

# Economic development in middle income Asian economies

## Triangulating welfare, debt/GDP, and UBI

- Welfare systems
- Debt/GDP constraints
- Universal Basic Income
- Debt-free sovereign money

FRIBIS Asia consultation  
23 March 2022

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## Content

- ▶ The generic case for UBI and debt-free sovereign money
- ▶ Specific arguments for UBI in selected Asian economies
- ▶ The question of debt
- ▶ Redefining debt in Asian economies
- ▶ Consultation
- ▶ Research agenda

## The generic case for basic income

\* specific middle income Asian economy/philosophy characteristics apply

- ▶ **Social justice**
  - ▶ addressing inequality, precarity
  - ▶ sharing inherited infrastructure and technology
- ▶ **Ecology**
  - ▶ breaking link between income and more output, resource depletion, and pollution
- ▶ **Human flourishing**
  - ▶ enabling choice of lifestyle
- ▶ **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

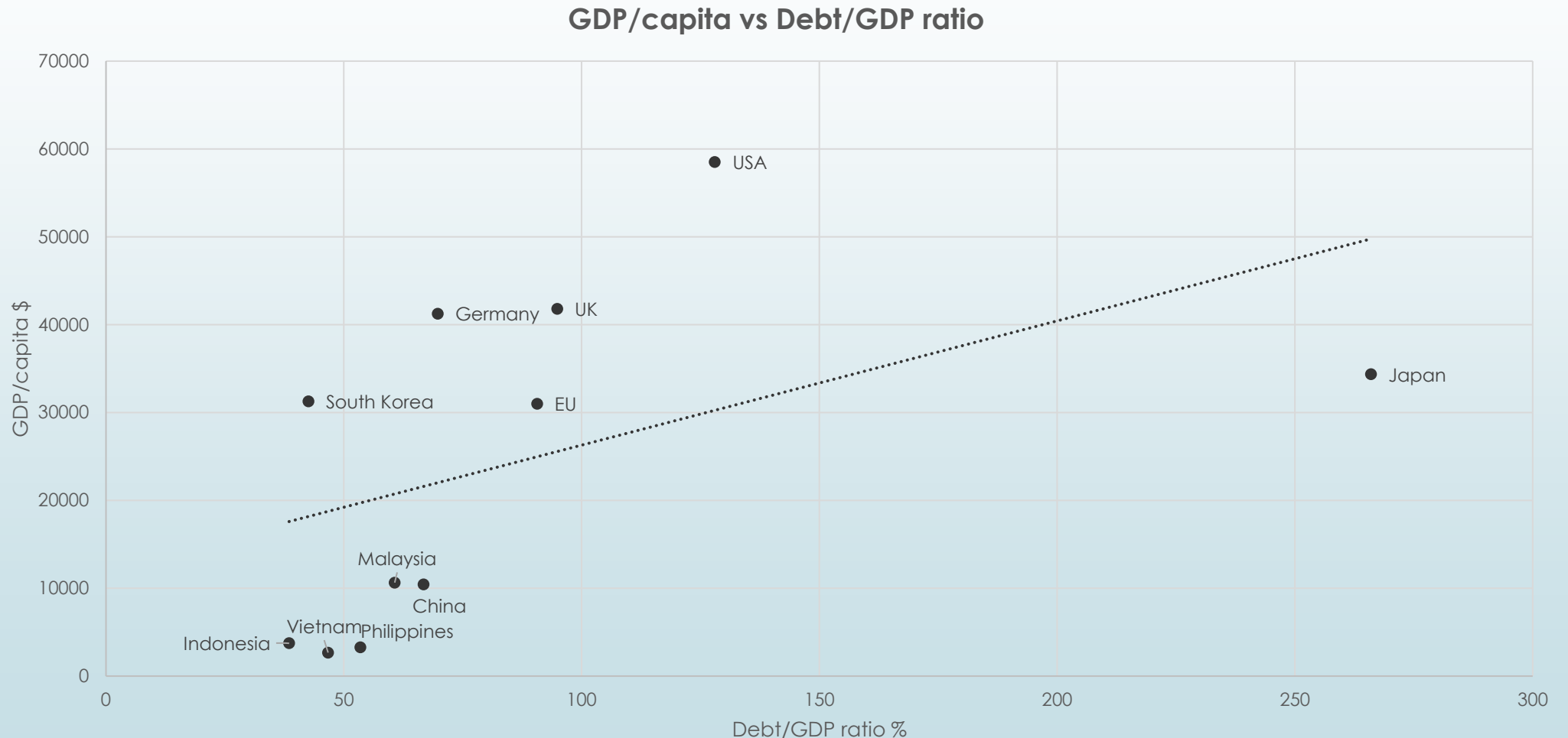
see  
**'The Case for  
Basic Income'**  
at  
[www.ubi.org](http://www.ubi.org)

## Specific arguments for UBI/DFSM in selected Asian economies

- ▶ **China**
  - ▶ current production capacity to meet global demand
  - ▶ therefore adequate to meet UBI enabled China consumer demand
  - ▶ current funding of US consumption by purchase of US Treasury bonds
  - ▶ option to reconfigure to direct debt-free sovereign money to fund China consumer UBI?
  - ▶ Central bank digital currency available to deliver UBI?
- ▶ **Vietnam, Indonesia, Malaysia, Philippines**
  - ▶ current debt/GDP ratio constraints limit consumer income growth
  - ▶ options to
    - ▶ extend debt/GDP ratios to developed economy levels to fund UBI?
    - ▶ create debt-free sovereign money to fund UBI?
    - ▶ UBI as a consumer income led growth strategy?
- ▶ **Iraq, Syria**
  - ▶ current consumer income issued backed up by loans from Russia/Iran
  - ▶ option to create debt-free sovereign money to fund UBI with no external loans?

## GDP/capita and debt/GDP analysis

source : Tradingeconomics.com

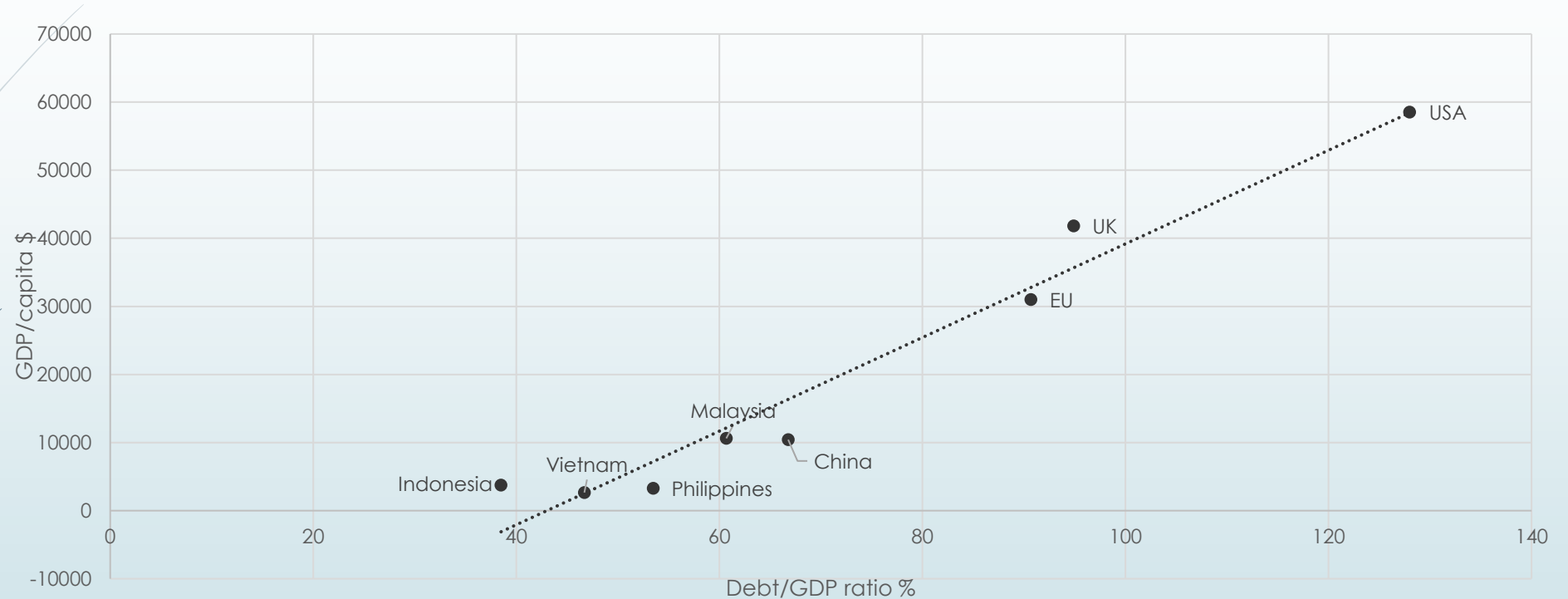


- Suggests strong relationship debt to income
- Export economies South Korea, Japan, Germany = outliers

# GDP/capita and debt/GDP analysis excluding export economies

source : Tradingeconomics.com

GDP/capita vs debt/GDP excluding export economies



- suggests strong relationship debt to income
  - <60% debt/GDP = GDP/capita < \$5,000
  - >60%<80% debt/GDP = GDP/capita \$10,000
  - >90% debt/GDP = GDP/capita >\$30,000
- so are low debt/GDP ratios constraining economic growth?
- could
  - **debt be higher?**
  - **debt-free sovereign money be created?**
  - **UBI consumer income generate economic growth?**
- correlation ≠ causation, so need explanatory theoretical model and deeper research

## Money ≠ debt

### the academic perspective

- ▶ Kumhof et al 'Central Bank Money : Liability, Asset, or Equity of the Nation?'
- ▶ [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3730608](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3730608)
- ▶ Bossone and Costa 'Money for the Issuer : Liability or Equity?'
- ▶ [www.degruyter.com/document/doi/10.1515/econ-2021-0004/html](http://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](http://www.postkeynesian.net/downloads/working-papers/PKWP2111.pdf)

## 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’**



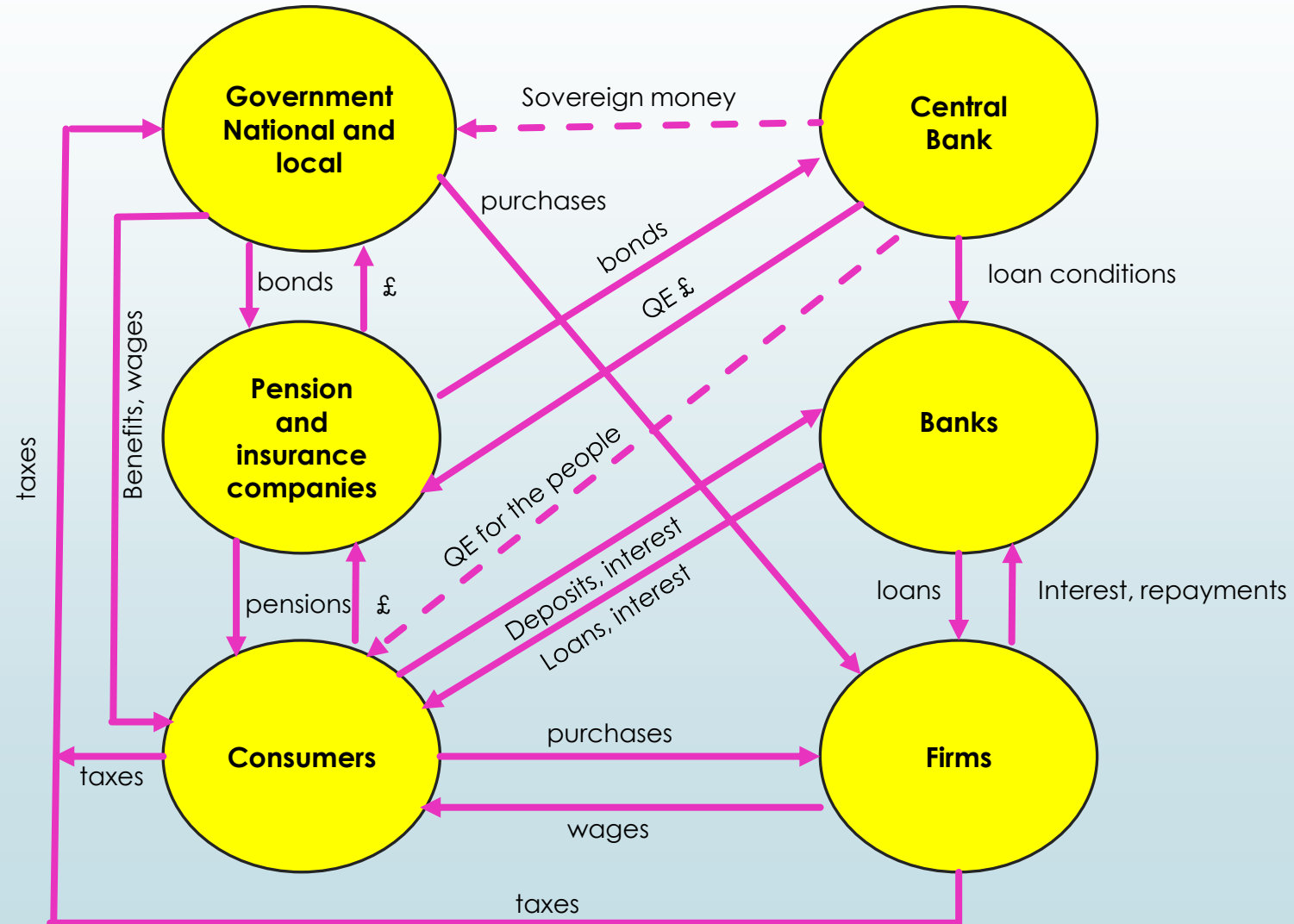
# Defining sovereign money

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- **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"><li>• Money=debt</li><li>• Debt balanced by other sectoral surpluses</li><li>• Zero interest rate, so no financing cost</li></ul>	Stephanie Kelton
Bank money	No commercial bank money creation	<ul style="list-style-type: none"><li>• Only central bank creates money</li></ul>	Joseph Huber
Basic income	Fully fund aggregate demand to avoid debt, crisis and austerity	<ul style="list-style-type: none"><li>• Central bank money does not create debt</li><li>• Central + commercial banks create money</li></ul>	Geoff Crocker

## Money creation and flow – western economic model



## The life of bonds – and the law of unintended consequences from UK to Asia?

- ▶ 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 ≈ £875bn government debt
- ▶ **This is equivalent to debt-free sovereign money**
- ▶ **What are the equivalent models in Asian economies?**

## 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 in UK)
  - ***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**

**$\Sigma$  all demand in economy including UBI < output GDP**

## UBI and DFSM proposals for middle income Asian economies?

### Suggestions for discussion in today's consultation

- Is thesis that low debt/GDP ratios constrain economic growth credible?
- Is the specific argument for UBI funded by DFSM for China credible?
- How could UBI integrate or replace current welfare systems?
  - eg China and Indonesia reviews in next presentations
  - what benefits/losses/constraints apply?
- Can new research model an assumption of incremental UBI/DFSM on
  - national economy's real supply side response, investment/production
  - import suck, devaluation
  - government accounts
  - GDP/capita

## 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

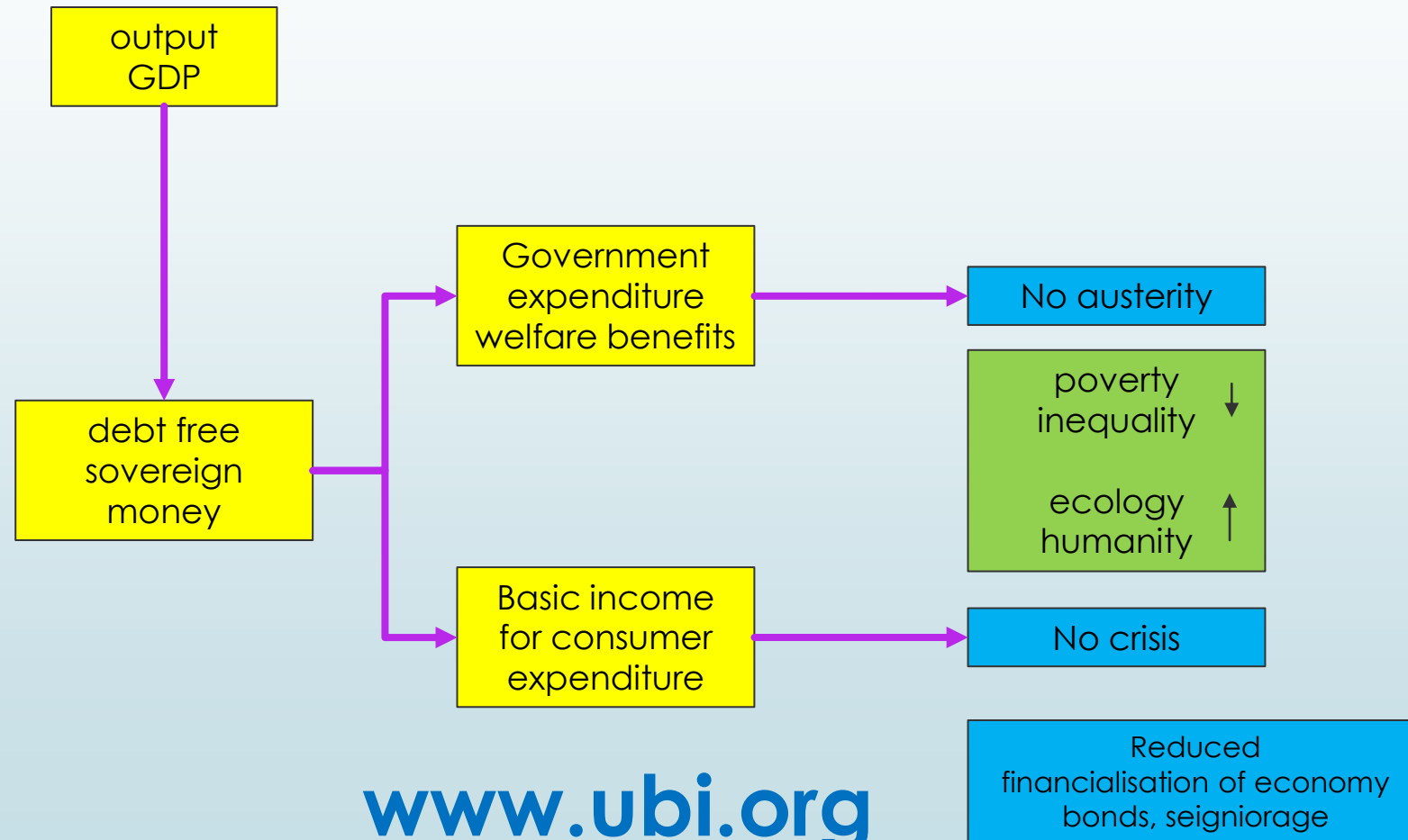
#### 2 FRIBIS/Cambridge Enterprise, University of Cambridge, UK

- ▶ 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

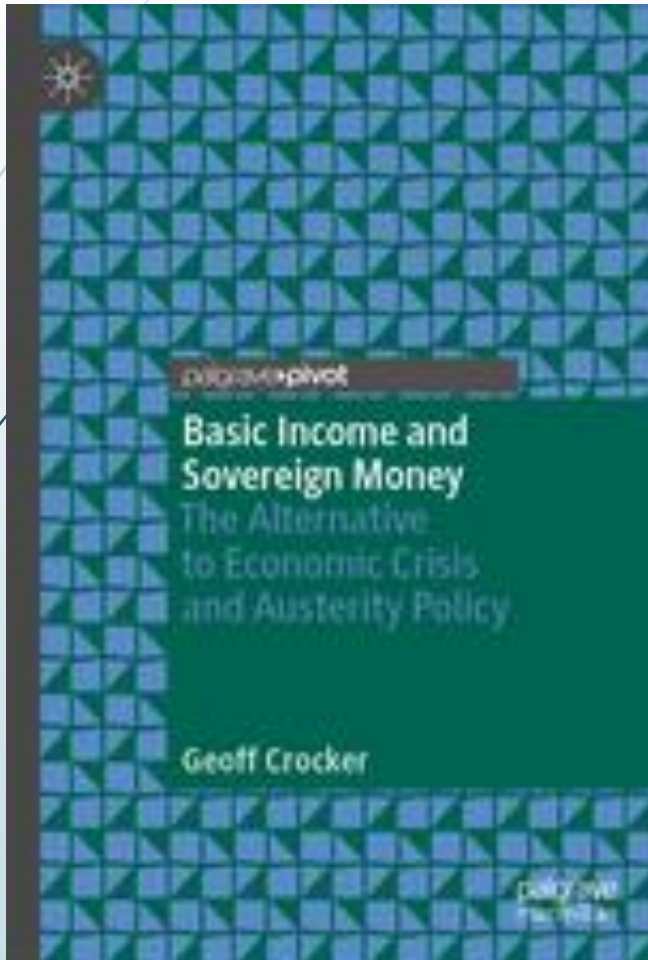
- ▶ policy papers from conclusion of current research project (next paper by Aida Garcia Lazaro)
- ▶ simulations of productivity, basic income, and debt-free sovereign money scenarios using outputs from Cambridge Econometrics and Cambridge Enterprise

## 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**