

Basic Income and Sovereign Money

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

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The hypothesis in outline

Automation in high tech economies generates a structural need for **unearned income**

- ▶ Unearned income comes as
 1. pensions and dividends, which are sustained
 2. welfare benefits, which are hit by austerity
 3. household debt, creating unsustainable indebtedness for low income families
- ▶ hence **inequality** ↑
- ▶ hence **crisis**

Financial orthodoxy requires

- ▶ money to be backed by interest-bearing government bonds
- ▶ government budgets to balance, deficit to be reduced
- ▶ hence **austerity**

Basic income is the necessary and best form of unearned income

Sovereign money funds consumer and government spend, creates no debt, imposes no financing cost, avoids inflation by observing output GDP constraint

Current inferior surrogates for basic income and sovereign money = household debt and deficit

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

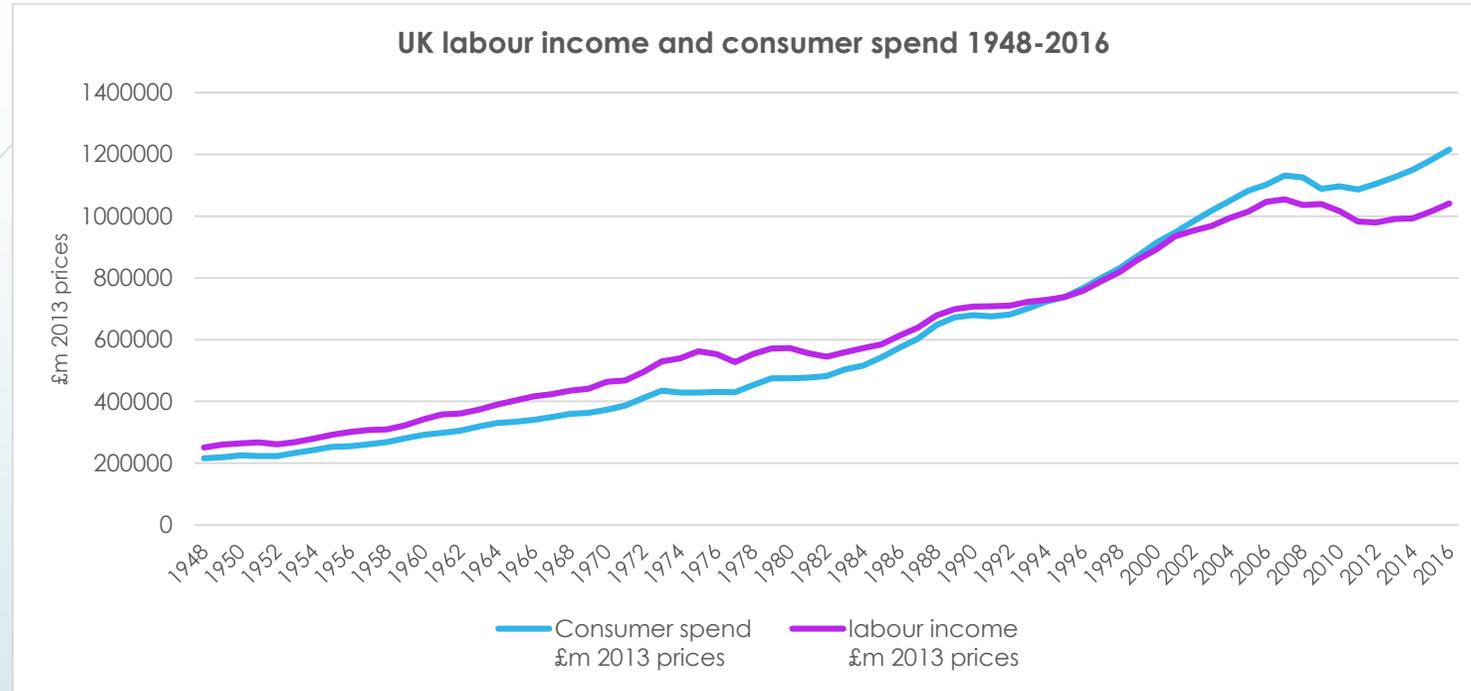
BUT (since it's not working)

- 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

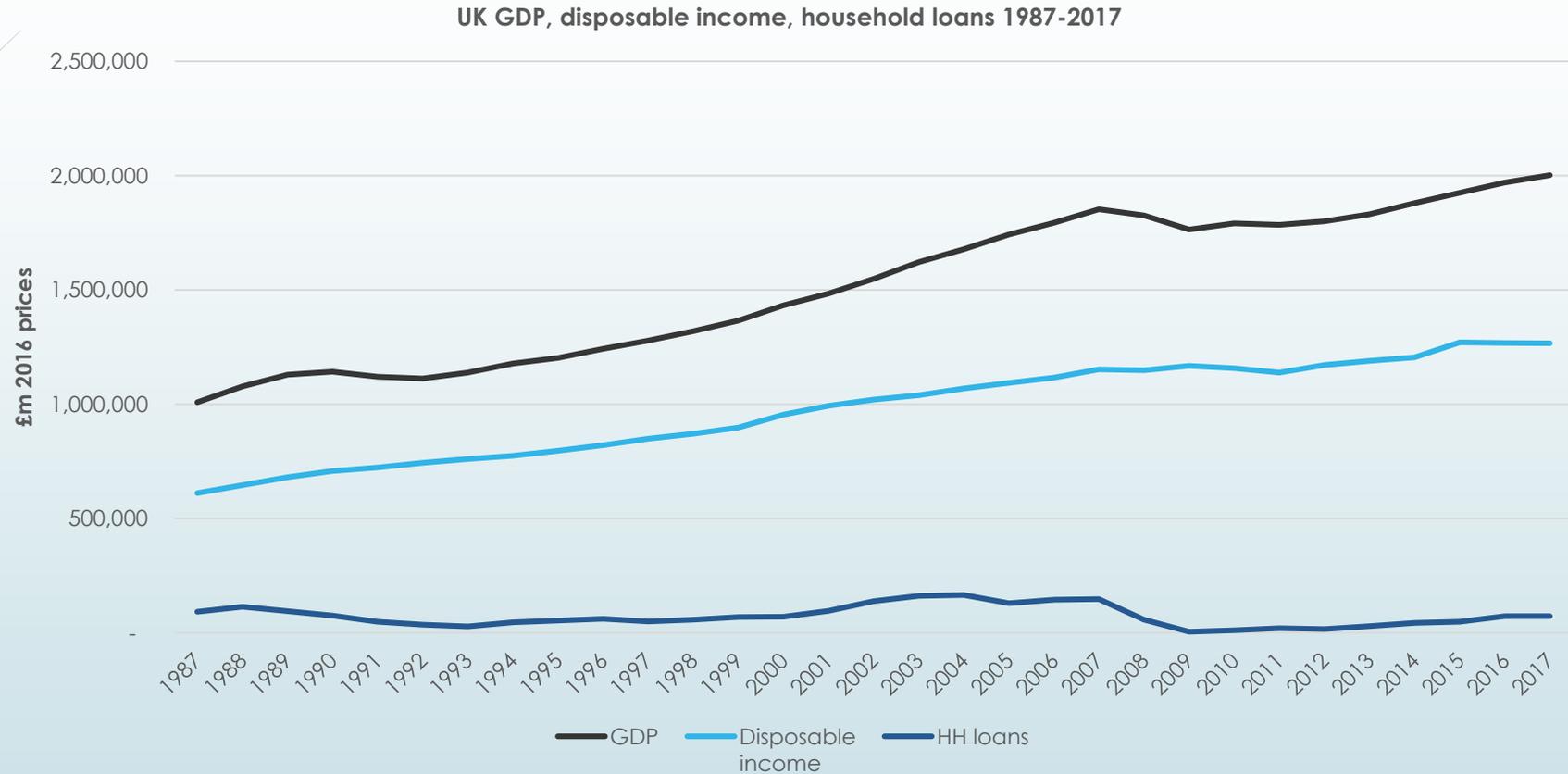
- 1948-1995 income > consumer spend
- 1995-2016 consumer spend > income

Due to technology, output growth > wage growth

Hypothesis – in high technology economies

- **macroeconomy needs unearned income**

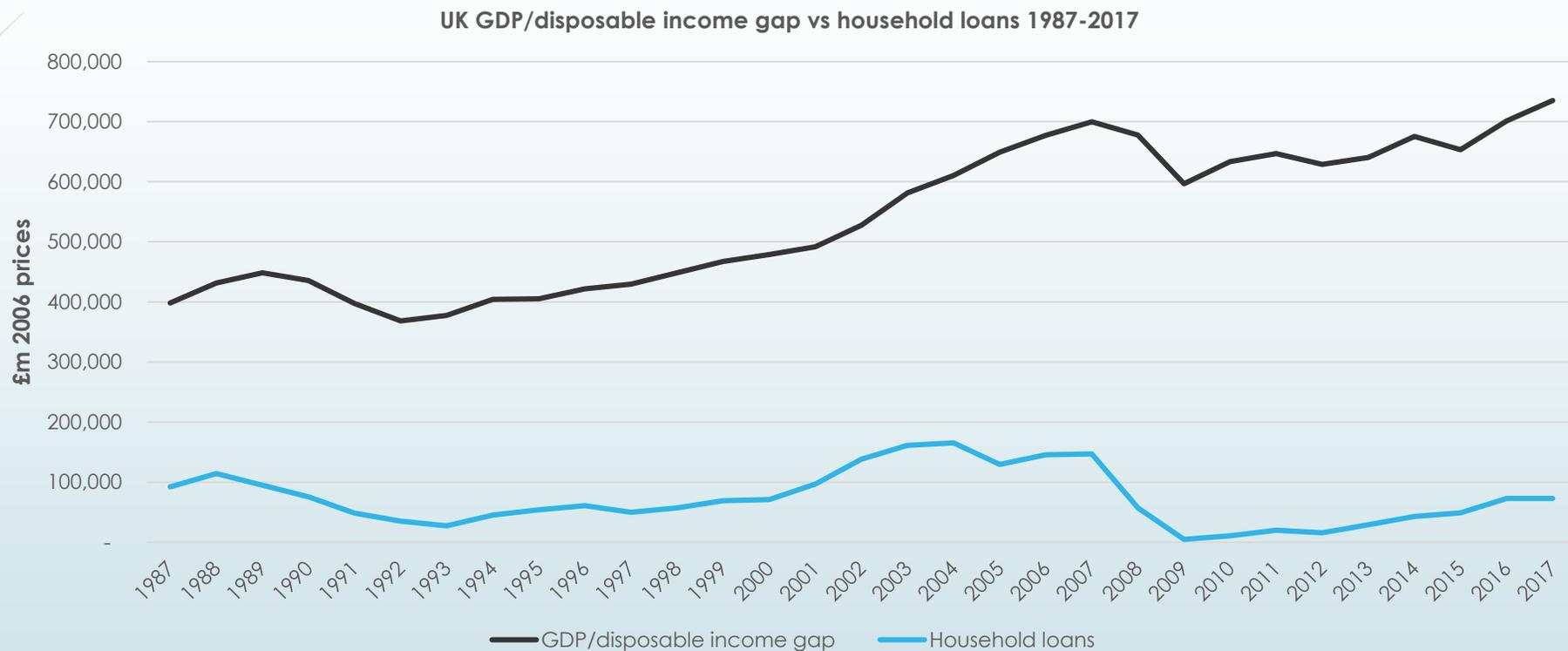
The cause of debt – deficient disposable income - vs GDP



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 of financial regulation, QE, austerity 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

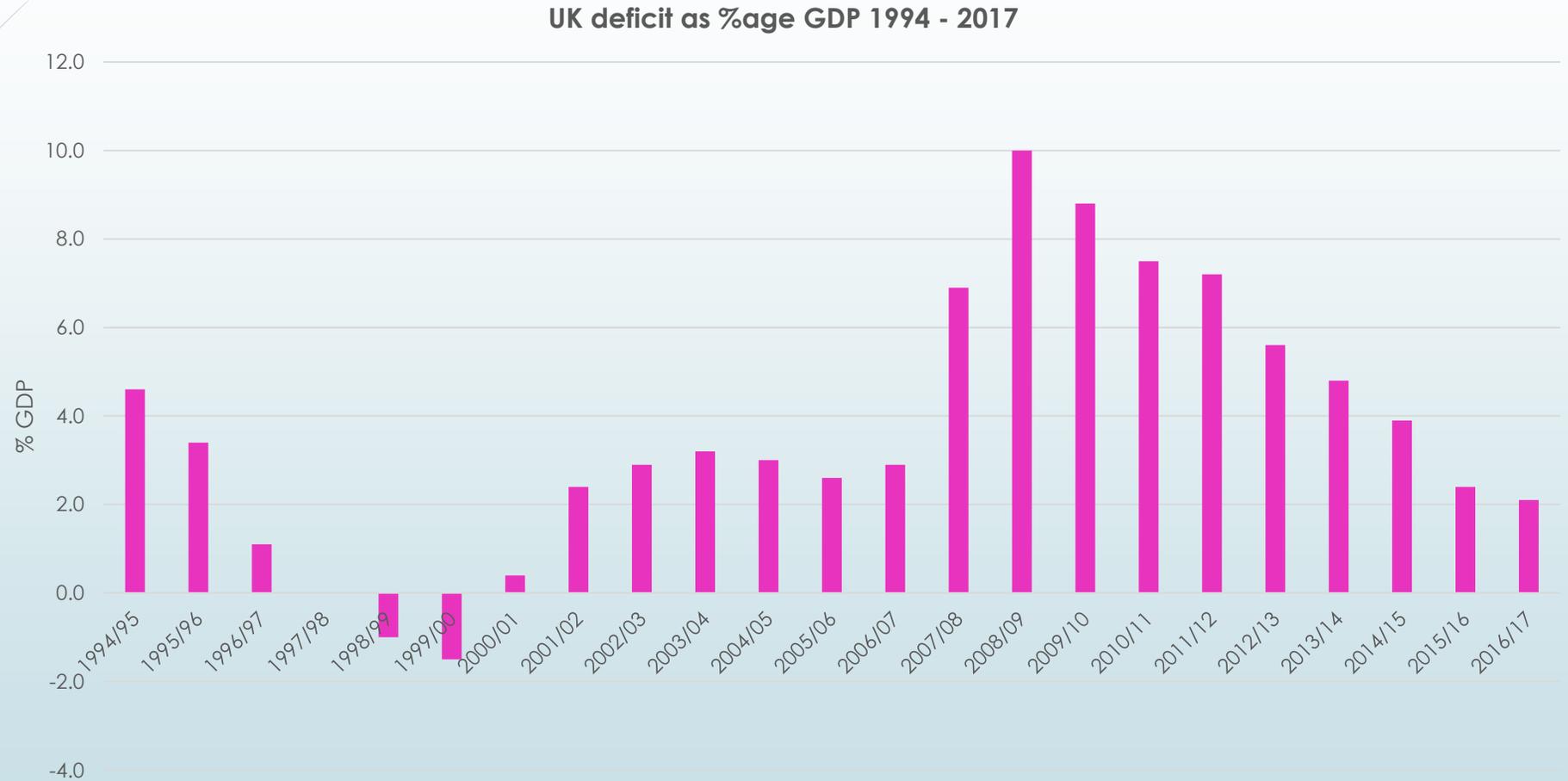
Skidelsky, Turner, Wolf – pervasive debt is the cause

HH debt for consumption, only secured as mortgage?

I suggest structural wage, consumption cause

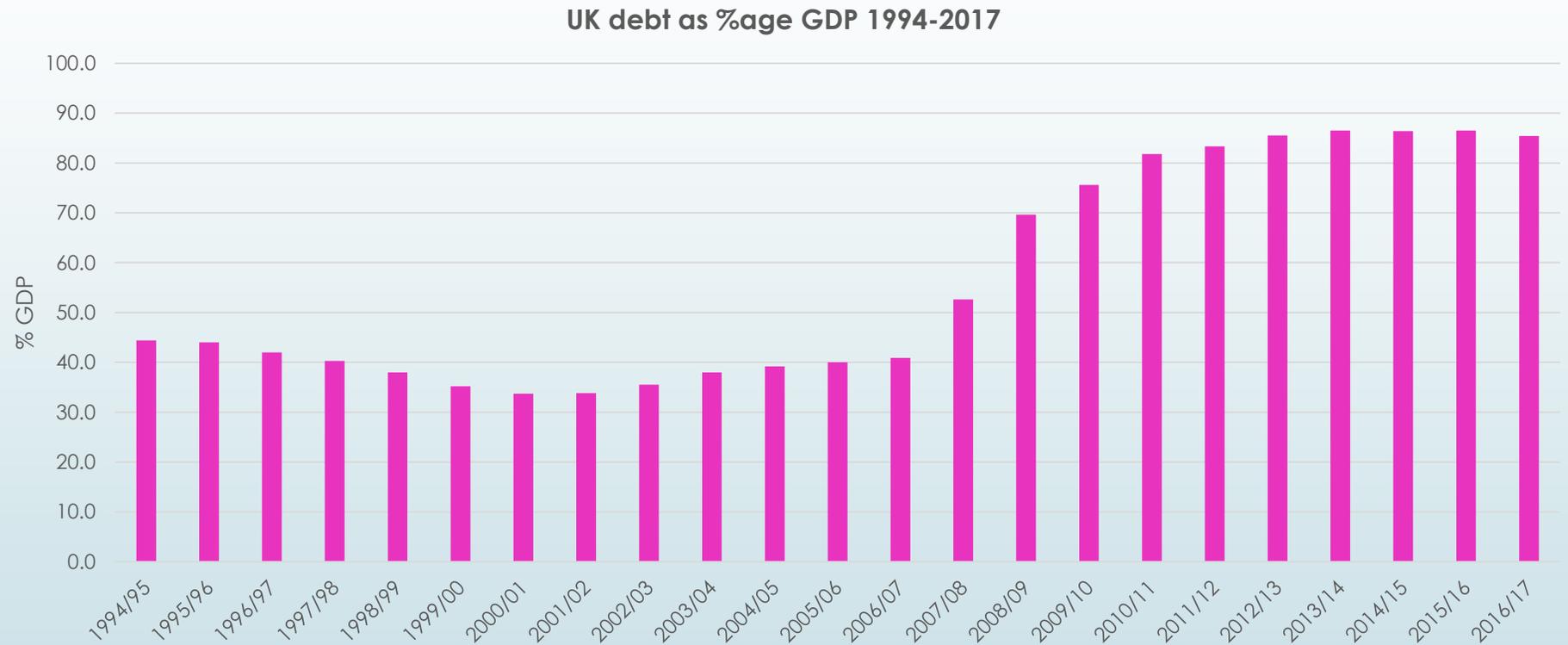
Is this due to technology, globalisation, worker power?

The fact of continual deficit = deficit as surrogate sovereign money UK



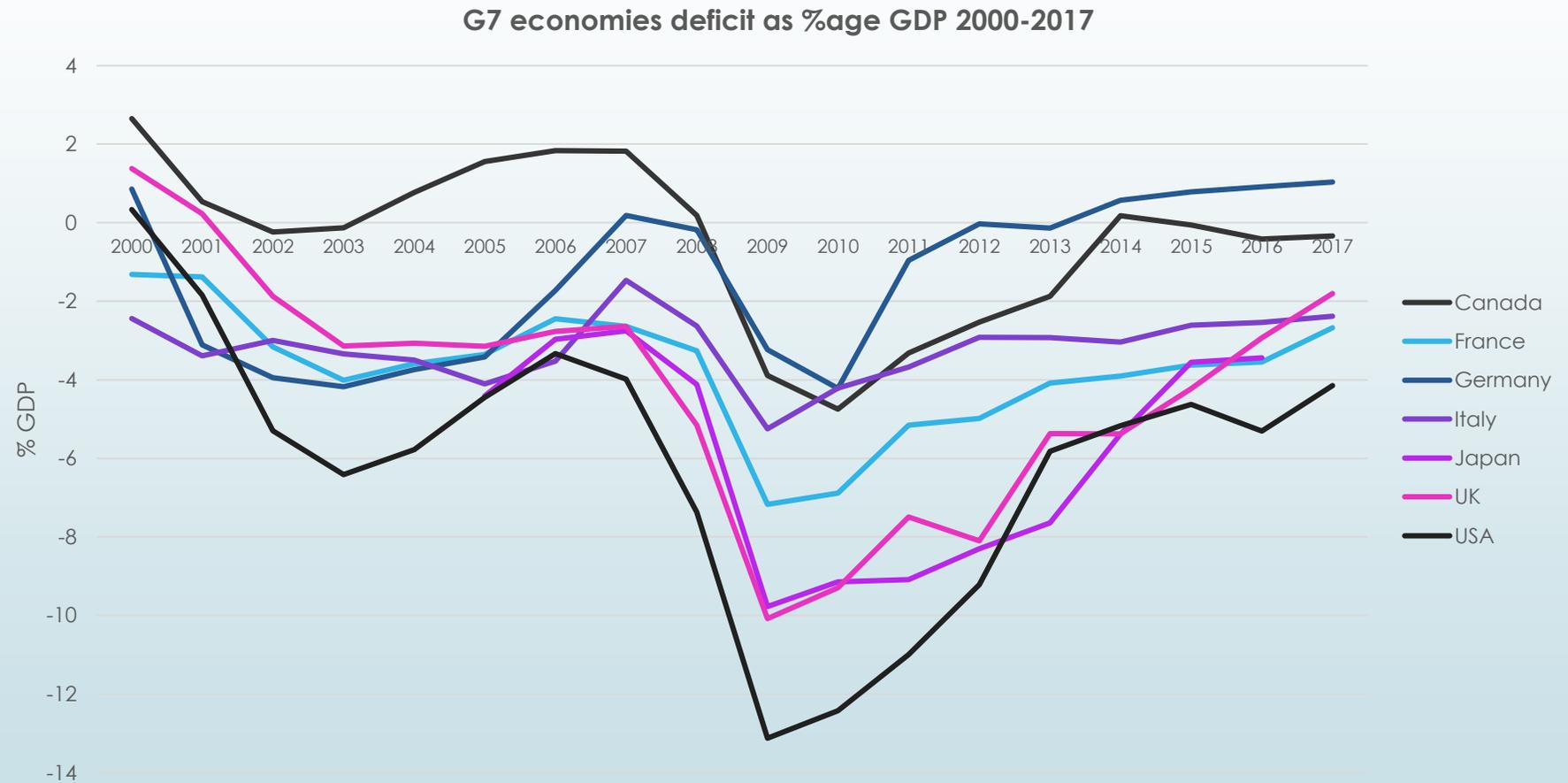
- deficit results from a lack of sovereign money in the system – ie deficit becomes a surrogate for sovereign money
- financial orthodoxy reduces deficit by imposing austerity which can be avoided if funded by sovereign money

The fact of consistent government debt = deficit as surrogate sovereign money UK



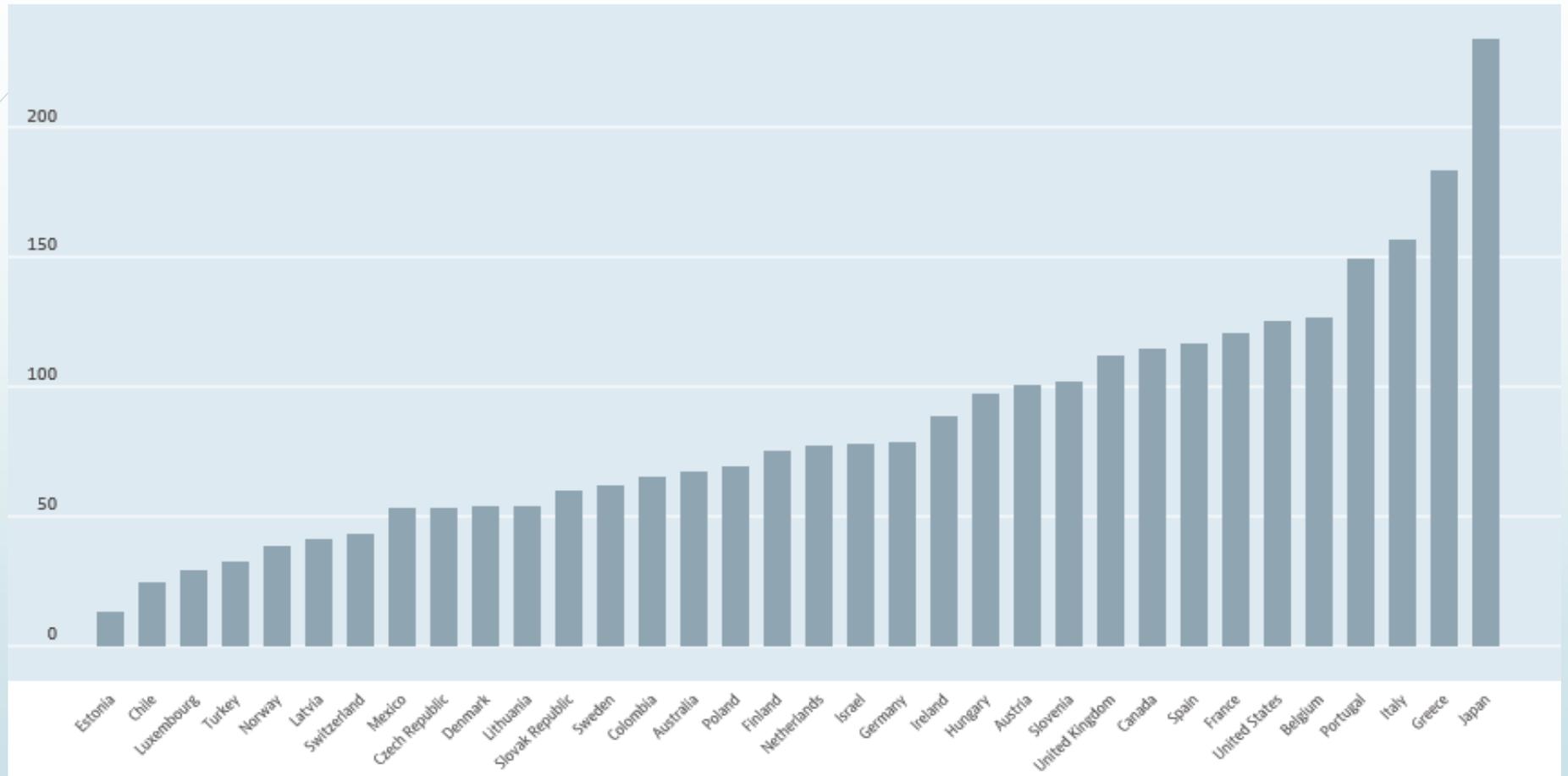
- debt of 85% of GDP is not repayable, but imposes annual interest cost (£39bn in UK)
- compared to deficit spending, sovereign money is debt-free
- financial orthodoxy imposes false policy choice between deficit and austerity
- sovereign money avoids austerity and can be issued up to the constraint of output GDP

The fact of continual deficit = deficit as surrogate sovereign money G7



A similar pattern develops in all G7 economies

The fact of ever increasing debt = deficit as surrogate sovereign money



- 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**

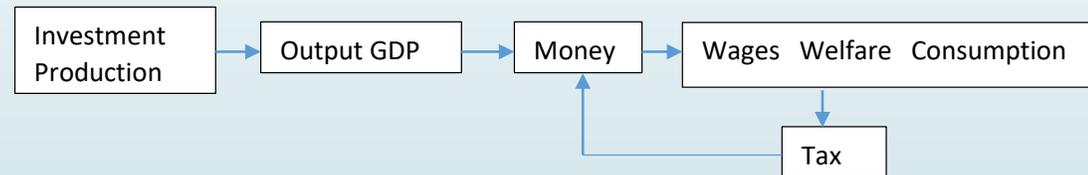
The nature of money

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

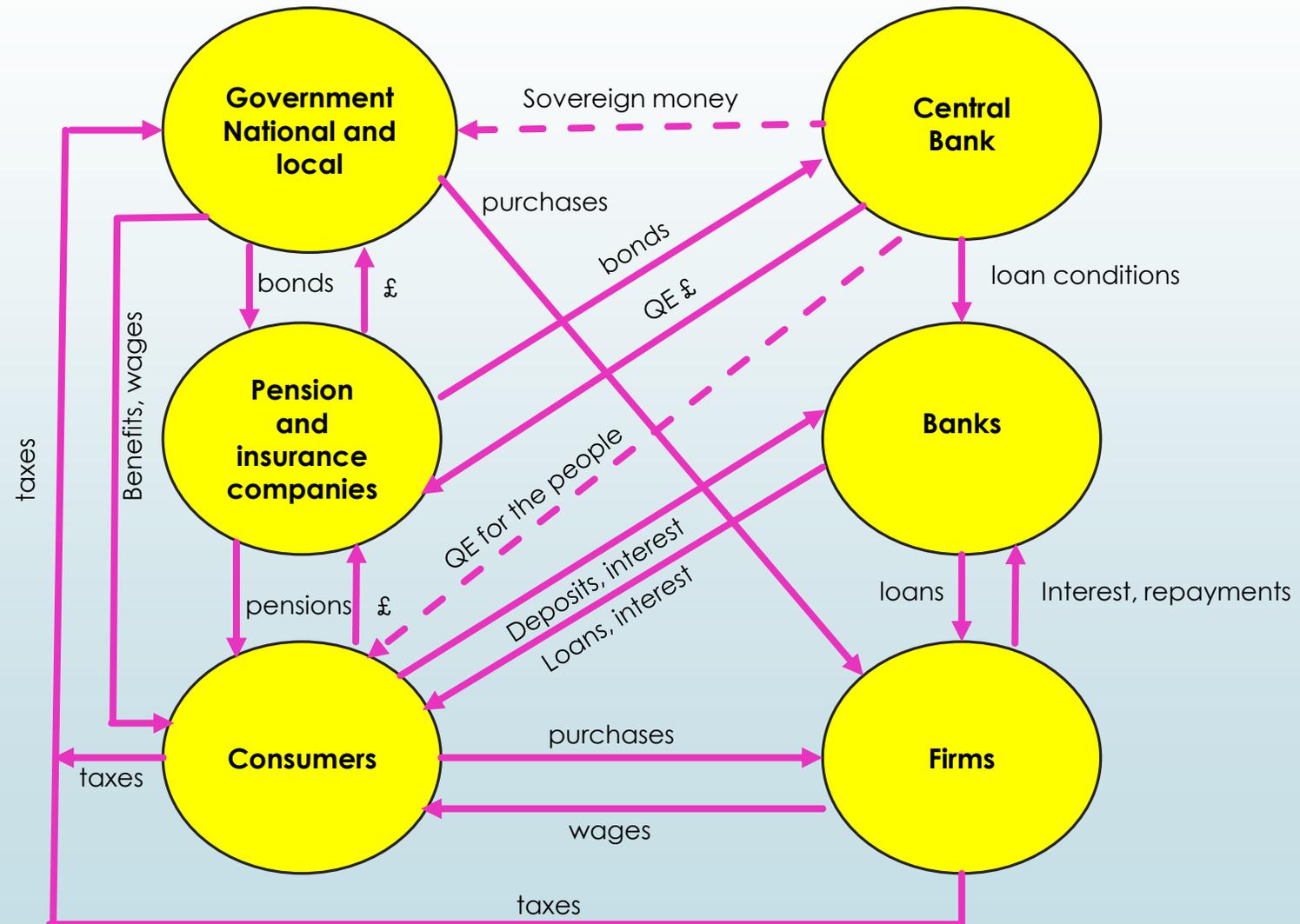
➤ **Affordability**

- 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



Defining sovereign money

► MMT definition

- Sovereign money funds job guarantee.
- 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

- Sovereign money = state monopoly
- Commercial banks no longer create bank money, so no crisis.

► Basic income definition

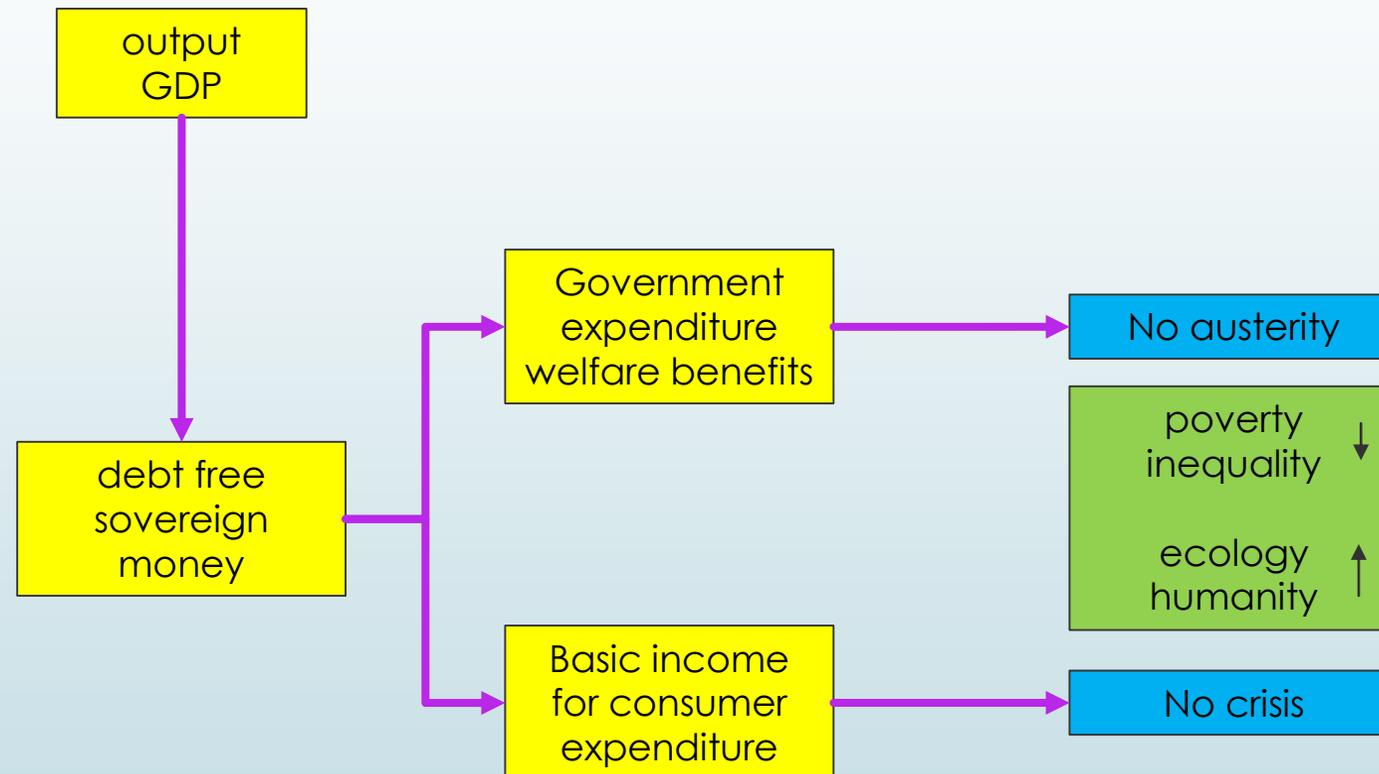
- Sovereign money funds aggregate demand to full potential output GDP.
- Money creation is not matched by debt creation.
- Avoids excessive consumer and public sector debt which lead to crisis and austerity.

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

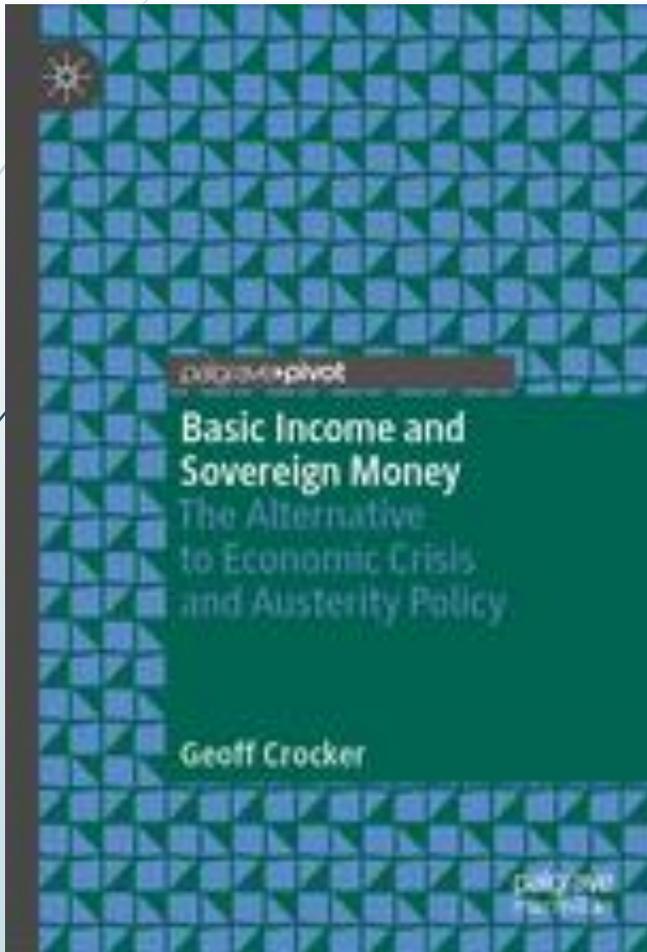
Evaluating UK anti-crisis policy

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



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