

Basic Income and Sovereign Money

Presentation

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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 and debt**
 - ▶ **getting income to people**, as automation reduces aggregate labour income
 - ▶ **getting debt out of the system**, avoiding crisis and austerity
 - ▶ policy and philosophy to become less work-centric
- ▶ **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

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

Funding option	Comment
Revenue neutral = higher tax/replace other benefits	= unconditionality = less intrusion? = less poverty?
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, reduce pollution not raise revenue
Sovereign fund investment	Requires one of above over time
Sovereign money creation	A heterodox paradigm change

4 Reasons why Basic Income needs Debt-Free Sovereign Money

- **The only way to deliver adequate basic income at affordable cost**
 - Breaks the challenge that UBI either too small to be meaningful or too large to be affordable
- **Consistent argument for debt-free sovereign money as for basic income**
 - ie thought experiment of totally automated economy
- **Pilot of UBI + DFSM has been delivered in Covid economy**
 - UK furlough scheme paid £24K to 3m people , cost = £72bn
 - BoE bought £875bn of government debt = debt-free sovereign money
- **Linked need to get income to people AND debt out of the economy**

see
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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 2007 crisis – the bad guy theory

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

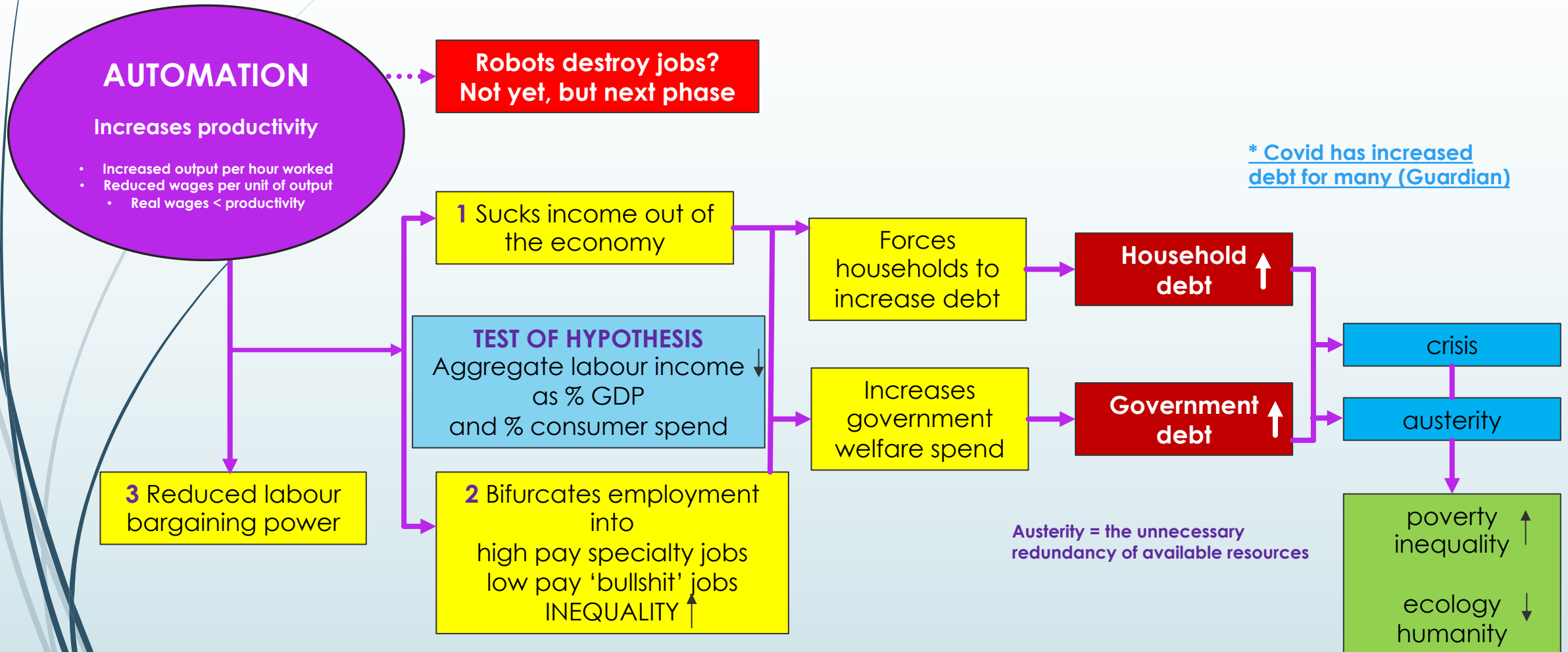
Correction post 2008

- 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**

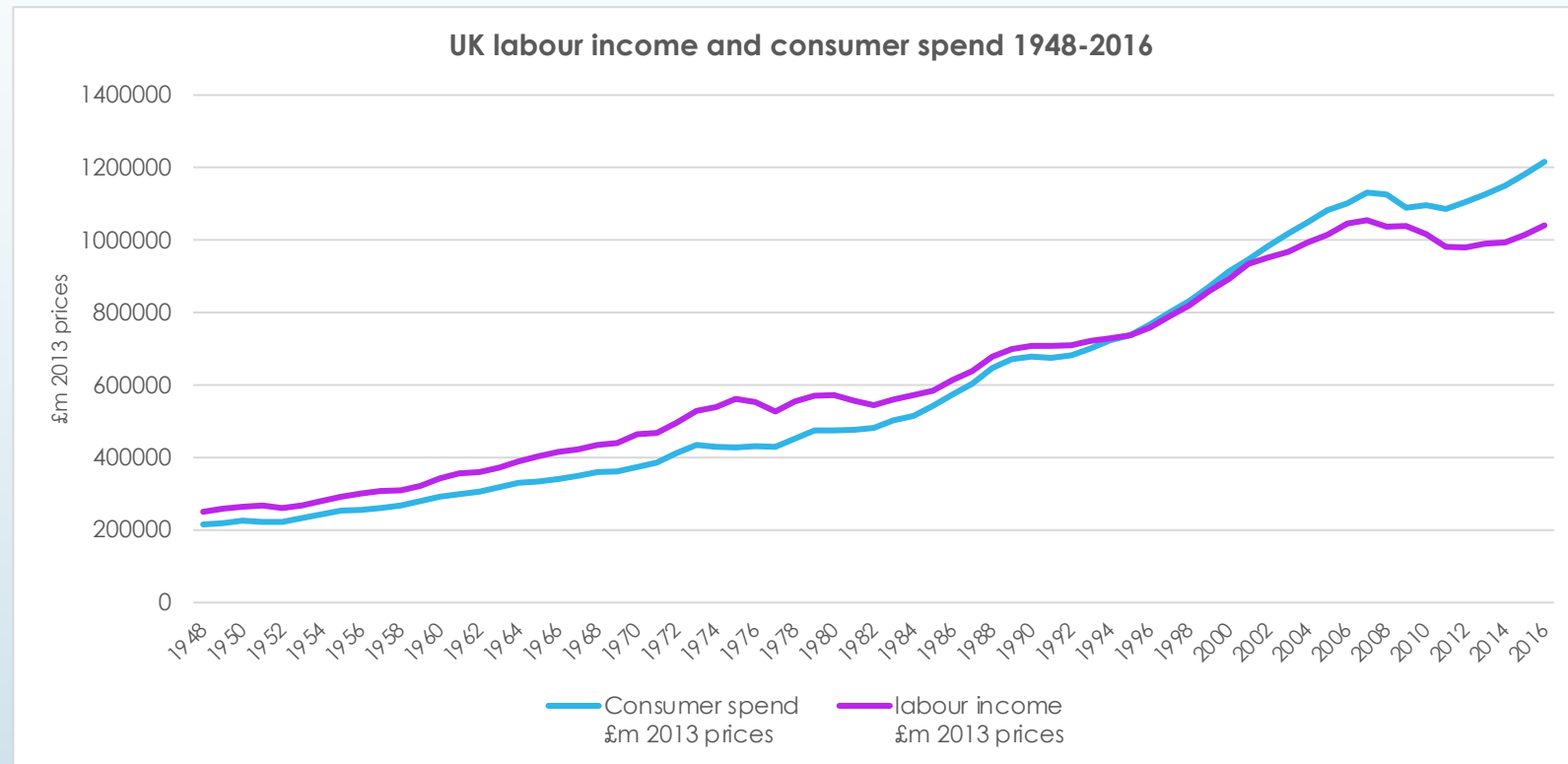
► Empirical evidence

- 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 UK

– 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

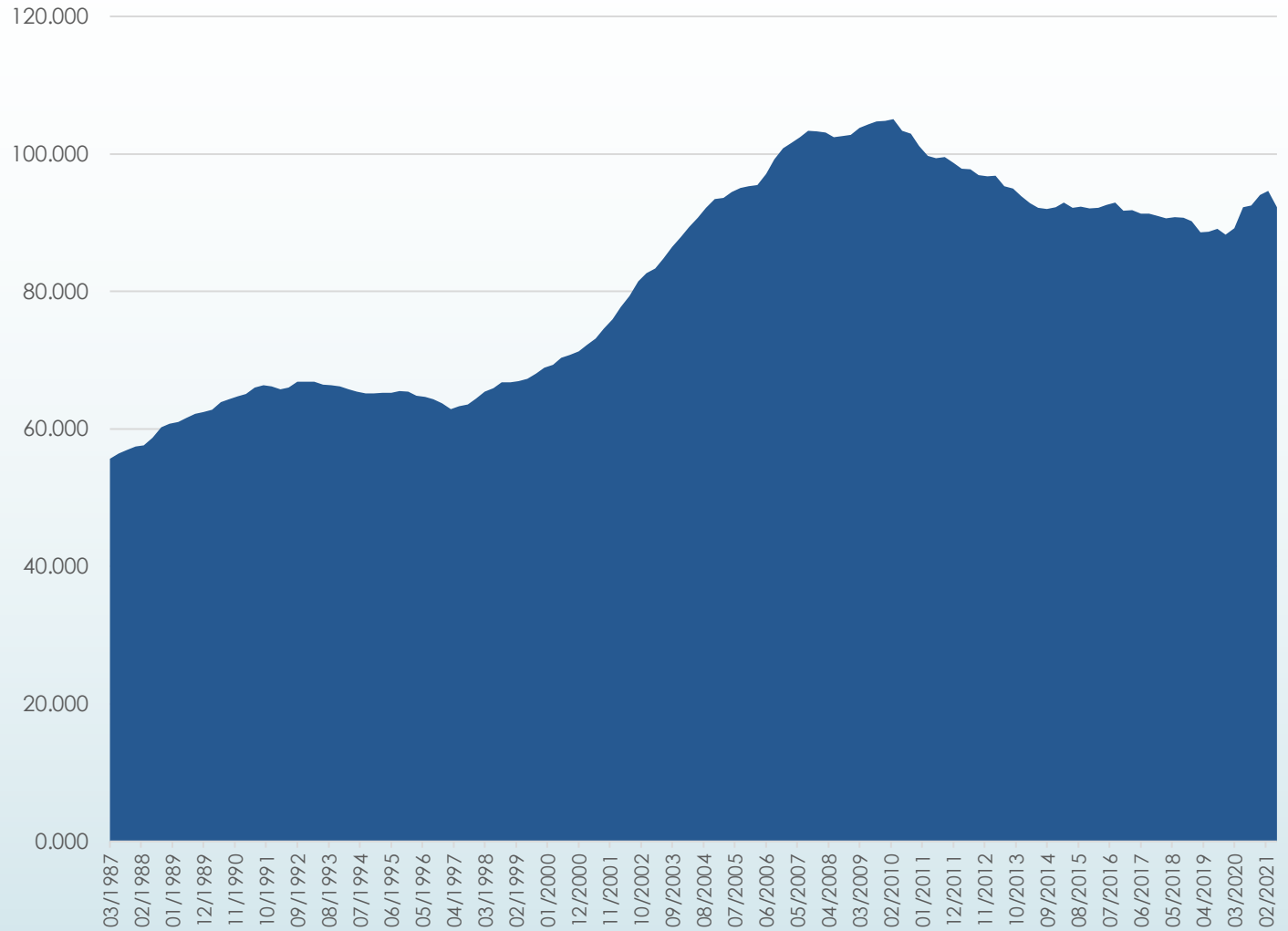
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Empirical evidence

UK household debt %GDP 1987-2021

= surrogate for
absent UBI

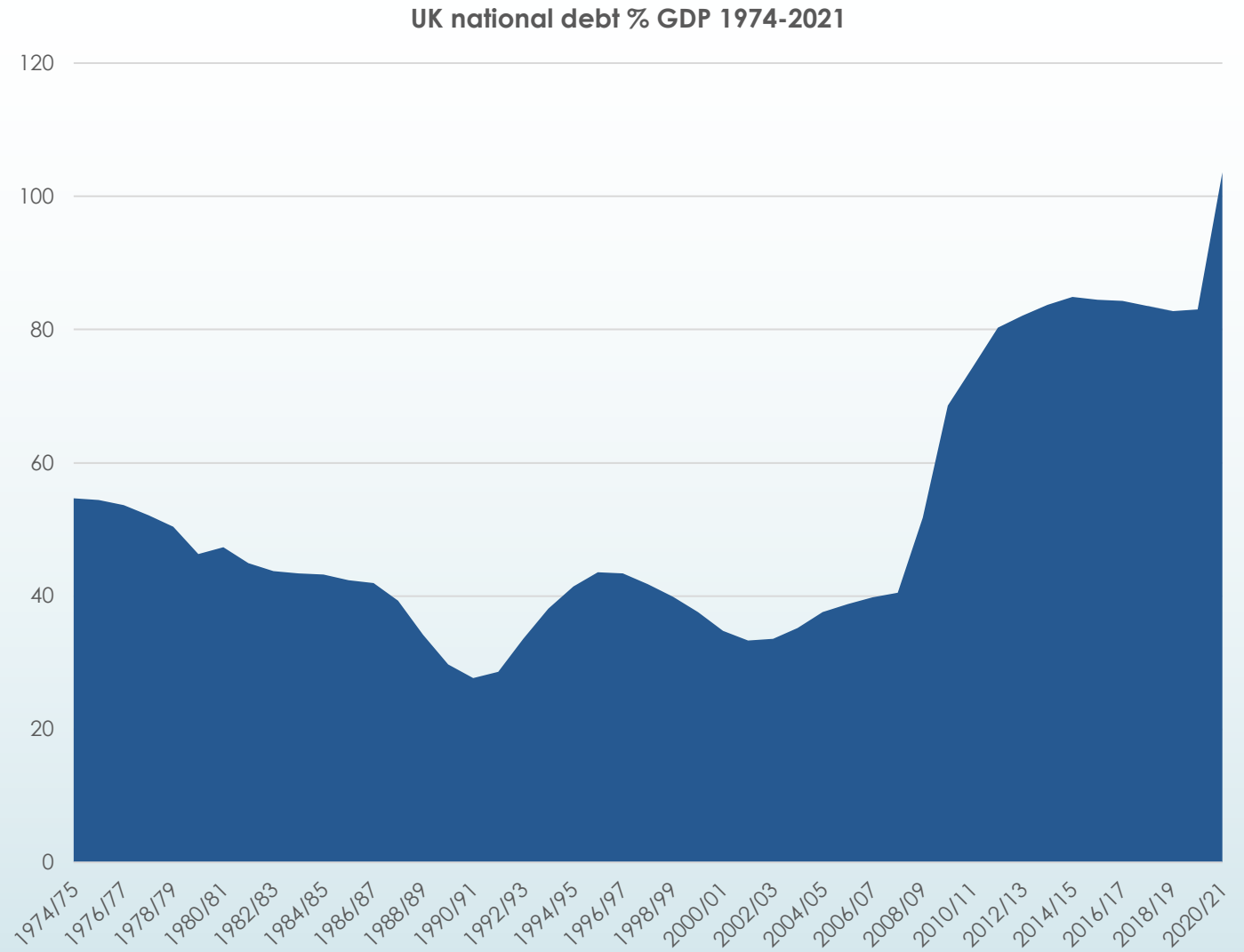
UK Household debt % GDP 1987-2021



Empirical evidence

UK national debt % GDP 1974-2021

= surrogate for
absent debt-free
sovereign money

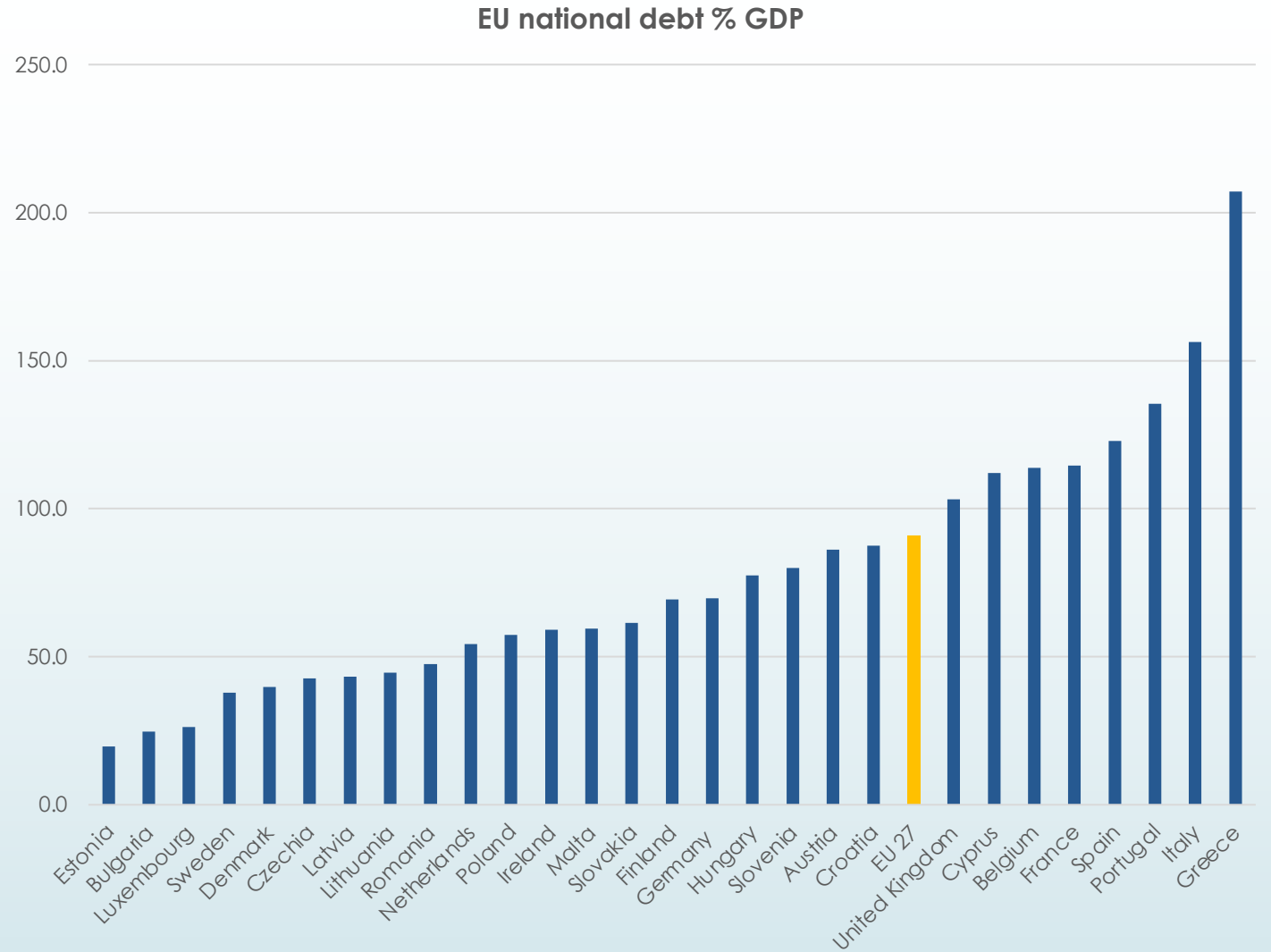


Empirical evidence

EU national debt %
GDP

EU27 = 90.9%

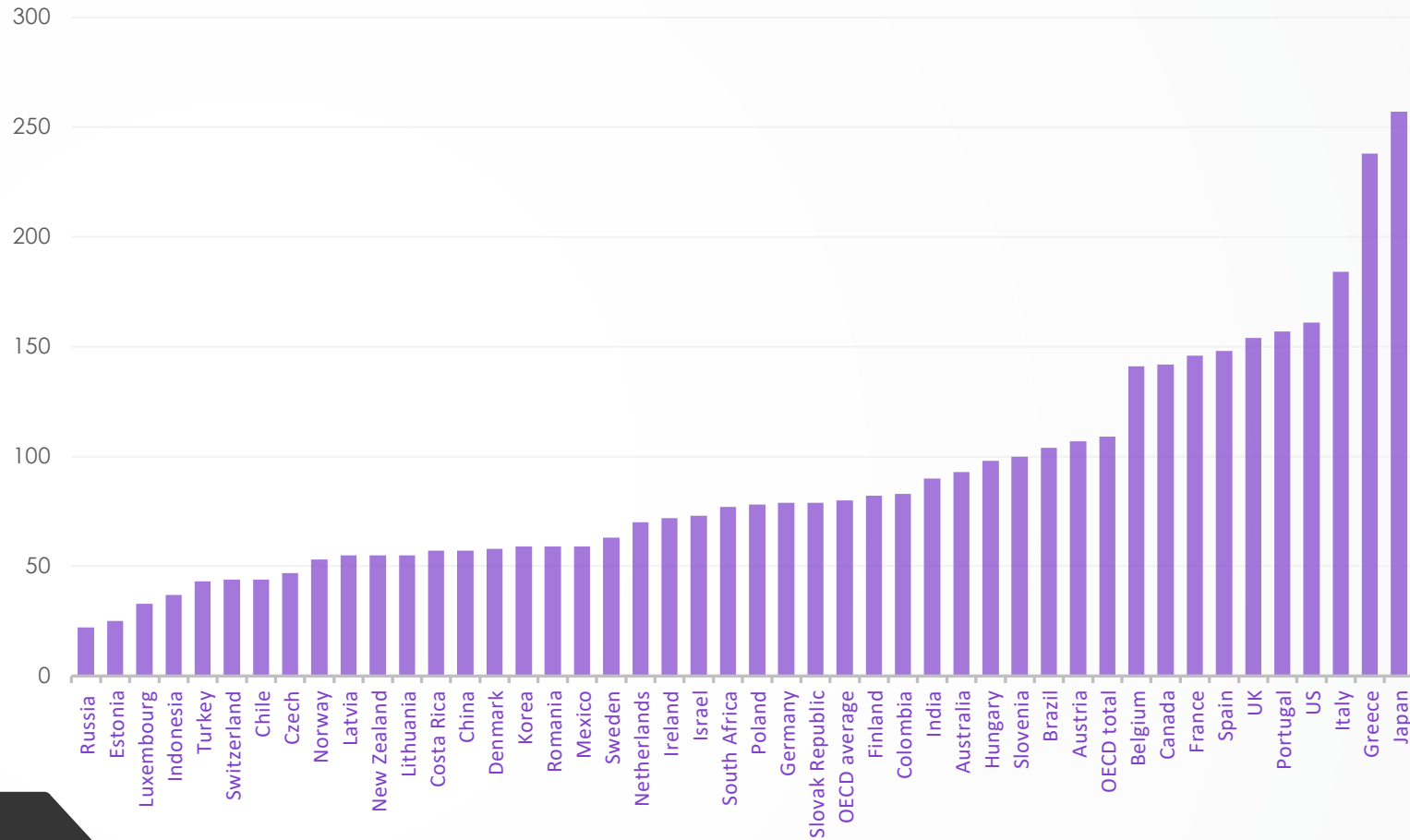
= pervasive debt



Empirical evidence

General government debt %
GDP 2020 OECD

= pervasive debt



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
- redefine concept of affordability
- take debt as constraint out of the system

From

- **Financial orthodoxy (money determines outcomes)**
 - 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 enables outcomes)**
 - 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**
 - **Keynes – ‘anything we can actually do, we can afford’**

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

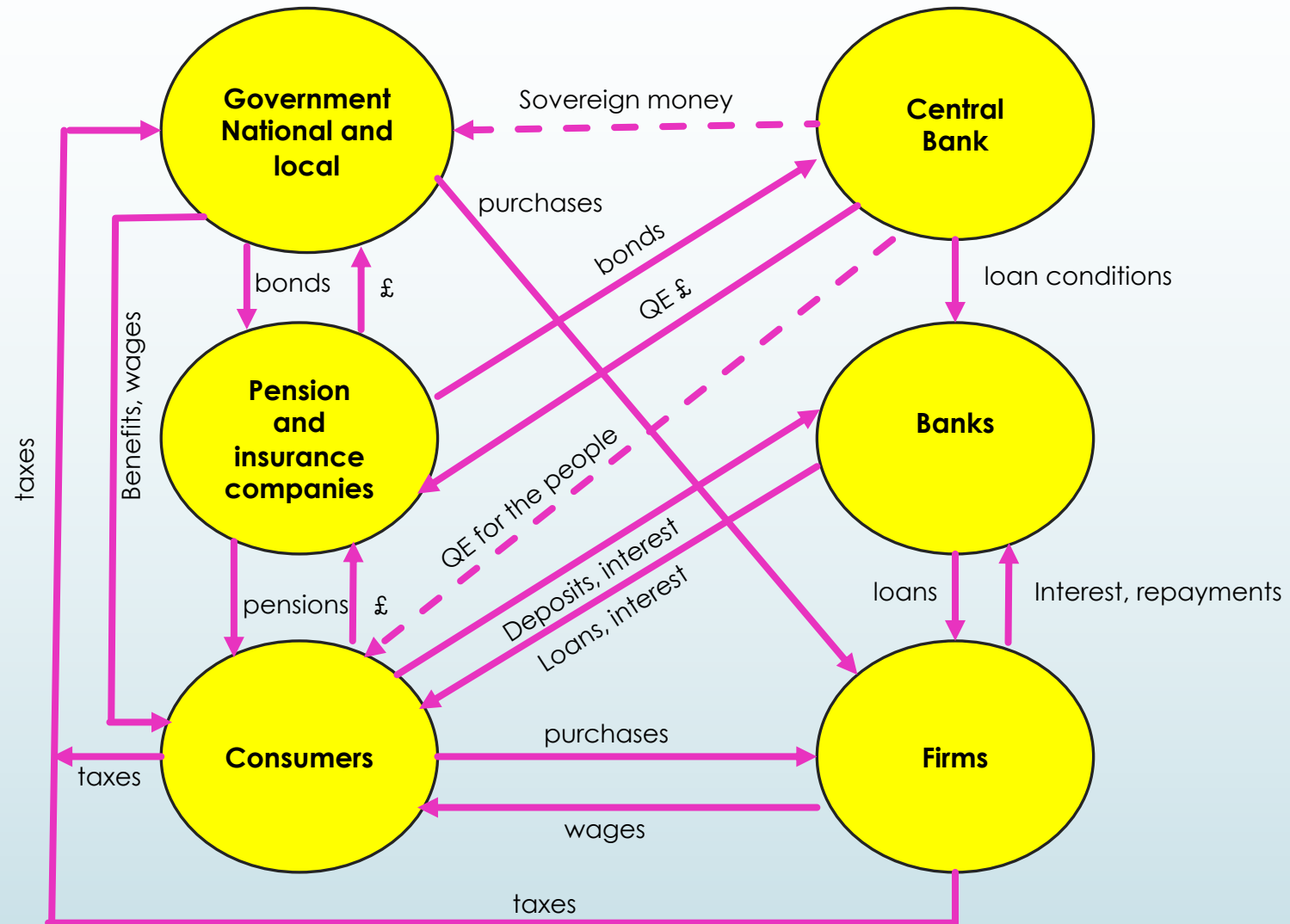
Origin	Objective	Definitions	Author
MMT	Fund job guarantee programme	<ul style="list-style-type: none">• Money=debt• Debt balanced by other sectoral surpluses• Zero interest rate, so no financing cost	Stephanie Kelton
Bank money	No commercial bank money creation	<ul style="list-style-type: none">• Only 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 ≠ debt

the academic perspective

- ▶ Kumhof et al 'Central Bank Money : Liability, Asset, or Equity of the Nation?'
https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15521
- ▶ Bossone and Costa 'Money for the Issuer : Liability or Equity?'
www.degruyter.com/document/doi/10.1515/econ-2021-0004/html
- ▶ Bossone 'Bank Seigniorage in a Monetary Production Economy'
www.postkeynesian.net/downloads/working-papers/PKWP2111.pdf

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 ???**

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

see
'Post-Covid
Economics'

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**

$$\sum \text{all demand in economy including UBI} < \text{output GDP}$$

A paradigm shift from two crises

➤ Furlough scheme 3m people UK x £24K, cost £72bn, \$1200/person USA

➤ ≈ UBI works 😊

Funded by

➤ BoE now holds £875bn government bonds bought in secondary market

➤ ≈ Debt-free sovereign money works 😊

➤ See [Prospect article](#)

Basic income and debt-free sovereign money

Research programme

1 Cambridge Econometrics' multi-sectoral model of the UK economy to

- test for macroeconomic stable equilibrium with UBI + DFSM, ie no hyperinflation or devaluation collapse
- model macroeconomic UBI/DFSM implications of microsimulation UBI schemes
- simulate sectoral productivity assumptions vs aggregate labour income driving UBI and DFSM

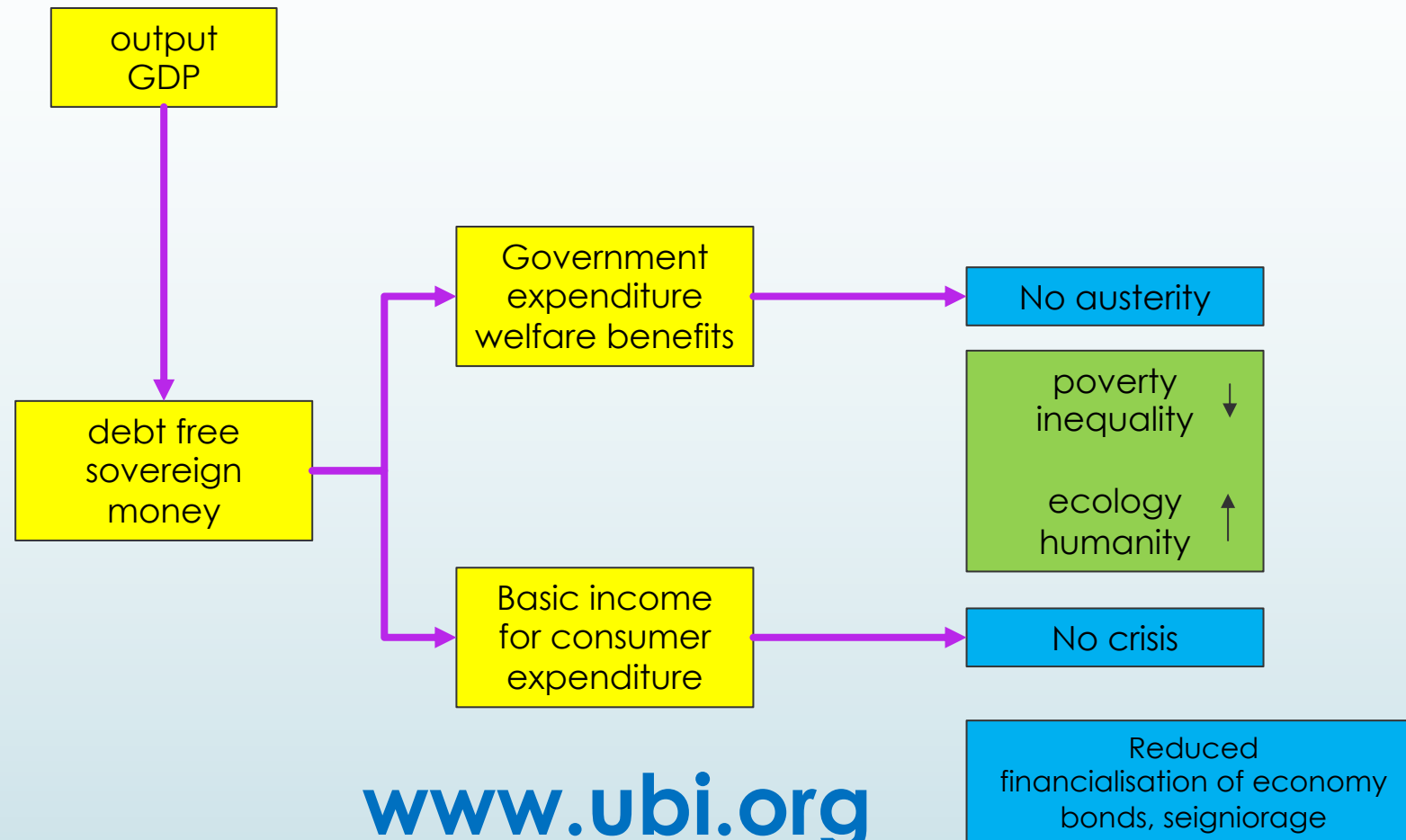
2 FRIBIS/Cambridge Enterprise, University of Cambridge, UK

- macroeconomic modelling of UBI/DFSM specifically incorporating macroeconomic financial flows
- development of a 'Wynne Godley' stock-flow-consistent macroeconomic model of the UK economy to
 - test for stable equilibrium with macro amounts of UBI and DFSM
 - allow simulation of increased productivity generating higher levels of UBI and DFSM

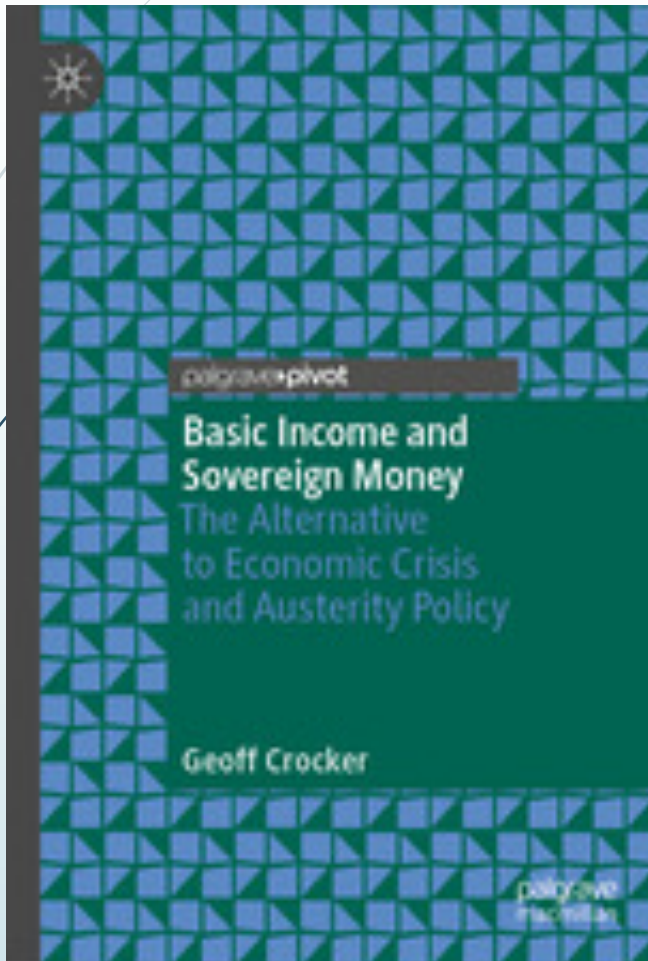
3 Institute for Policy Research, University of Bath, UK

- policy papers from conclusion of current research project (next paper by Aida Garcia Lazaro)
- simulations of productivity, basic income, and debt-free sovereign money scenarios using outputs from Cambridge Econometrics and Cambridge Enterprise

Basic income and debt-free 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