

**A basic income reform as part of the abolition of  
economic privileges and the creation of a sustainable  
society**

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## **I: Introduction**

During the last 10 years basic income has been considered a reform of the highly developed welfare societies by groups of researchers within social studies with widely different perspectives on the subject, to mention a few: liberal (and libertarian), social democratic, democratic socialist, feminist and ecological (Fitzpatrick 1999).

It may therefore be difficult to talk about basic income as such because the nature, importance and impact of a basic income reform will be very different depending on in which institutional context it will be implemented and what kind of social movement will be the driving force for the implementation of such a reform.

A basic income reform can, in principle, both lead to a more liberal market-oriented society, a continuation of the social democratic welfare state, a nascent democratic socialist society, and to the beginning of a new green sustainable society.

In Denmark, the idea of basic income was first made known to the general public in 1978 (1982) with the book "Oprør fra midten" ('Rebellion from the Center') written by a politician (Kristen Helveg Petersen), a scientist (Niels I. Meyer) and a literary philosopher (Villy Sørensen). Here basic income was described as a step towards the creation of a new humane 'equilibrium society' for the 21st century, consisting of community businesses in which all employees would have influence and with equal pay and an extensive local democracy. This utopian sketch reflected a new green vision which was seen as a showdown with both liberal and socialist growth thinking.

In the early 1990s, basic income was regarded as a more isolated reform option by small groups in various political parties (the Danish Social-Liberal Party, the Liberal Party, the Socialist People's Party and the Red-Green Alliance) and a broad cross-party basic income movement was formed in Denmark in 2000. This became affiliated with BIEN in 2006.

Due to the movement's cross-party character, it has not been attempted to dye the basic income idea with any particular ideological color and so the movement's wide-appealing nature has been kept intact. Some basic income theorists have, however, put the idea into a green context (Christensen 2000 and 2008) in line with the utopia of a humane society in equilibrium from "Rebellion from the Center" of 1978.

In 2010, a representative from the Basic Income Movement along with representatives from the political party, the Justice Party (a Georgist party) and the national association J.A.K. (Jord, Arbejde og Kapital or Land, Work and Capital), a social credit movement formed in the 1930s (Birnbaum and Christensen, 2007) joined forces in a working group with the aim of outlining a new sustainable economic system. This working group followed up in 2011 by forming a new think tank, Syntesetanken (the Synthesis Think Tank), which, in January 2012, presented a major report, "Sustainable Democratic Market Economy", a coherent three-part reform, consisting of a monetary reform which transfers the right to the creation of money from the private banks to the National Bank to the exclusion of such economic privileges, a land rent reform that collects rent to society, and a basic income reform that provides everyone with a fundamental economic security and freedom.

Liberal and social democratic-oriented basic income theorists have often seen a basic income reform as an isolated reform which could strengthen features of the existing welfare state without changing the essential. By contrast, the basic income theorists with a democratic socialist and a green orientation were fully aware that a basic income reform would only be one element in a comprehensive reform package leading to a democratic socialist or a green community. From a democratic socialist perspective, basic income is viewed in conjunction with a modification of the private ownership of the factors of production and a democratic control of the economy and from a green perspective it is often viewed together with a tax reform, a working time reduction and a strengthening of the informal economy and local communities ( Fritzpatrick 1999, pp. 123-51 and 176-202).

The report "Sustainable Democratic Market Economy" is an attempt to outline a comprehensive green package of reforms to achieve sustainable development in which a basic income reform is one element with a full land value taxation reform and a bank reform being the second and third.

## **II: The basic problems**

### **Economic Growth**

It is the economic growth, the economic privileges and the permanent unemployment that are the root causes of the current environmental and social crisis.

Historically, economic growth has had many positive effects. It has led to an increase in the material standard of living and has contributed to the democratic development and the creation of the welfare state. Its most immediate result is that the employment rate increases and public finances are better off as well.

However, economic growth is unsustainable in the long run. Increased production adds to the load that nature has to bear. And there are limits to how much we can continue like this. As a matter of fact, we have already exceeded those limits. This has led to the climate crisis and the threat of an eco-system collapse.

Today, the drawbacks of economic growth outweigh its benefits which means that economic growth is counter-productive, partly because of adverse effects on nature, partly because the increased growth and consumption do not lead to greater satisfaction and happiness, and partly because growth in Denmark and other industrialized countries largely is at the expense of people in developing countries.

### **Permanent unemployment**

The increase in labor productivity has created permanent unemployment. Technological progress increases the productivity of labor and as a result there are not enough full time jobs for those who can or will work. In the last 25 years, approximately 25 percent of the workforce (i.e. 18-66 year olds) have consistently been out of work and on various kinds of social benefits corresponding to 800,000 full-year recipients, despite various labor market reforms and social reforms and good times. As a society, we have thus excluded or cut a quarter of the 18-66 year olds from a central part of community life.

### **Economic privileges**

The current economic system allows for a wide range of economic privileges which is contrary to the democratic way of thinking (based on equality and the exclusion of all privileges). This affects the total welfare as it inhibits the efficient allocation of the factors of production and at the same time creates a concentration of wealth which leads to an increasing strain on the environment.

The right to create money is a very profitable economic privilege. In today's financial system, this privilege is almost completely in the hands of the private banks. 93 percent of the money supply is now created by banks.

Land is a source of tremendous natural and social resources, and its value is increased as society develops. The current economic system allows landowners to harvest the profit from this increase in value although it is not due to any effort on the part of the landowners. This means that ownership of the land today, of which 1 percent of the population owns over 60 percent of the land, represents a major economic privilege.

Since people are born with different talents and also grow up under different social conditions, there is great disparity in the income that different people can acquire given the same effort. Among employees, there are those who earn a very high salary and who can always find a job and there are those who can only earn a modest salary and are often unemployed or never even enter the labor market. The former group enjoys, as it were, an economic privilege from "inheritance and environment".

## **II: The harmful effects of economic privileges**

### **The banks' creation of money**

The fundamental problem with the current monetary system is the banks' creation of money. The National Bank issues coins and notes while the banks create deposits. As long as the individual bank can continue to attract new equity, and as long as the interbank market works the bank will

continue to increase its debt.

The banks' creation of money creates economic instability because bank loans amplify the fluctuations of the market. The banks' profit-orientation causes them to act pro-cyclically which means that the more the economy expands, the more willing they are to lend money, and the more the economy shrinks, the more reluctant they are with their loans (and investments). Therefore, the National Bank does not control the money supply effectively.

Moreover, there is a democratic bias. As a result of the banks' creation of money their equity is very small relative to their assets. And since the banks, through their lending to businesses, have significant influence on them, the current system allows for a "gearing" of the economic influence from the banks' major shareholders and by virtue of this a possibility for a significant and unnatural political influence. The banks' creation of money concentrates and multiplies power and leads to a democratic bias towards the interests of the largest bank owners. The trend towards fewer and larger banks adds to this multiplying effect.

The banks' creation of money is an economic privilege. The value of this privilege, which society has given the banks, does not consist in the value of deposits which the banks create "over the balance", but in its secondary earnings, in other words, the earnings from interests and dividends, capital gains on bonds and stock gains which are included with loans, bonds and shares that the banks have funded "over the balance" by the creation of deposits. It does not refer to a seigniorage in the traditional sense (which is precisely the value of the created money less production costs), but a secondary seigniorage.

Finally, the combination of the deposit guarantee scheme and the interest on deposits leads to a low prioritization of the future. If there are more investment opportunities, it is, other things being equal, the project with the highest net present value that is most profitable. Since the present value of an income decreases exponentially over a time period discounting creates a shortsightedness in all profit motivated investment decisions. This leads to a systematic devaluing of long-term considerations to the detriment of the environment and future generations.

## **The privatization of rent**

The fundamental economic problem with the factor of production called land is the so-called privatization of rent, ie. the rent can be harvested by private landowners and the fact that they are allowed to keep it.

The privatization of land rent means that the rising rents - which is a result of the development of society - are harvested by the landowner, in other words, the landowners "capitalize" the development of society.

The development of society and the rising rents are not created by the landowners, but by the "productive classes", ie. employees and business owners, first, directly from their contributions to the production, which is responsible for social development (i.e. through their work and investments) and, secondly, indirectly through the taxes they pay on their salaries and profits since they fund most of the public institutions like schools, parks etc. that contribute to the value of the surrounding land.

The privatization of land rent is responsible for economic instability because it has a pro-cyclical effect. The sensitivity of the land rent to changes in purchasing power leads to large fluctuations in the land's market value. In good times, the market value of the land is increased leading to an increase in the banks' ability to create deposits, which in turn increases the purchasing power, and thus begins a spiral of rising rents and increased money supply. During a recession and declining purchasing power the rent decreases and so does the land's market value. This reduces the value of the collateral and as a result banks are forced to make devaluations of equity thereby contributing to the solvency crisis. The fluctuations in the land's trading price during those cyclical movements mean that some people become undeserved winners and others undeserved losers.

From 1994 to 2004, real estate offered a greater return than securities. The redistribution that has taken place between the economic classes and generations as a consequence of rising property

prices is the largest since World War II. The privatization of rent has made land an attractive speculative object.

### **Outdated view on work and job privileges**

At the time labor productivity was low it was necessary that the entire workforce (i.e. everyone capable of working) contributed to the production in every possible way. However, the increase in labor productivity means that our current production only requires about 3/4 of the workforce full time, i.e. in a workweek of 37 hours.

In Denmark, over the past 25 years, 800,000 of the 18-66 year olds have been fairly constantly outside the labor market. It is equivalent to a quarter of the workforce. The current distribution of jobs and the design of welfare benefits have created a rigid class division: above in the hierarchy are the most senior employees, the high-income earners who can always get a highly paid job; at the bottom the quarter who are outside the labor market and on various forms of welfare because they are not needed, temporarily or permanently. This class division is harmful both to those outside the labor market, to those who have jobs and to society as a whole.

The group outside the labor market is subject to various rules for the allocation of benefits. Disability pensioners receive a guaranteed pension benefit without any employment obligations. Welfare recipients receive a means-tested cash benefit with an obligation to work, while unemployment insurance fund members receive an earned benefit, but also with an obligation to accept job offers on the labor market.

As a result, when insurance fund members lose their unemployment benefits, they can not easily get welfare benefits. It depends on their assets (or equity in the house) as well as the position and income of the spouse. The current system, therefore, is built on a significant class division among the excluded, between the ordinary unemployed and the welfare recipients.



Being part of the modern labor market has become so demanding that each year many people are expelled temporarily or permanently. Moreover, 20-30 percent of the population (and especially those at work) are estimated to suffer from stress. Every day 35,000 are reported sick because of stress, and it is estimated that stress costs Denmark 14 billion per year because of days lost through illness, premature death and health care costs.

It is in particular the group of medium- and low-paid employees, threatened as they are by unemployment, which is weak. The ever-worsening conditions for the unemployed and activated are frightening and the employers' demand for efficiency makes their bargaining position even weaker. The result is a deterioration of wages and working conditions.

#### **IV: The solution**

##### **Nationalization of the creation of money**

The National Bank shall have the exclusive right to create money, both cash and electronic money. This will eliminate the banks' money creation privileges. As a result, bank owners will lose their unearned income. They will disappear as an economic class and become business owners.

The other consequences of the nationalization of money creation depend on the specific design of the reform.

##### **Full land value taxation**

Land rent must be recovered fully to the community. This is also called full land value taxation and is designed to end the privatization of rent and all its resulting harm.

Full land value taxation is a land rent tax which corresponds to the rent to be paid by the landowner. For example, if the rent on a given piece of land is \$100 per month (i.e. if the

monthly economic value of having the right to use the parcel is \$100) the owner must pay \$100 per month to the community.

Full land value taxation means that landowners lose their unearned income.

### **Basic Income**

Everyone must be guaranteed a basic economic security and freedom. This is possible with a basic income which could be defined as a right to an income at a modest level, i.e. somewhere between retirement pension and unemployment benefits. In addition to this, basic income is universal, i.e. for all individuals in Denmark (natural-born citizens and those with a permanent residence permit), and unconditional, which means it is granted to all regardless of income and wealth and not conditioned by any availability duty or activation requirement.

A basic income is characterized by being both a social dividend and a compensation - a social dividend because everyone has an equal right to a share of the state revenue from natural and man-made resources. But it also has the character of a compensation from society to the unemployed for the missed job opportunities.

### **V: The overall vision**

The goal is to create a sustainable democratic development. A sustainable democratic development has three goals, all initiated within a democratic framework: ecological sustainability, social justice and economic efficiency.

Democracy means government by the people and is about the people's influence and control of state power. Political democracy requires political equality, pluralism, competition and debate between different views during election and the appointment to senior positions as well as the protection of citizens' rights.

The establishment of ecological sustainability, social justice and economic efficiency implies an economy whose magnitude does not exceed what the environment can sustain, a fair distribution of revenue sources between the economic classes and generations, and the efficient use of the factors of production.

This can not be achieved without changes in the economic system. It is necessary to remove the intrinsic growth requirements of the economic system through a radical regulation of the consumption of natural resources and prices, as well as the elimination of economic privileges through a monetary and land reform. Only so can the market potential of the economy be fully developed. Furthermore, all citizens should be guaranteed a basic economic security through elimination of the current activation and disposal obligations. This will create a much more flexible labor market, contribute to a better distribution of the necessary functions and jobs in society and strengthen the individual freedom and the democracy as a whole.

Put together, all of this will pave the way for a sustainable democratic market economy.

The overall reform will in all likelihood have the following consequences:

**Democratic progress**, because, among other things, it will guarantee a basic economic security and freedom for all. It will eliminate the built-in intrinsic and for the democracy negative bias of the monetary system and the benefit system with its clientization, coercion and lack of legal rights and strengthen the civil society as well as the democratic participation.

**Ecological sustainability**, because it will remove the inflation, the intrinsic growth requirements and the systematic low prioritization of the future - all caused by the current monetary system.

This will allow for a national ecological economic reform - and thus contribute to the initiation of a necessary sustainable physical transformation.

**Social justice**, because it will remove most of the unearned incomes (from land and bank owners), lead to a better distribution of jobs and thus reduce inequality, reduce the class struggle between workers and business owners and improve workers' working conditions.

**Economic efficiency**, because it removes the system-created fluctuations of the market, creates a more stable real estate market, makes the economy more robust by saving a huge amount of administrative costs and improves the allocation of resources and the competitive capacity.

### **Decommodification**

Historically, society has been subject to a growing marketisation. The market, in the sense of a commodity market, is an ancient economic institution. But a market society is radically changed when the market not only applies to goods but also to the production factors land and labor as well as money. When these were turned into "goods", that could be bought and sold, we saw the birth of the capitalist market society. Thus, the economy was slowly liberated from society's other functions and the market became the dominant organizing principle of society. This is the case in the present capitalist society.

Land, labor and money differ from products such as production equipment and goods. The products are produced to be sold on the market - and ultimately for the satisfaction of needs. But land is not produced by humans beings. And people are not produced to be sold as labor. Finally, money itself does not satisfy needs, but is basically just a method of payment.

The money, land and basic income reform contributes to a decommodification of money, land and people.

### **Democracy's next move**

From a historical perspective, the monetary reform, the full land value taxation reform and the basic income reform is the natural next step:

**Nationalization of money creation** is the natural next step in terms of managing seigniorage. Before the introduction of democracy it was the king who coined money and thus collected the seigniorage. Today, when 93 percent of the money supply consists in money that banks have created, it is mainly the banks who get the seigniorage. Through nationalization of the creation of money the seigniorage will benefit all citizens.

**Full land value taxation** is the natural next step in terms of management of rent. Under feudal rule, it was the king and the nobility who received rent. With the abandonment of serfdom, the introduction of democracy, the peasants' emancipation and the distribution of private property more people got a share in the rent. With full land value taxation it will benefit all citizens.

**A basic income** will mark a new phase in the history of citizenship. In the first phase of democracy (in the 18th century with England as an example), the civil rights were established, i.e. rights necessary for individual freedom of expression and religion, the right to hold property and conclude valid contracts, and the right to a fair trial. In the second phase (in the 19th century), the political rights were established, i.e. the right to elect representatives to political institutions exercising political power and to run as a candidate for a political office. In the third phase (in the 20th century), the social rights were established, i.e. the right to social care, education and health.

Historically, the right to a basic income would mark the introduction of the first real economic right, a basic right. Basic income is a basic right in the sense that it is the foundation for the full utilization of all other rights. The introduction of a basic income implies the transition from an economy-dominated wage society to a democratic civil society. It implies a strengthening of individual freedom for participation in economic activities, i.e. participation in the labor market and the development of businesses as well as political participation.

## **VI: Perspectives**

In Denmark, it is, on the one hand, important to maintain a broad basic income movement - The Basic Income Movement - which has members with extremely varying ideological orientations ranging from liberals to democratic socialists and green anti-growth followers.

On the other hand, it is also important for basic income supporters, especially with a democratic socialist and green orientation to see the basic income idea along with other key reforms in a confrontation with the dominant neo-liberal globalization.

Syntesetanken's reform proposals, which combine a basic income reform with a full land value taxation reform and a banking reform, is a new and more concrete attempt to present a comprehensive green economic foundation for a sustainable development.

So far, the three organizations behind the proposed reform, have focused on different social problems and put forward three different solutions to the Danish welfare society's challenges.

The Basic Income Movement has been busy trying to come up with proposals on how to reform the Danish labor market and social system to a system with a right to an unconditional basic income in order to minimize unemployment as well as the bureaucracy and clientization of the current system.

The Justice Party has been occupied with the adverse effects of land and property speculation on the economy and society and has accordingly put forward proposals for the introduction of a full land value taxation as a solution to this problem.

J.A.K. has become well-known for its criticism of the modern banking system. Their goal is an interest-free society in which money serves the community, not private interests. This has led to the establishment of a number of cooperative banks which, within the Danish regulatory framework, try to walk a few steps towards the interest-free society.

The three organizations have been focused on three different signs of crisis in modern society: the real estate 'bubble', the bank crisis and the crisis of the welfare state benefit system and have

put forward their proposals for reform as the pivotal point in the solution of the entire crisis in society.

What has been lacking is a more clear awareness that the three society crises are linked and that the three movements have the same overall common goal: the creation of a sustainable economy.

Ideologically, the suggested reforms from Syntesetanken contain elements from various ideological traditions. It is liberal in the sense that by removing financial privileges a more efficient market economy is obtained. It is socialist in the sense that it removes most of the work-free income (from land and bank owners) and decommodifies labor. Finally, it is green by eliminating the inflation created by the monetary system and the economic system's inherent growth requirements.

Syntesetanken's proposal is inspired by the New Economic Foundation (2010 and 2011) in England, a group that worked with a banking reform and James Robertson (2012), who in a new book also sees a basic income reform in the context of a land rent tax and banking reform. In addition to Robertson's new book, Syntesetanken has calculated how the three reforms could be achieved during a transitional period of 6 -10 years.

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