

Basic Income and Sovereign Money

- A System Corrective to Economic Crisis and Austerity Policy
work in progress

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Current economic system dysfunctionality

- economic **crisis**, actual or likely to repeat
- pervasive **debt**, household and government
- continuous **austerity** policy
- extensive **poverty**
- **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

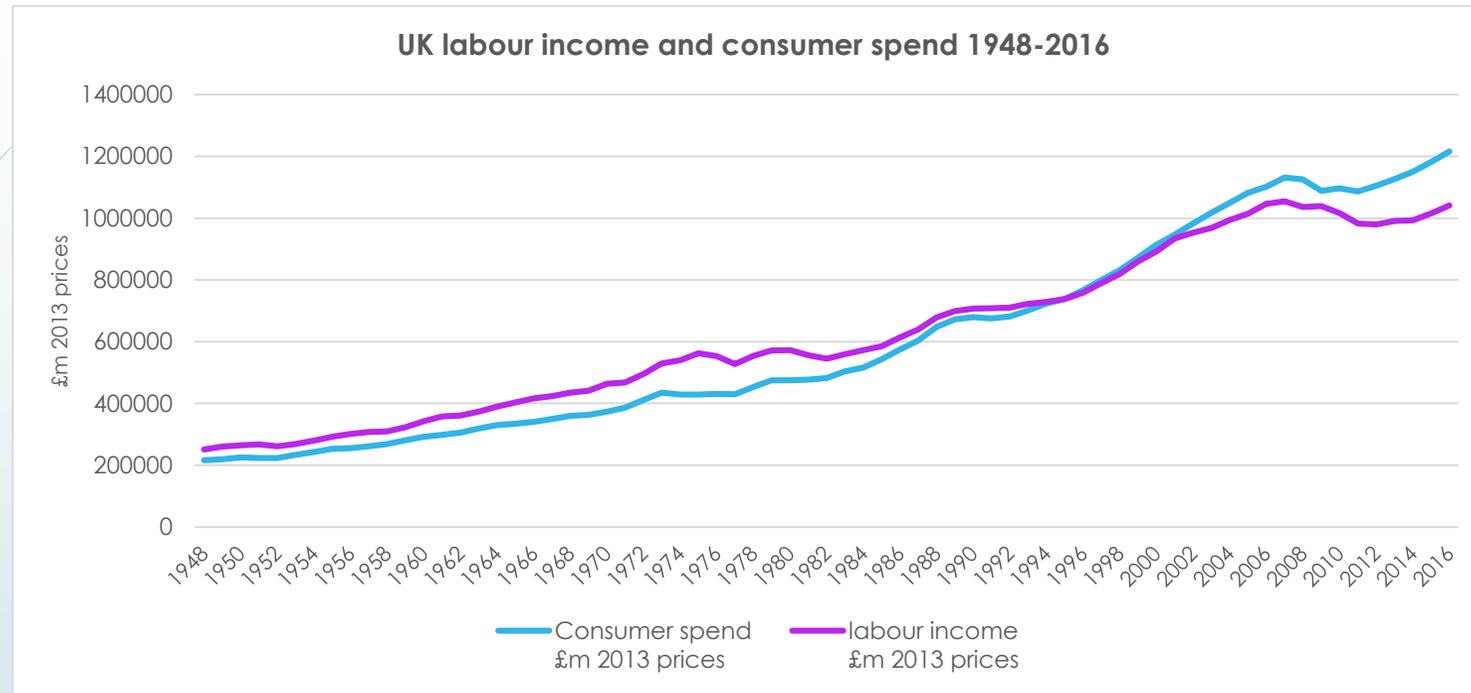
BUT (since it's not working)

- 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?**

UK economic event / policy response

Year	Event / outcome	Policy
1948-2016	Earned income becomes insufficient to purchase GDP	Keynesian fiscal demand management
	Unearned income increases to compensate, including consumer credit / household loans	Monetarism 1 Quantity of money control
		Monetarism 2 Interest rate control of inflation
2004	Household loans peak at £165bn, leading to default	
2007	** CRISIS **	
from 2008	Household loans fall to £4bn	Tighter bank regulations
	Welfare benefit incomes fall	Austerity
	Asset prices increase	Quantitative Easing QE UK £435bn EU €2.4tn
by 2017	Household loans increase to £77bn	
	Inequality increases	
	Poverty increases	
When?	** NEXT CRISIS ?? **	

The cause of debt – deficient labour income vs consumer expenditure



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

In UK economy 1948-2016, inexorable structural change such that

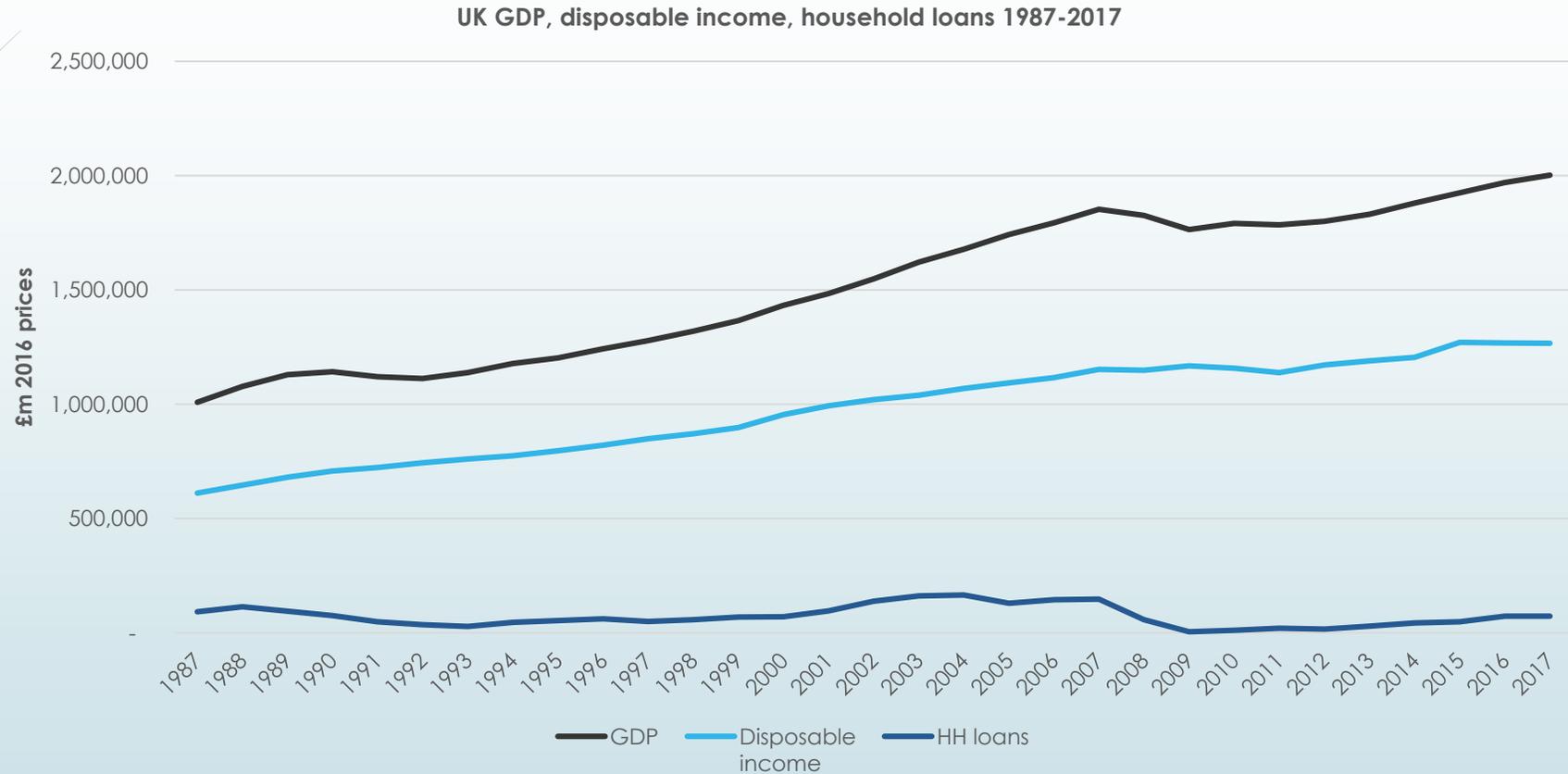
- 1948-1995 Income > consumer spend
- 1995-2016 consumer spend > income

Due to technology, output growth > wage growth

Hypothesis – in high technology economies

- **macroeconomy needs unearned income**

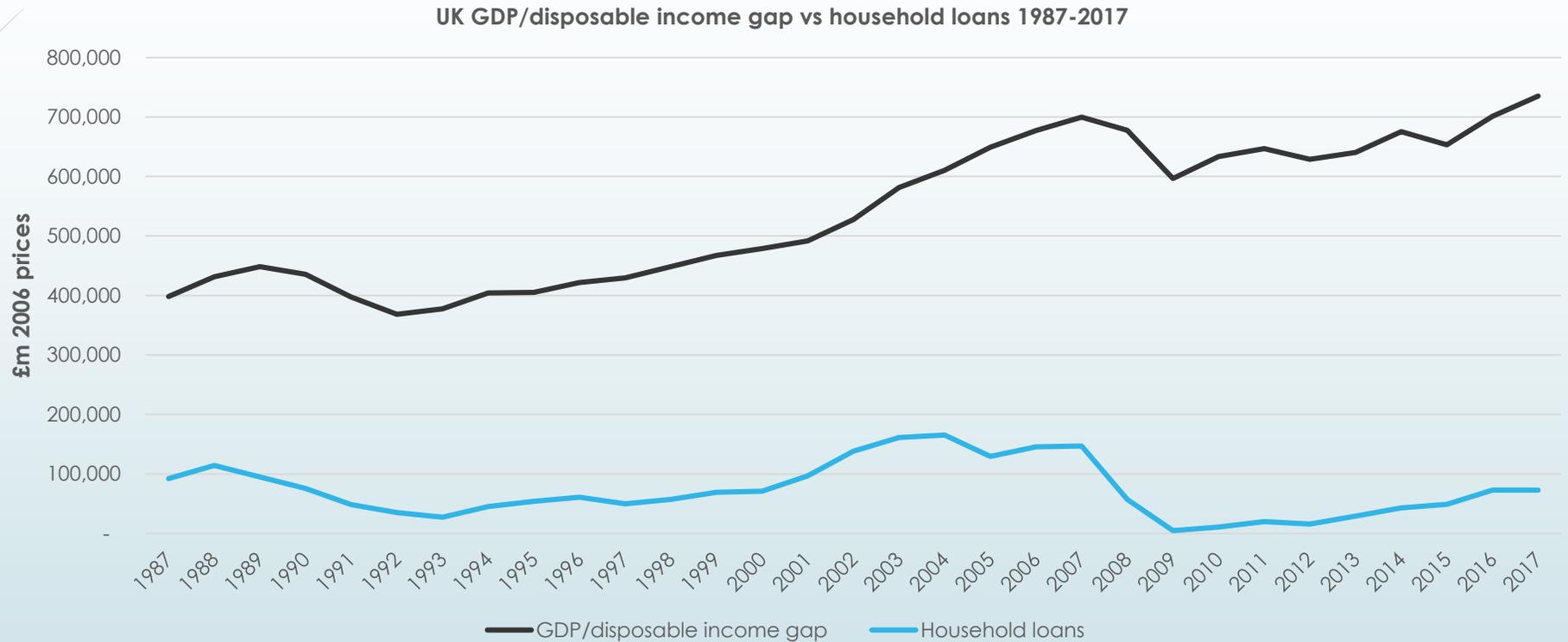
The cause of debt – deficient disposable income - vs GDP



2001-2007

- disposable income flatlines against robust GDP growth
- disposable income grows 16.1%, whilst GDP grows 24.8%
- this could be due to higher growth in investment, gov spend, net exports?
- some of gap is met by 52.1% growth in total household loans
- this is unsustainable, therefore default, therefore crisis, therefore austerity
- meeting gap via basic income avoids crisis and austerity

The cause of debt – supplementing deficient aggregate demand with HH loans



**Curves follow same profile ie HH loans match GDP/disposable income gap
GDP – disposable consumer income is the cause of debt**

Household loans

- peak at £165.5bn in 2004
- reduce to £4.6bn in 2009
- grow to £73bn by 2017

The cause of crisis – underconsumption and debt

- **Crisis structural not behavioural**
- **Remedial policies therefore ineffective**
- **Crisis can repeat**

- **1930s crisis**

Keynes – low wages reduce aggregate demand - cause rather than resolve crisis

Low interest rates and increased money supply ineffective due to LP

James Devine (1994) stagnant US wages led to increased HH debt

- **2007 crisis**

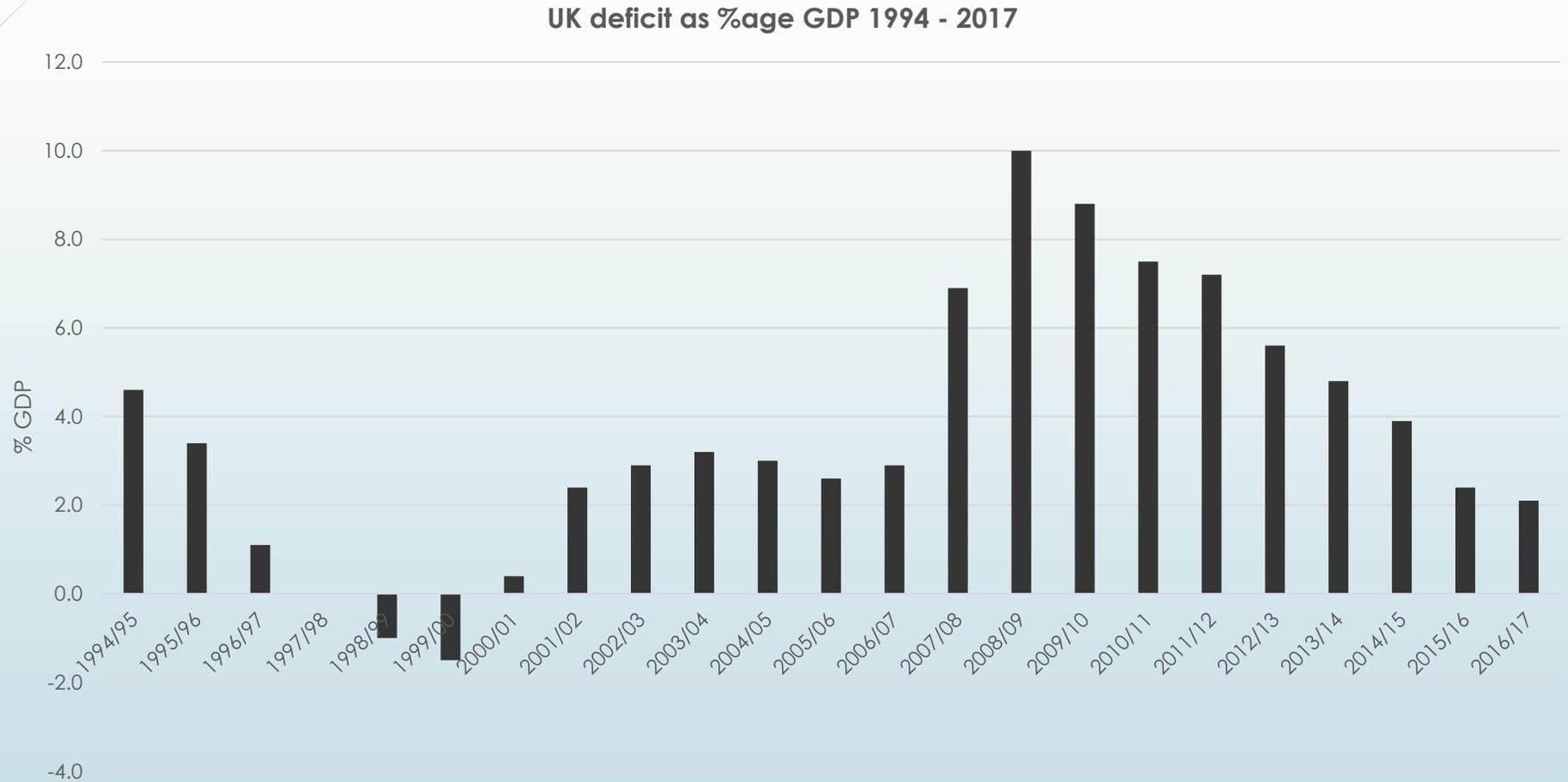
Skidelsky, Turner, Wolf – pervasive debt is the cause

HH debt for consumption, only secured as mortgage?

I suggest structural wage, consumption cause

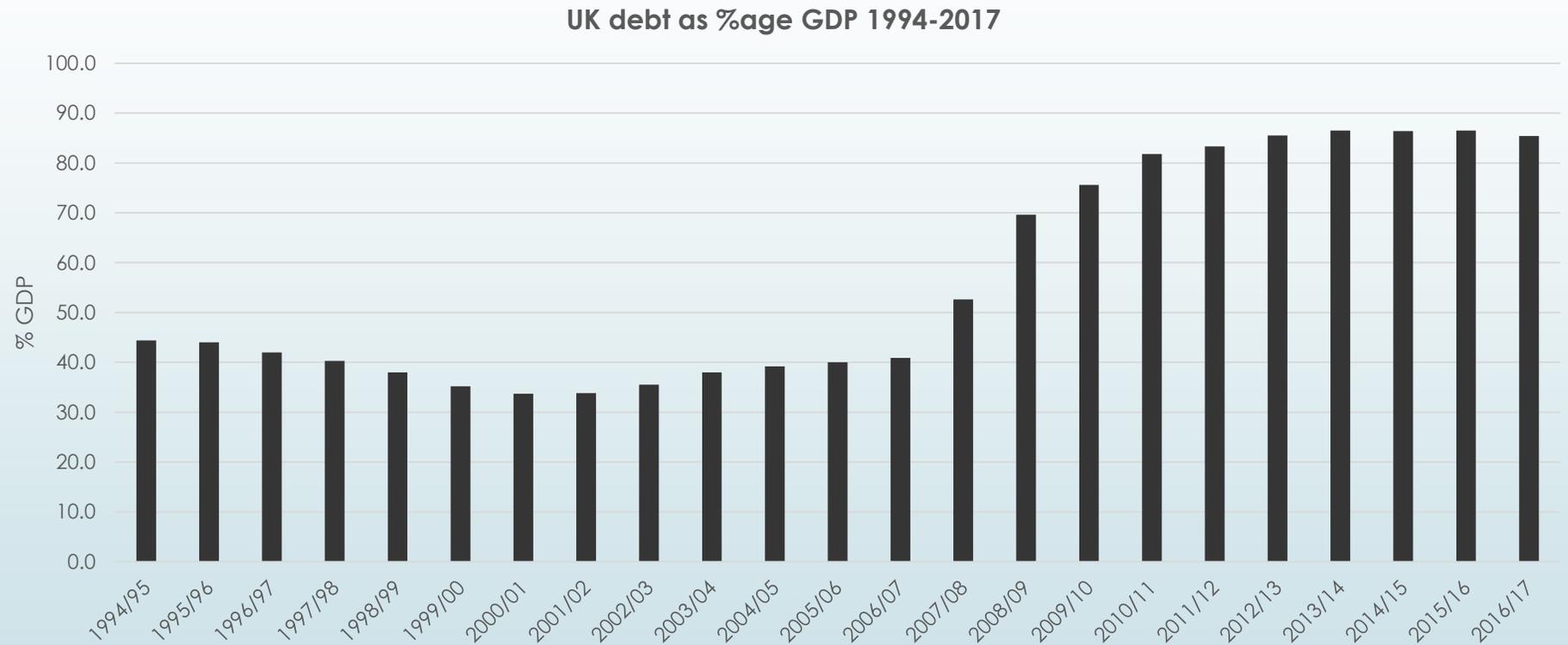
Is this due to technology, globalisation, worker power?

The fact of continual deficit - UK



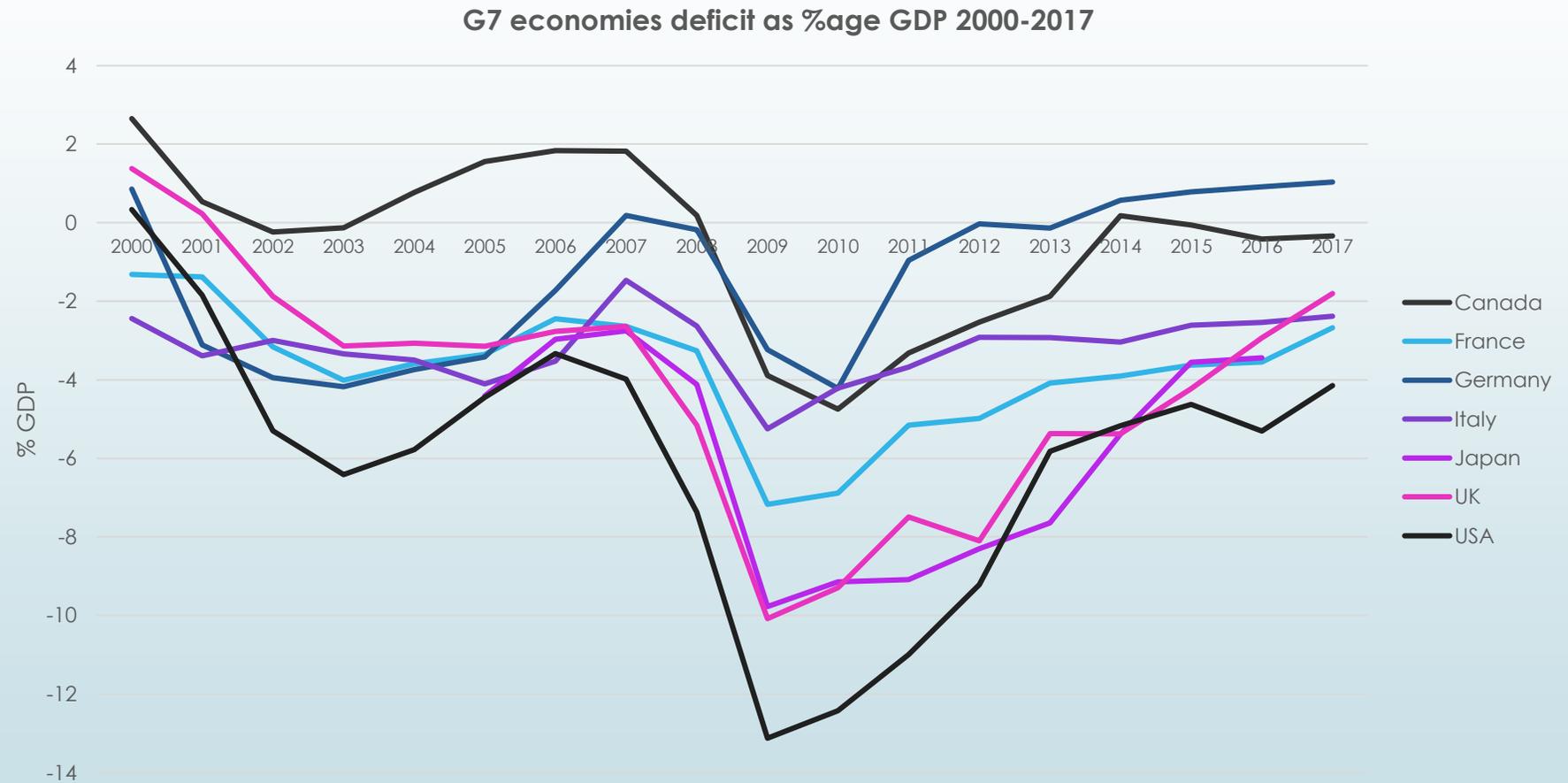
- deficit results from a lack of sovereign money in the system – ie deficit becomes a surrogate for sovereign money
- financial orthodoxy reduces deficit by imposing austerity which can be avoided if funded by sovereign money

The fact of consistent government debt - UK



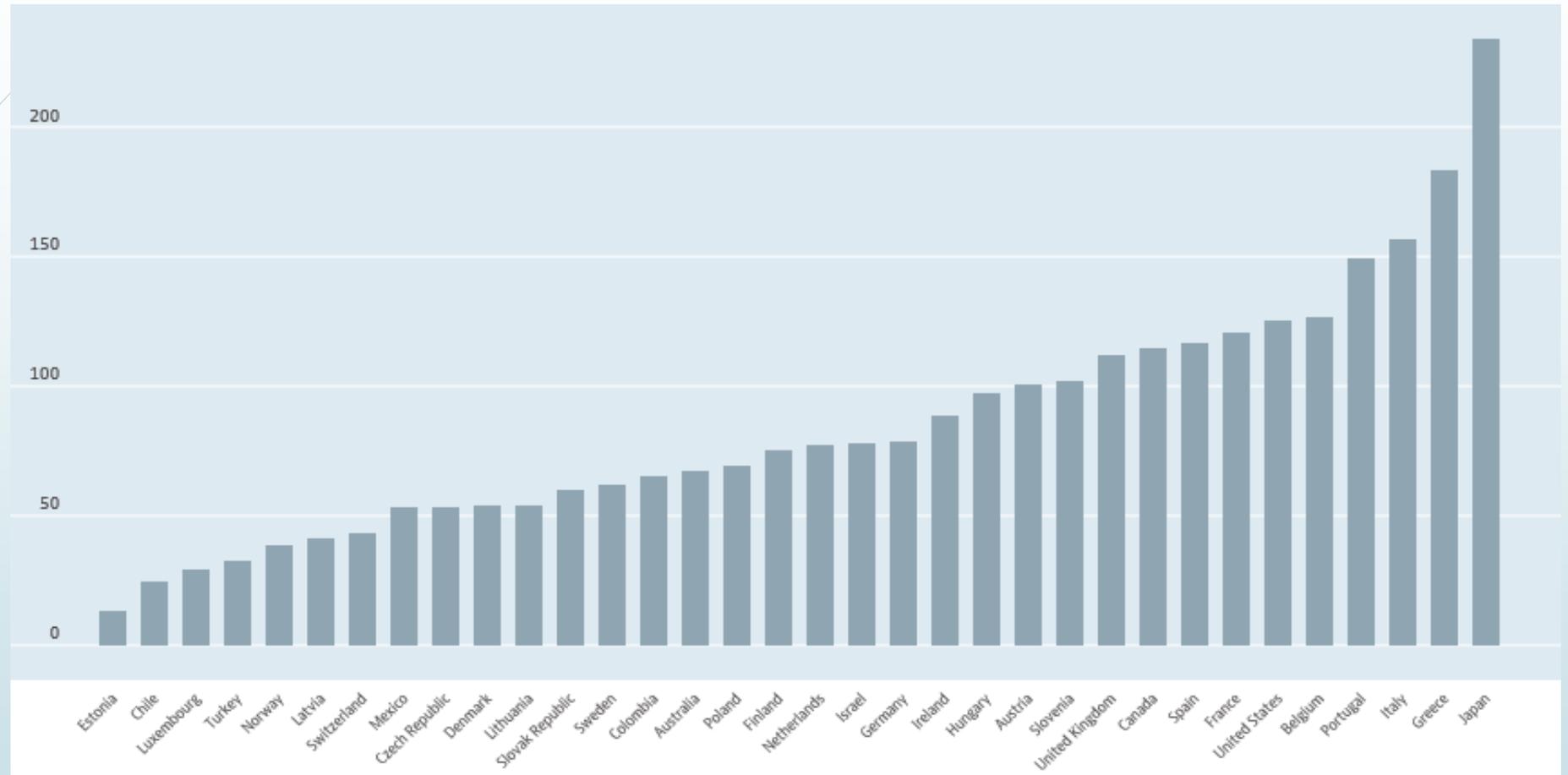
- debt of 85% of GDP is not repayable, but imposes annual interest cost
- compared to deficit spending, sovereign money is debt-free
- sovereign money avoids austerity and can be issued up to the constraint of output GDP

The fact of continual deficit – G7



A similar pattern develops in all G7 economies

The fact of ever increasing debt



- In all G7 economies except Germany, debt > 100% GDP
- In Japan, debt = 234% GDP
- It's a myth that this debt is a 'burden to our grandchildren' or will ever be redeemed
- The reality of perpetual deficit should redefine as sovereign money to fund the necessity of basic income

Towards a new paradigm

A new policy paradigm proposal

- ▶ Replace household debt with basic income
- ▶ Replace government deficit/debt with sovereign money

The argument from technology 1

- ▶ **The 'Second Machine Age'** (Brynjolfsson and McAfee)
- ▶ **Automation leads to**
 - ▶ unemployment
 - ▶ social exclusion
 - ▶ low economic demand
 - ▶ recession
 - ▶ unsustainable consumer credit
 - ▶ economic crisis
 - ▶ austerity policy
- ▶ **Basic income breaks this vicious circle**
- ▶ **Question = How to fund a substantial basic income? – Sovereign money??**

The argument from technology 2

► 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
- **financial deficit inevitable or a surrogate for missing debt free sovereign money**



► + needs heterodox economics ie

- Consumption, investment, consumer income and UBI all rendered affordable by output GDP, not public sector financial balances
- Money has no inherent value but derives its value from output GDP
- Sovereign state can create money solely vs output GDP, not gold reserves or sale of government bonds, ie without creating debt

The nature of money

The definition of affordability

► 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
- **affordability is defined by government financial reserves**

► Heterodox theory of money

- money has no inherent value but derives its value from output GDP
- sovereign state can issue money vs GDP without creating debt
- financial deficit or sovereign money is inevitable and manageable in high technology economies
- **affordability is defined by real resources and productive potential**

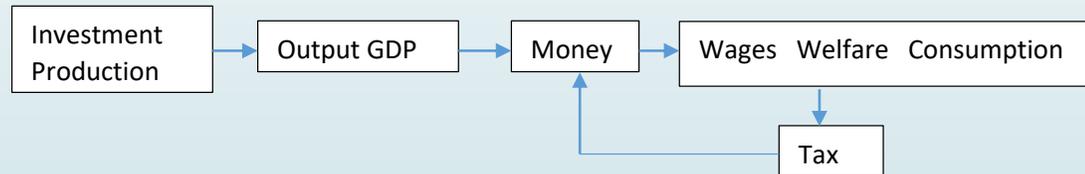
The nature of money

The definition of affordability

The Monetarist Theory of Money



A Radical neo-Keynesian Heterodox Theory of Money



- Monetary theory of money predefines money value and applies affordability test
- Neo-Keynesian theory of sovereign money ascribes money value from output GDP
- **Output GDP becomes the proper test of affordability**

Basic income hypothesis

In high tech economies

- ▶ Unearned income is an essential component of macroeconomic demand
 - ▶ (Basic income best form of unearned income)
- ▶ Financial deficit, or debt free sovereign money creation, is necessary and inevitable

+ 4 other great reasons for basic income

- ▶ **Human flourishing** – alternatives to employment paradigm of life
- ▶ **Ecological responsibility** – unwaged income avoids more production/consumption
- ▶ **Social justice** (Guy Standing *'The Precariat Charter'*)
- ▶ **Administrative welfare efficiency** (Malcolm Torry *'Money for Everyone'*)

2 possible reasons against basic income ?

- **Work disincentive**

- But it's current welfare systems that disincentivise work by withdrawing benefits when recipient finds work

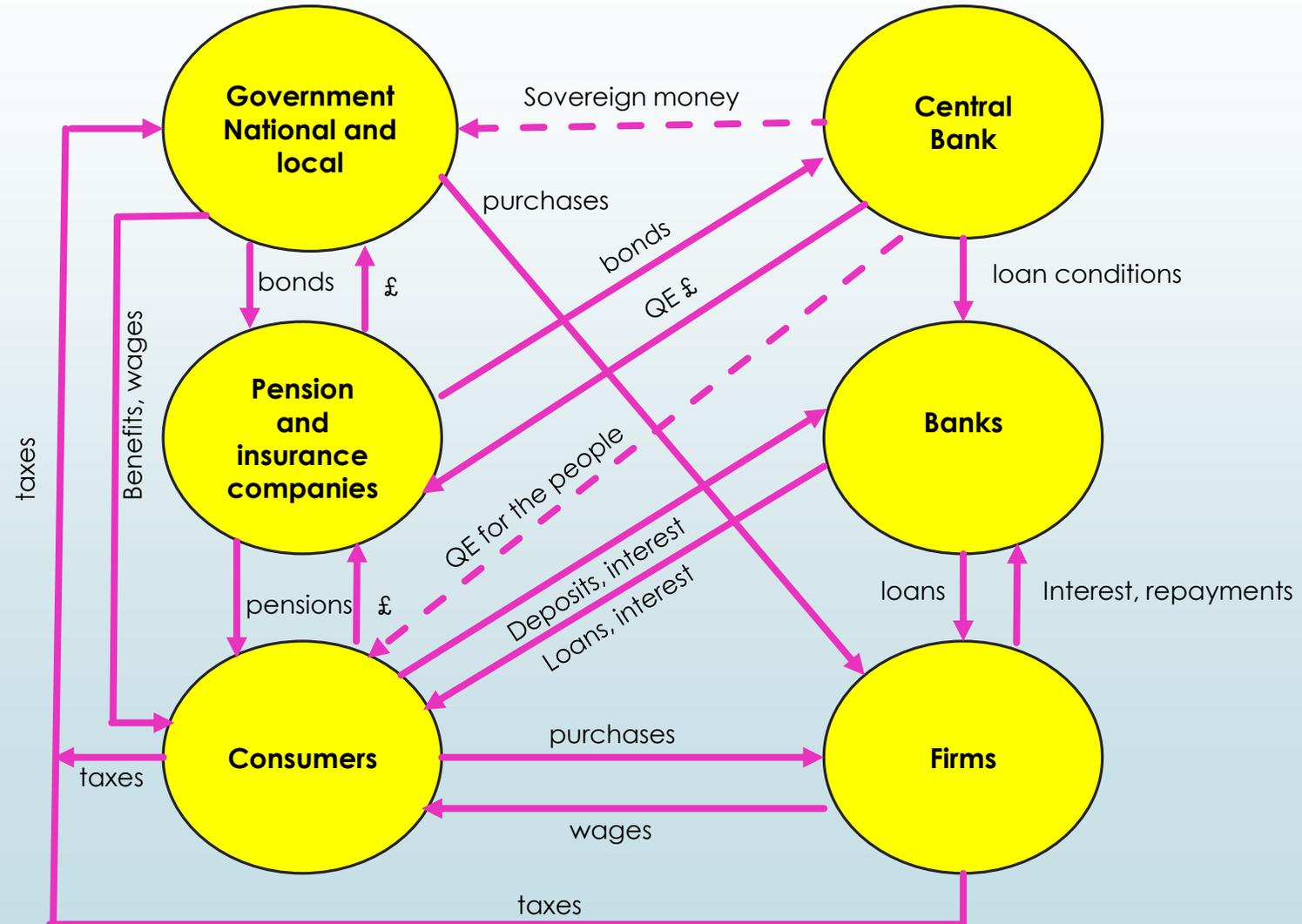
- **Affordability**

- But it's output GDP, not government funds, which determines the affordability of consumption and therefore of income

+ other great reasons for sovereign money

- ▶ Returns seigniorage to the state
- ▶ Gives state control of money supply
- ▶ Reduces reliance on interest rate instrument and the impact of its many side-effects eg hot money on currency exchange rate

Money creation and flow



Evaluating anti-crisis policy

Policy	Evaluation
Bank regulation	<ul style="list-style-type: none">• Tighter conditionality but• New household debt £77bn 2017
QE	<ul style="list-style-type: none">• Bank lending constrained not enabled• BoE say GDP up 1.5-2% but is it due to QE?• Asset prices and therefore inequality increased
Austerity	<p>Portes and Reed</p> <ul style="list-style-type: none">• welfare cuts hit low income families with children• 1.5m increased child poverty <p>Philip Alston UN report</p> <ul style="list-style-type: none">• 14m in poverty• 1.5 m destitute

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

