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

<table>
<thead>
<tr>
<th>Year</th>
<th>Event / outcome</th>
<th>Policy</th>
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<tbody>
<tr>
<td>1948-2016</td>
<td><strong>Earned income</strong> becomes insufficient to purchase GDP</td>
<td>Keynesian fiscal demand management</td>
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<td></td>
<td><strong>Unearned income</strong> increases to compensate, including consumer credit / household loans</td>
<td>Monetarism 1</td>
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<td>Quantity of money control</td>
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<td>2004</td>
<td><strong>Household loans</strong> peak at £165bn, leading to default</td>
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<td>2007</td>
<td><strong>CRISIS</strong></td>
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<td>from 2008</td>
<td>Household loans fall to £4bn</td>
<td>Tighter bank regulations</td>
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<td></td>
<td><strong>Welfare benefit incomes</strong> fall</td>
<td>Austerity</td>
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<td></td>
<td><strong>Asset prices increase</strong></td>
<td>Quantitative Easing QE</td>
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<td>by 2017</td>
<td>Household loans increase to £77bn</td>
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<td></td>
<td>Inequality increases</td>
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<td>Poverty increases</td>
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<tr>
<td>When?</td>
<td><strong>NEXT CRISIS ??</strong></td>
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</table>
The cause of debt – deficient labour income vs consumer expenditure

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
• 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

Government (National and local) → Taxes → Pension and insurance companies → Pensions → Consumers → Taxes → Firms → Wages → Banks → Interest, repayments → QE for the People → QE £ → Sovereign money → Central Bank → Loan conditions → Bonds → QE £ → Purchases → Benefits, wages → Taxes → Government (National and local)
Evaluating anti-crisis policy

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<tr>
<th>Policy</th>
<th>Evaluation</th>
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| Bank regulation| • Tighter conditionality but  
      • New household debt £77bn 2017                                          |
| QE             | • 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      | Portes and Reed  
      • welfare cuts hit low income families with children  
      • 1.5m increased child poverty                                               |
|                | Philip Alston UN report  
      • 14m in poverty  
      • 1.5m destitute                                                               |
Basic income and sovereign money policy
- the corrective for economic crisis and austerity policy

output GDP

Government expenditure welfare benefits

No austerity

poverty inequality

ecology humanity

No crisis

Basic income for consumer expenditure

debt free sovereign money

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