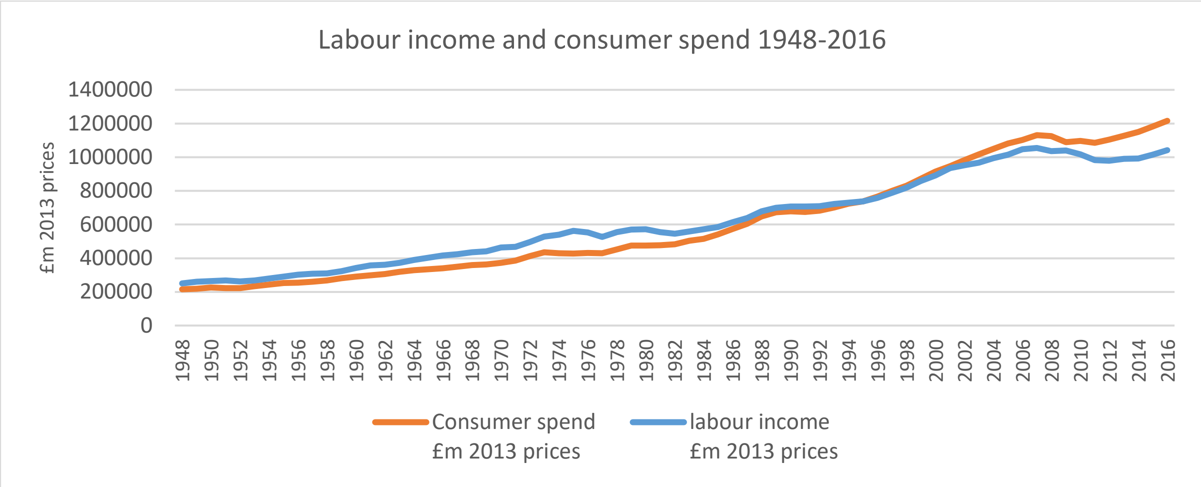
The Economic Argument for Basic Income

Over the last 70 years, an inexorable long term structural change has taken place in the economy

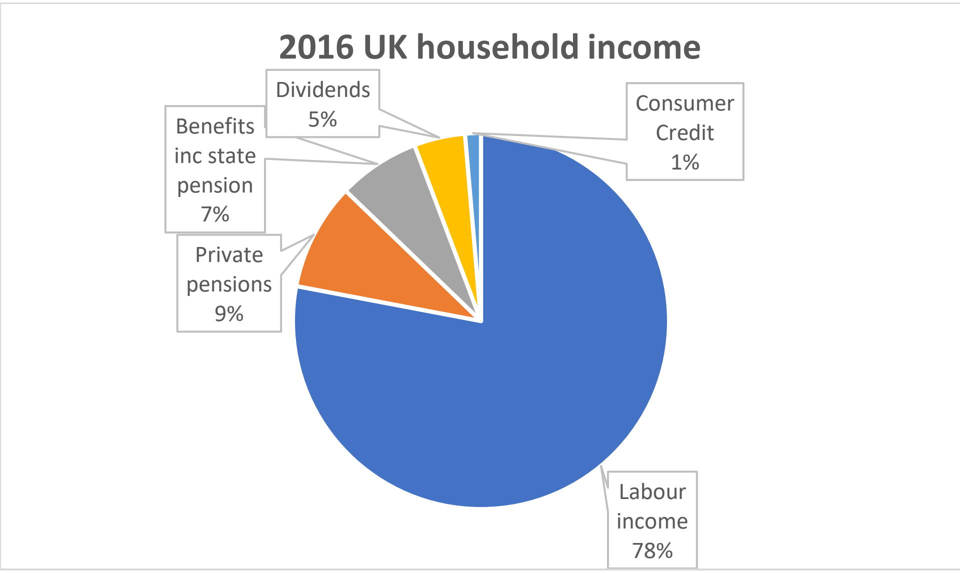


Source: ONS, defining 'labour income'= wages + self-employed earnings

It's very clear that aggregate 'labour income' (=wages + self-employed earnings) has declined compared to consumer expenditure, with a turning point in 1995, such that

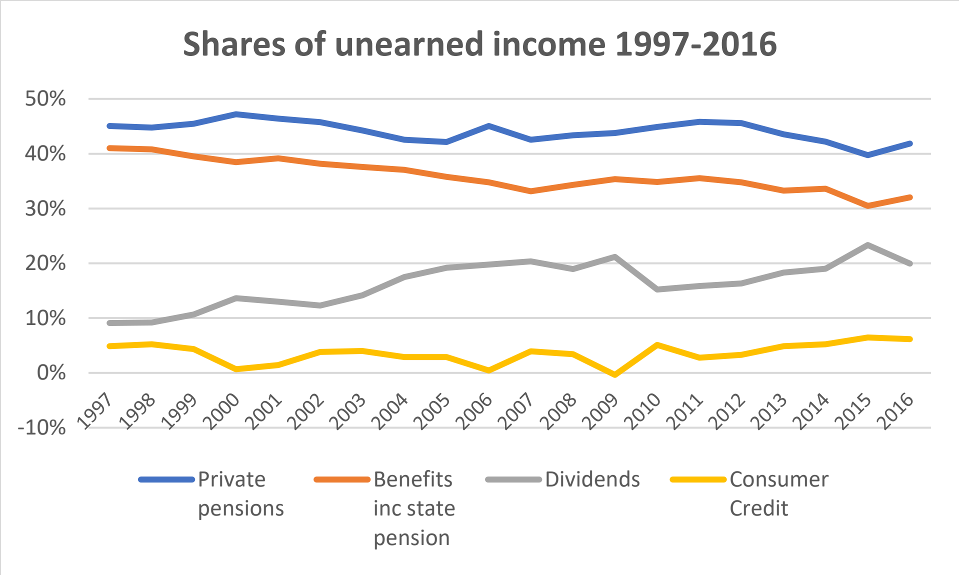
1 From 1948 to 1995, labour income exceeded consumer expenditure
2 From 1995 to 2016, consumer expenditure now increasingly exceeds labour income

By 2016, labour income only funded 86% of consumer expenditure. 14% of consumer expenditure was funded by unearned income. This trend is structural, long term, and inevitable. Its most likely cause is the increased productivity of technology. Unearned income now accounts for 22% of household income.



Source: ONS

Over the last 20 years, the share of welfare benefits in unearned household income has declined, whilst the share of dividend income has increased, with obvious implications for inequality.



Source: ONS

We have to accept that the economy and people's well-being now requires an increasing component of unearned income.

The problem is that

1 If we allow the current trend for this unearned income to come from increased dividend income in the economy, then this benefits only shareholders. The share of welfare benefits reduces. Inequality rises

2 If this is achieved by increased state pensions and benefits, public sector deficit rises

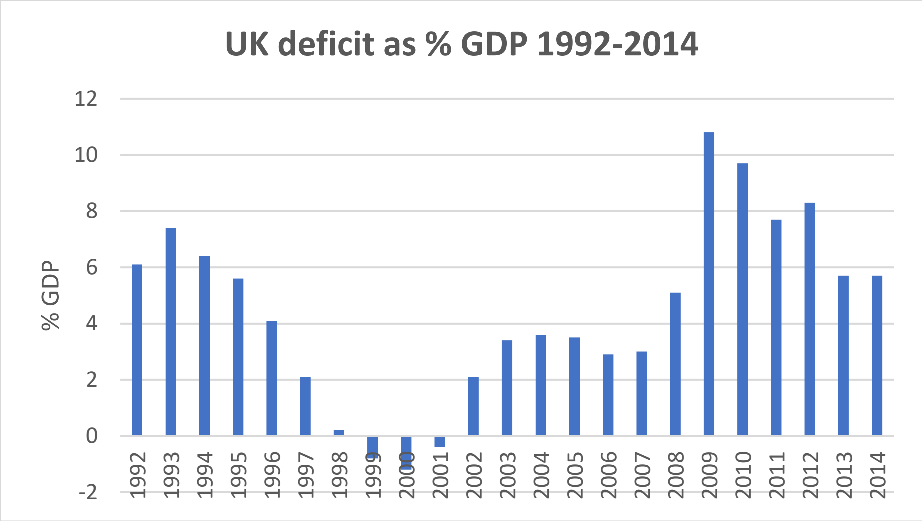
3 This in turn leads to counterproductive austerity policy, where we are currently stuck

4 If it's achieved by increased consumer credit, then we get default and crisis, as in 2007 and looming again now in 2017

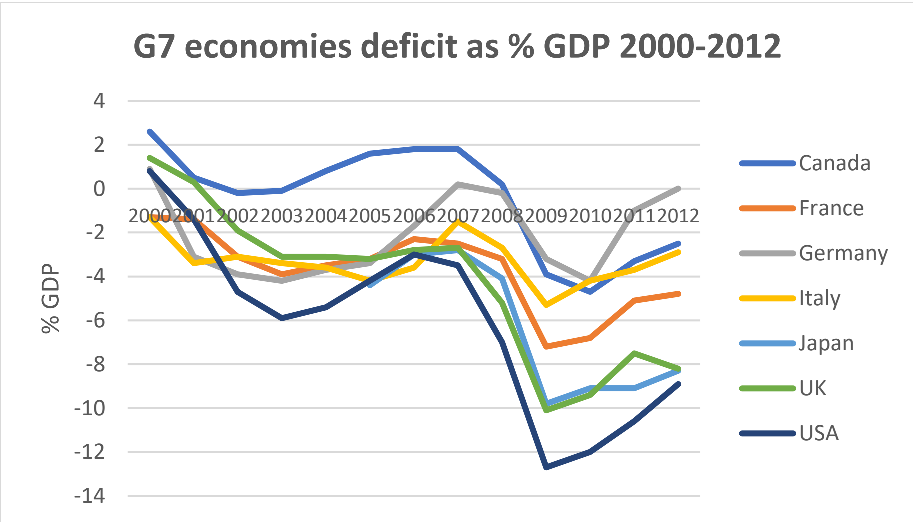
A radical alternative is needed. This requires a challenge to the assumption of financial orthodoxy that deficit is not permissible in the long run. The following graphs show that

1 the UK economy has operated a deficit for 20 of the last 23 years

2 All G7 economies, with the exception of Canada, and occasionally Germany, also operate regular deficits



Source: ONS



Source: OECD

Such persistent deficit, despite vigorous policy to eradicate it, suggests its inevitability. In a thought experiment of a totally automated economy, a machine plugged into earth produces all goods and services with zero wages. The output is distributed to consumers by annually reissued vouchers. These vouchers represent a deficit of 100% of GDP. The nuanced claim from this is that in advanced technology economies, unearned income becomes an essential part of consumer demand, and financial deficit becomes inevitable. As the above data shows, both these results are true in contemporary economic reality.

The ongoing economic crisis is real. The only resolution is a basic income, ie an unconditional income paid to all citizens, as a new form of unearned income. It's better than other benefits, because it avoids the unemployment and poverty traps when other benefits are withdrawn in employment. It helps counter the current social injustice of extreme inequality. And it's much cheaper to administer. It would be funded by a deficit which does not link the issue of money to the sale of government bonds, but simply accepts the deficit being written off annually. Radical maybe, but intellectually defensible, practically implementable, socially fair, and economically necessary.

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