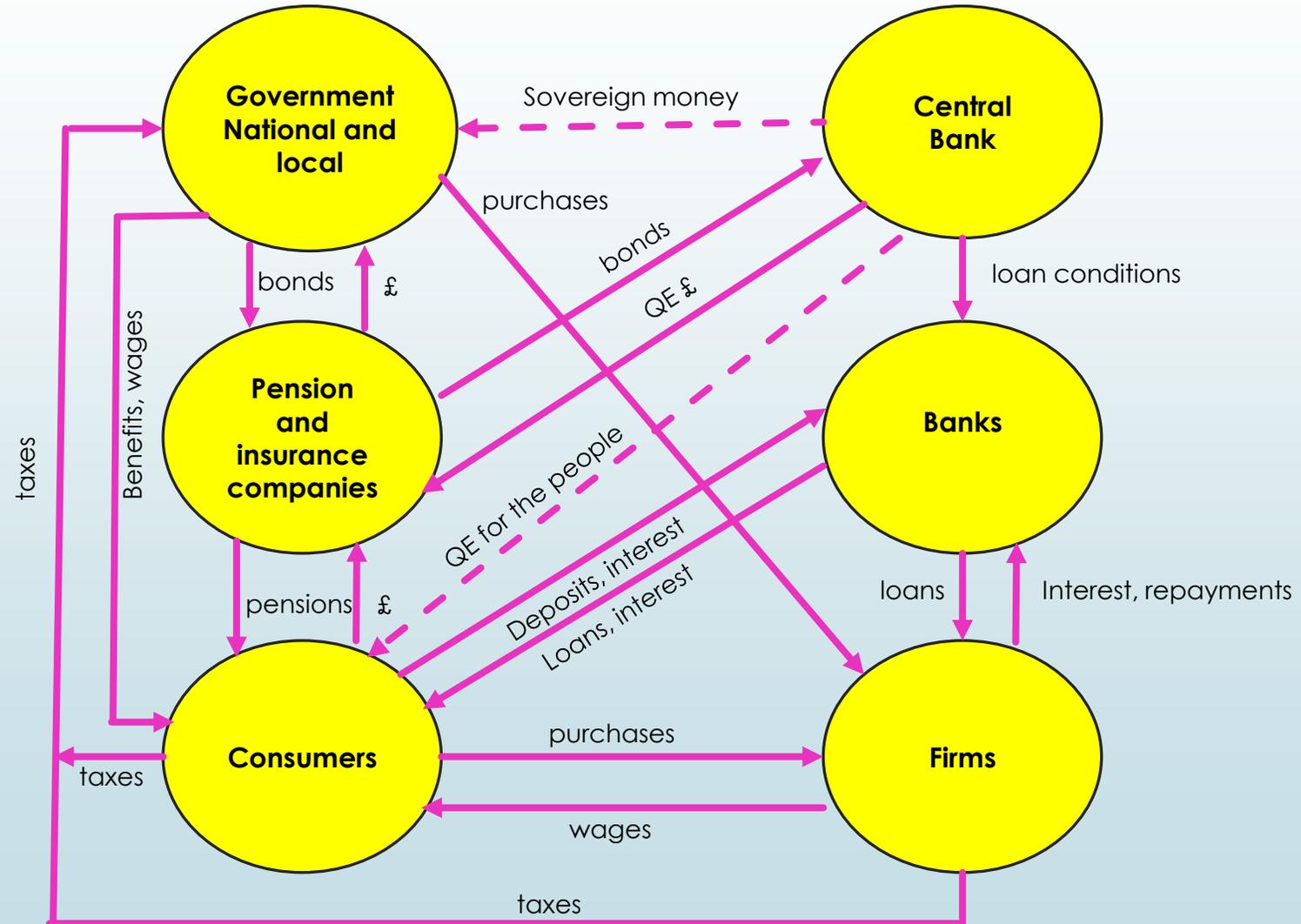
- money has no inherent value (there is a magic money tree), but derives its value from output GDP
- sovereign state can issue money vs GDP without creating debt
- sovereign money is needed in high technology economies
- household and government expenditure then funded by sovereign money
- **affordability is defined by real resources and productive potential**

Defining sovereign money

- **MMT definition (Stephanie Kelton 'The Deficit Myth')**
 - Sovereign money funds job guarantee, Medicare for All, Green New Deal
 - Money creation must be matched by debt creation.
 - Debt so created is balanced by surplus in other sectors (the Godley identity)
 - A zero interest rate creates no revenue financing cost.
- **Bank money definition (Joseph Huber 'Sovereign Money')**
 - Sovereign money = state monopoly
 - Commercial banks no longer create bank money, so no crisis.
- **Basic income definition (Geoff Crocker 'Basic Income and Sovereign Money')**
 - Sovereign money funds aggregate demand to full potential output GDP.
 - Money creation is debt-free, not matched by debt creation.
 - Avoids excessive consumer and public sector debt which lead to crisis and austerity
 - Eliminates intermediary arbitrage, reducing 'financialisation' of the economy
 - Returns seigniorage to the state, via a seigniorage tax on commercial bank money creation

Origin	Objective	Definitions	Author
MMT	Fund job guarantee programme	<ul style="list-style-type: none">• Money=debt• Debt balanced by other sectoral surpluses• Zero interest rate, so no financing cost	Stephanie Kelton
Bank money	No commercial bank money creation	<ul style="list-style-type: none">• Only central bank creates money	Joseph Huber
Basic income	Fully fund aggregate demand to avoid debt, crisis and austerity	<ul style="list-style-type: none">• Central bank money does not create debt• Central + commercial banks create money	Geoff Crocker

Money creation and flow



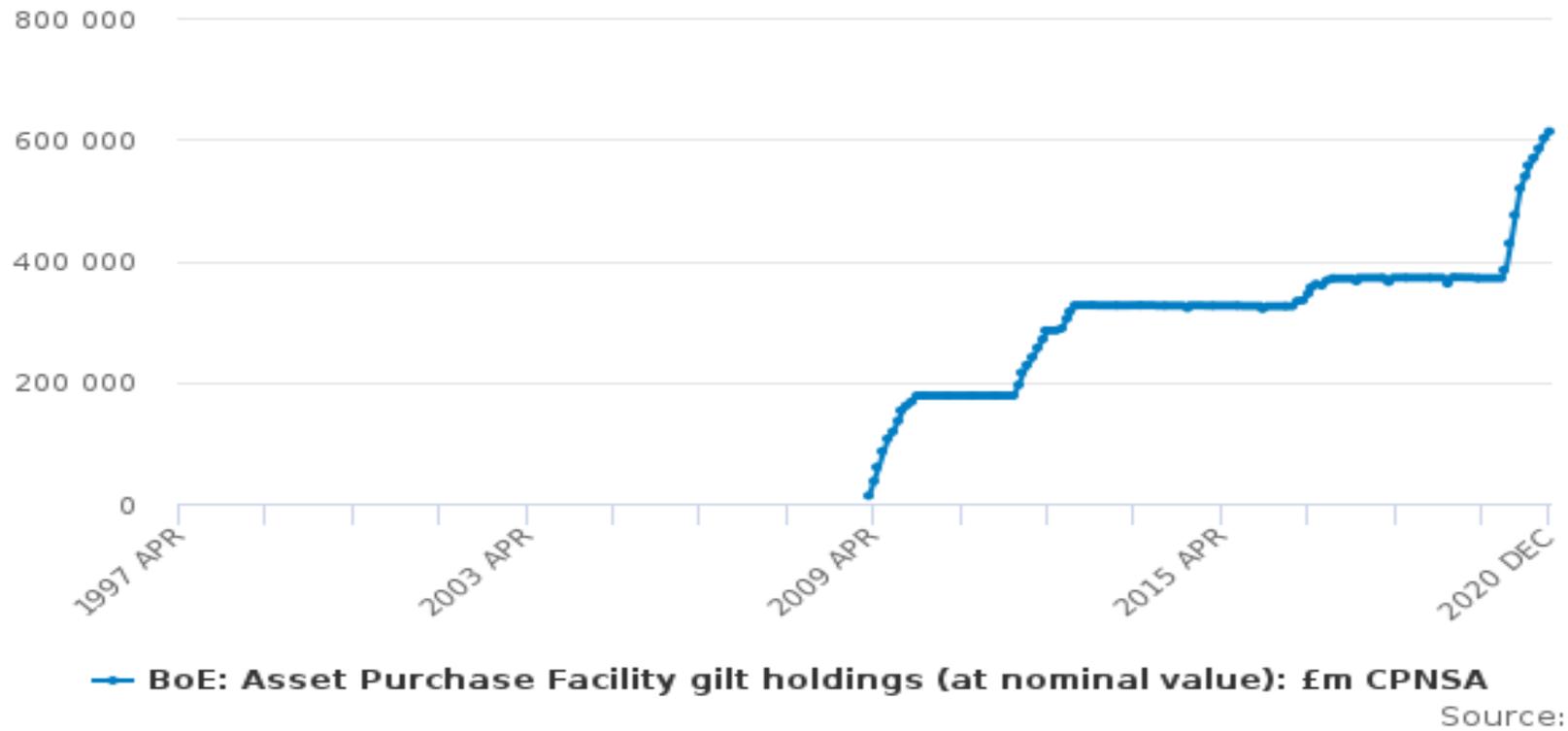
The life of bonds – and the law of unintended consequences

- ▶ Government spend funded by
 - ▶ tax
 - ▶ borrowing
- ▶ **Huge Covid spend borrowing** - DMO sells gilts to insurance companies and pension funds
- ▶ Mutuals, foreign central banks, individuals, and hedge **funds suffer withdrawals and sell gilts**
- ▶ BoE intervention to purchase gilts in secondary market **to maintain price and thus reduce yield**
- ▶ **This generates risk-free margin to intermediaries?**
- ▶ BoE now holds \approx £875bn government debt
- ▶ **This is equivalent to debt-free sovereign money ???**

Bank of England gilt holdings

now = £875bn ≈ debt-free sovereign money?

BoE: Asset Purchase Facility gilt holdings (at nominal value):
£m CPNSA



Life without bonds = debt-free sovereign money

the ultimate liberation theology 😊

Debt-free sovereign money

- **demonstrably feasible**
 - cash
 - current BoE bond holdings (£875bn)
- **convincingly preferable**
 - eliminates myth of national debt > GDP
 - eliminates debt servicing cost (£41.6bn/year)
 - enables necessary income to households and government welfare spend
 - eliminates crisis
 - eliminates austerity
 - reduces financialisation of economy and its huge profit take
 - returns seigniorage to the state via seigniorage tax on commercial banks

The concern of inflation

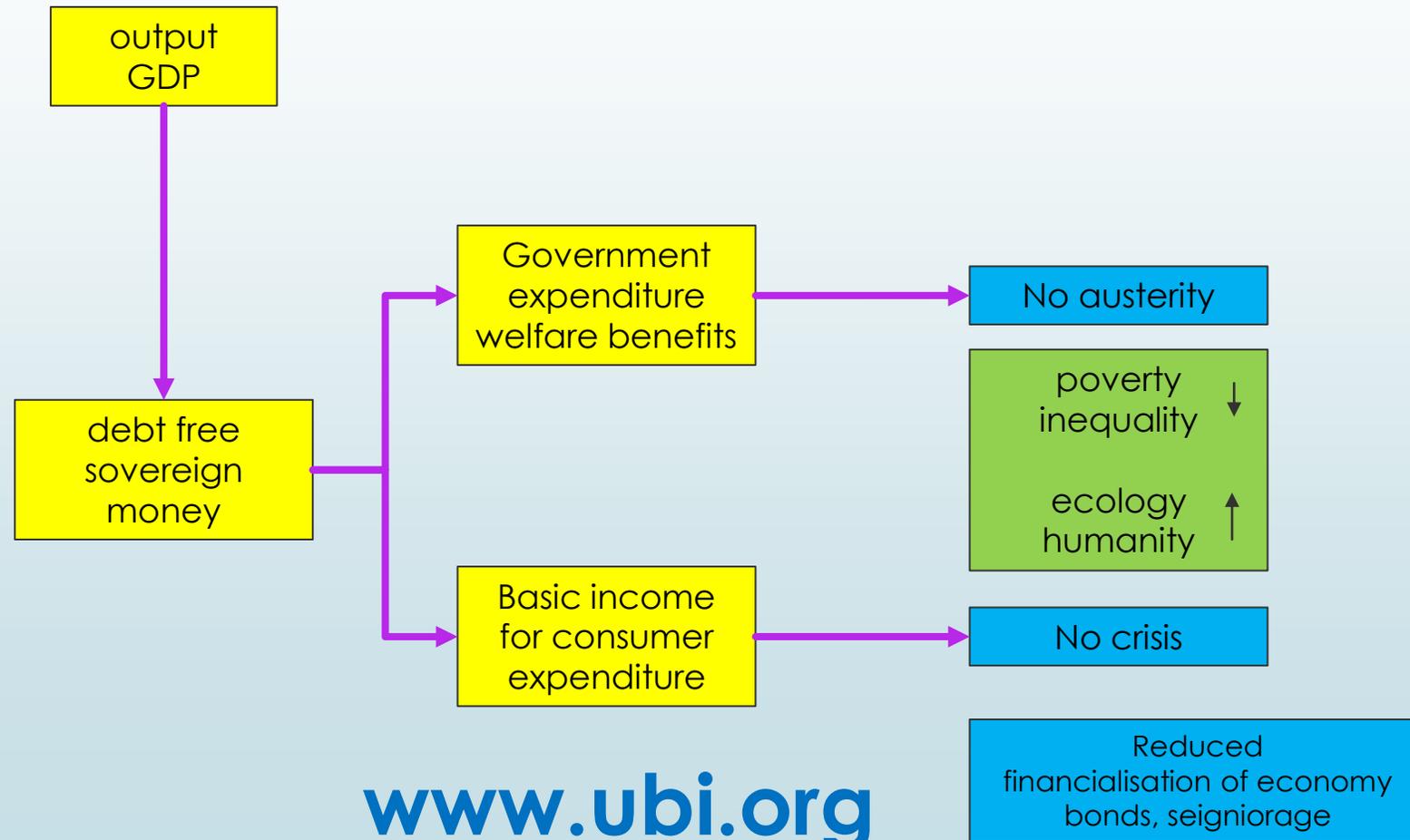
- ▶ **Is UBI funded by sovereign money inflationary?**
- ▶ UBI + sovereign money \neq Weimar and \neq Zimbabwe
- ▶ hyperinflation requires breakdown in real supply sector of economy
- ▶ All economies 'print' and create money – question is how much
- ▶ rule of all economic management = total aggregate demand < output GDP
- ▶ implemented by regular well-established Keynesian/monetary demand management
- ▶ whether
 - ▶ fiscal = tax
 - ▶ monetary = interest rate
- ▶ simple replacement of existing household and government debt not inflationary
- ▶ **Observe rule that**

Σ all demand in economy including UBI < output GDP

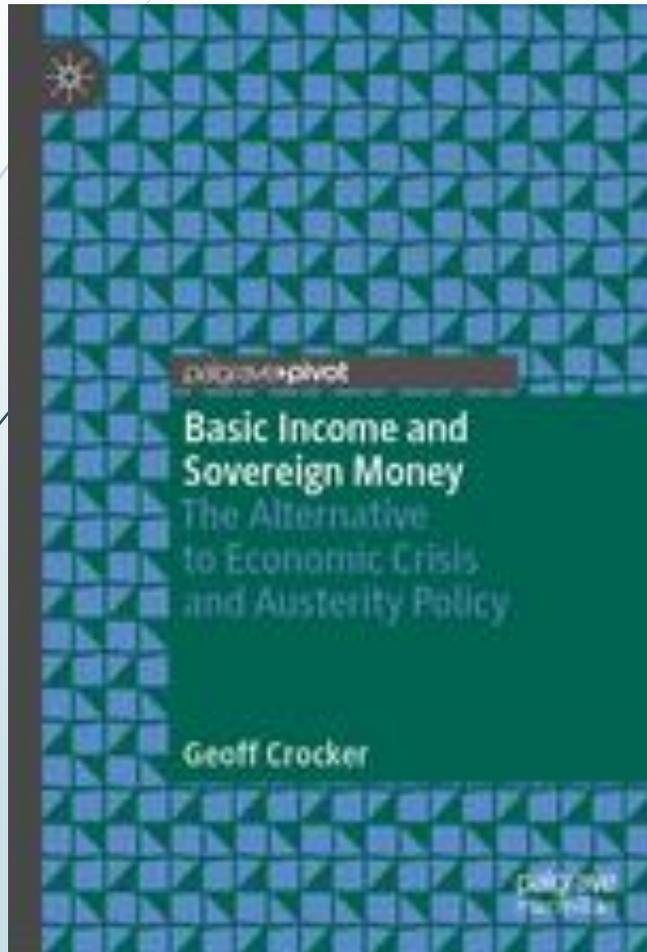
A paradigm shift from two crises

- ▶ BoE now holds £875bn government bonds bought in secondary market
 - ▶ ≈ Sovereign money works 😊
- ▶ Furlough scheme 3m people UK, \$1200/person USA
 - ▶ ≈ UBI works 😊

Basic income and sovereign money policy - the corrective for economic crisis and austerity policy



Basic income and sovereign money - the alternative to economic crisis and austerity policy



"This is a radical, thought-provoking book, which brings together debates that are often kept separate about basic income and 'sovereign money'. You might not agree with all of it, but it makes big arguments and does so with constructive intent: that of proposing alternative ways of organising our economy and welfare states."

Nick Pearce, Director of The Institute for Policy Research, University of Bath, UK

"Though I have criticized modern money theory (MMT) for being too facile regarding the consequences of money financed deficits, I welcome this book's advocacy of a universal basic income. MMT proponents have focused on the problem of employment. Geoff Crocker wants to shift the focus to basic income, and I believe he is right. We are in an era of transition. Employment was the fundamental problem of the 20th century. Income distribution will be the fundamental problem of the 21st century. We must begin transitioning the policy discourse now. In coming decades we will need both employment and basic income policy. It is good to have MMT advocates on board."

Thomas Palley, independent economist, Washington, DC, USA

"Geoff Crocker's book is a very stimulating and provoking contribution to the discussion of how to define, identify, and finance basic income. It addresses very clearly the societal issue of a monetary basic income funding which will excite the discussion beside well --known tax proposals, and establishes the discussion on integrating basic income directly into crisis prevention and crisis solution."

Bernhard Neumärker, Götz Werner Professor of Economic Policy & Constitutional Economic Theory and Head of Freiburg Institute for Basic Income Studies (FRIBIS) at the University of Freiburg