The Affordability of Basic Income

A radical heterodox economics view

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1 Introduction – affordability as the prime objection to basic income

The most prominent objection to Basic Income in public debate is its affordability. This objection was key in the Swiss referendum of June 2016 and in TV debate of the 2015 UK Green Party election manifesto. Basic Income is a major macroeconomic proposal, and needs to be presented within a comprehensive macroeconomic resolution.

Basic Income advocates largely argue within the confines of financial orthodoxy which requires balanced budgets (see Martinelli[4], van Parijs and Vanderborght[5], Reed and Lansley[6], Standing[7]). Their Basic Income proposals therefore require to be funded by tax increases or other spending cuts, and thus become tightly constrained.

This paper presents a more radical proposal. Its argument is that

- advanced technology economies increase the output/wage ratio
- this reduces the demand/output ratio, creating demand deficiency
- this makes Basic Income essential to maintain effective macroeconomic demand

A radical heterodox corollary of this argument which crucially demonstrates the affordability of basic income is that

- advanced technology economies render fiscal deficit inevitable

This hypothesis is tested within Popperian methodology, by deriving its empirical implications and testing these against empirical data. The paper shows that the data which is available supports and confirms the empirical implications of the hypothesis and thus tends to verify rather than refute the hypothesis.

The conclusion is therefore that Basic Income is an economic necessity, correctly and inevitably funded by 'Overt Money Funding' or 'helicopter money' ie an annual deficit which is simply written off, as current recurring deficits essentially are written off to ever ascending but entirely notional national debt. An outline of the heterodox theory of money which is necessary for this conclusion is then presented.

This offers a radical Basic Income proposal which avoids the affordability objection of neo-classical financial orthodoxy, thus creating scope for a far more realistic level of basic income.

2 Hypothesis

In a thought experiment where

- a machine is plugged into earth to produce all output GDP goods and services
- government issues annual new vouchers to distribute the output

then it follows that

- 100% of GDP becomes unearned or basic income
- 100% of GDP becomes 'financial' deficit

The nuanced hypothesis from this thought experiment is that

- in high technology, high productivity economies
- an element of unearned or basic income is an economic necessity to sustain demand
- an element of government financial deficit is inevitable

Elements of this hypothesis are famous from Keynes's treatment which is reviewed in Pecchi[8].

The important conclusion is that, in the real economy, it is output GDP which renders consumption affordable, not government financial balances. This is also true for Basic Income which is rendered affordable by output GDP, not government financial balances which themselves derive their value, as does money in general, from output GDP.

3 Testing the hypothesis against empirical data

The ideal empirical test for the hypothesis would be to run a statistical regression analysis of

- a measure of technology intensity in the economy, which would be expected to rise

vs

- the output/wage ratio, which would be expected to rise
- the demand/output ratio, which would be expected to fall
- the unearned/earned income ratio, which would be expected to rise
- financial deficit, which would be expected to rise

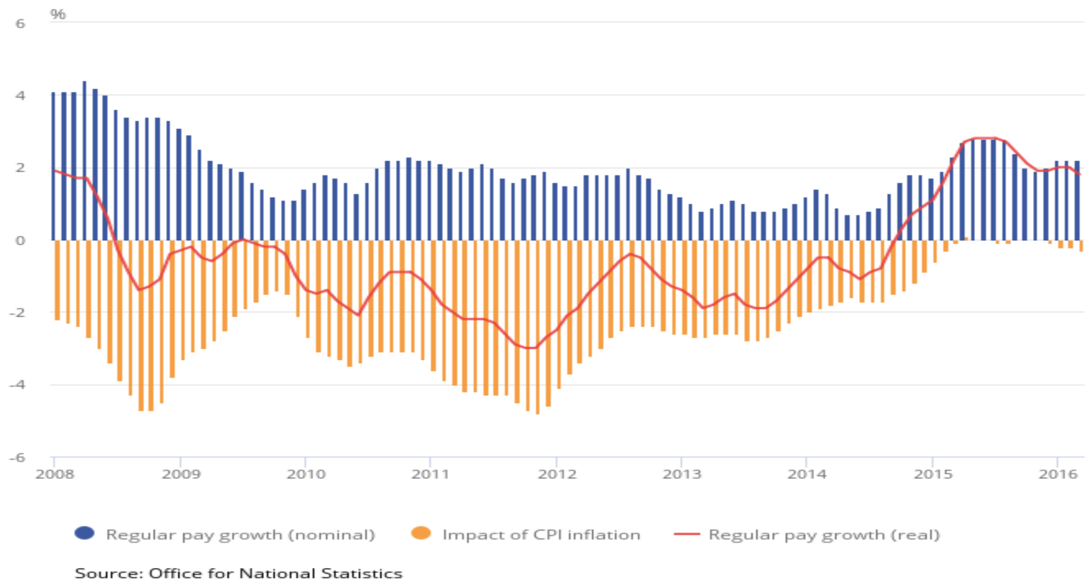
Note that unearned income would include pensions, welfare benefits, dividends, consumer credit, and dis-saving. The hypothesis requires these to increase as a proportion of total disposable consumer income as technology increases productivity.

Data to this exact specification is not readily available, and its definition and compilation are part of a proposed research project.

Research of available data sets with the UK Office for National Statistics, OECD et al, does however generate sufficient surrogate data to partially test the hypothesis. This is necessarily reported in an ad-hoc heuristic methodology as a series of data observations from available data, rather than within a comprehensive determinative methodology.

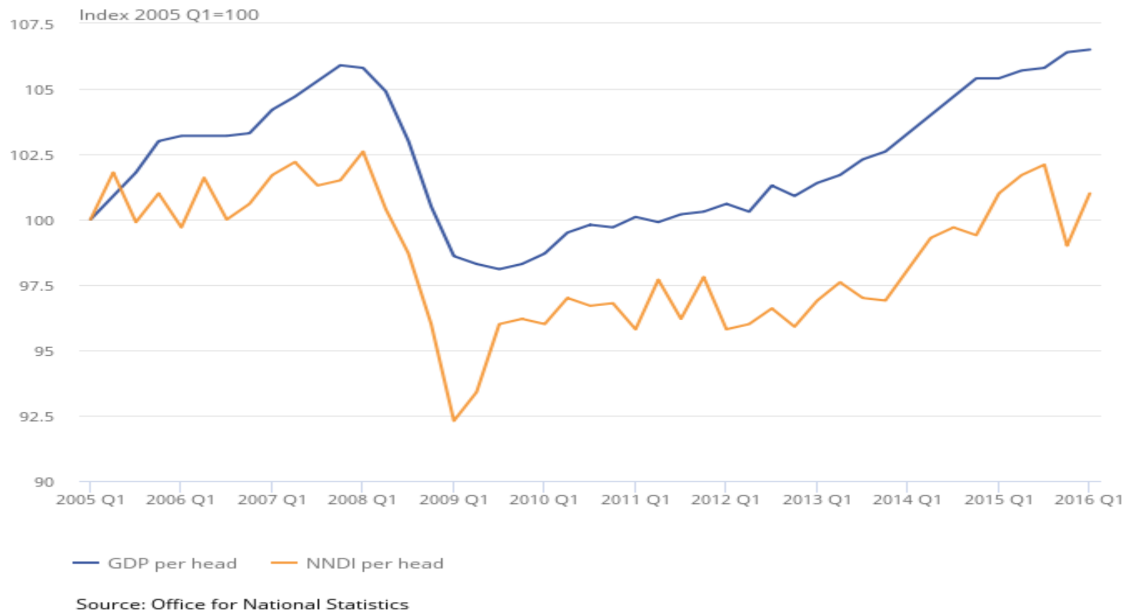
Data observation 1
UK real earnings fell from 2008 to 2015 whilst consumption was sustained

Figure 10: Contributions to the growth of real regular pay: Consumer Price Index (CPI) inflation and the growth of average regular weekly earnings, 2008 to 2016
UK



Data observation 2
UK disposable income per capita fell below output GDP 2005-2016

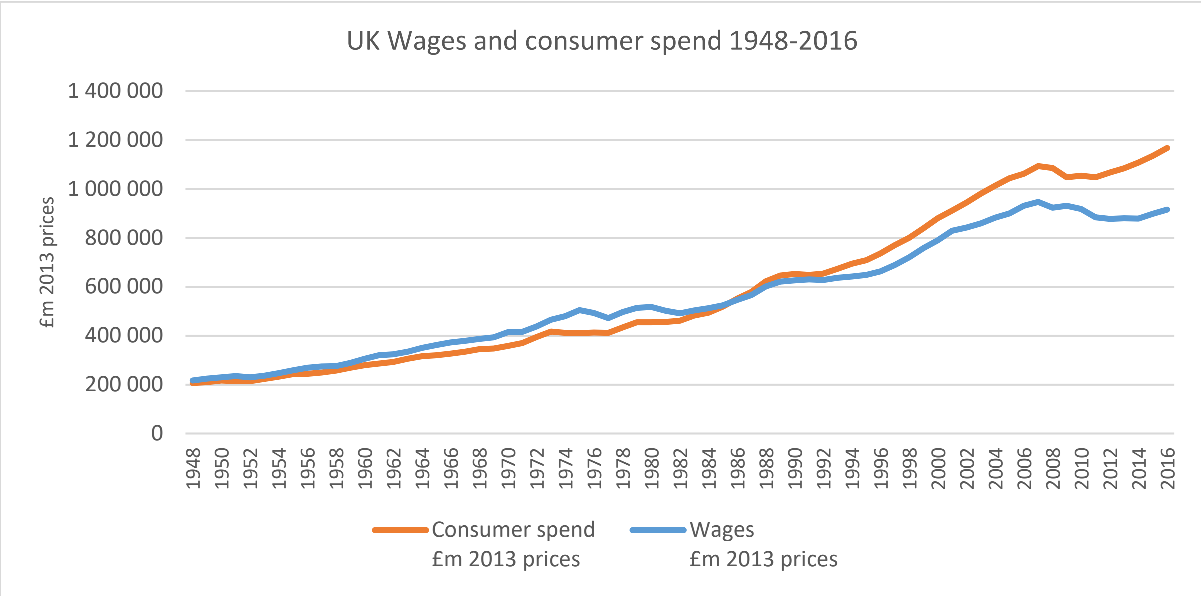
Figure 11: Measures of economic well-being: GDP per head and net national disposable income per head, chained volume measure Quarter 1 2005 to Quarter 1 2016
UK



Data observation 3

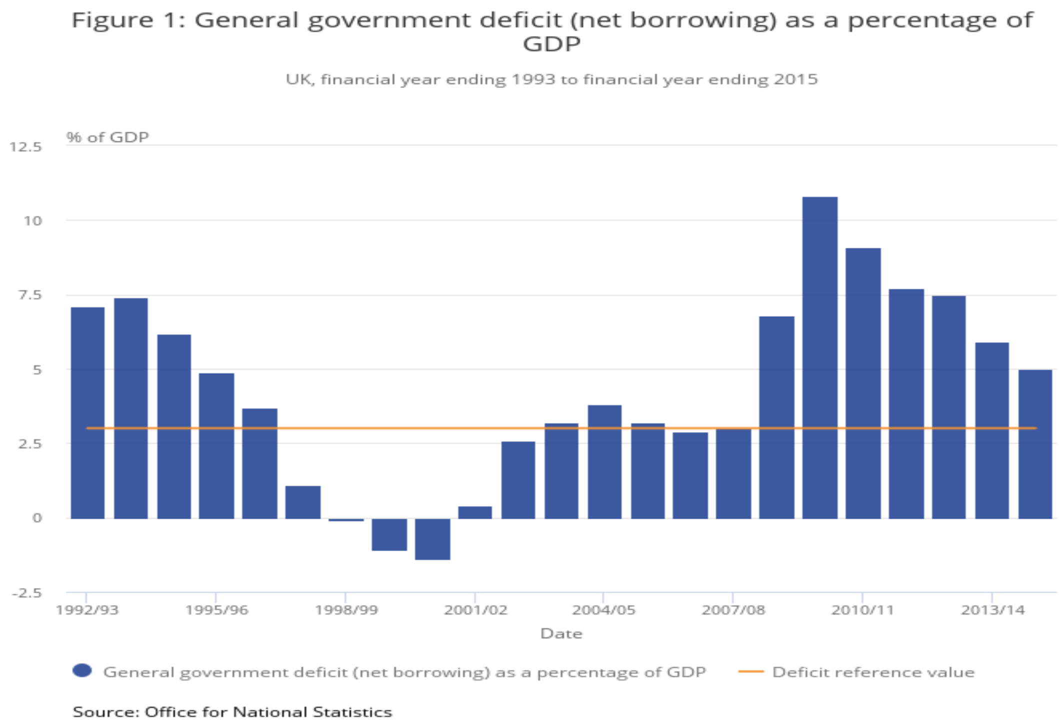
UK aggregate earned income fell continuously relative to consumer expenditure 1985-2016

The difference is the rise of unearned income which reached 22% of consumer expenditure by 2016



Data observation 4

The UK economy has run a deficit for 21 of the last 23 years

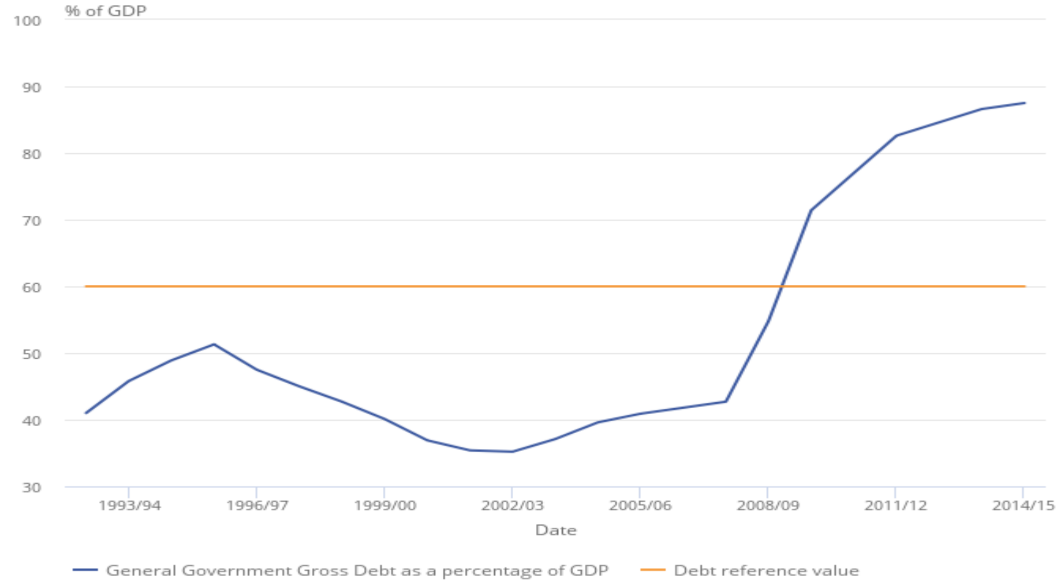


Data observation 5

UK government debt has continually risen 2003-2014 with no adverse effect on the real economy

Figure 2: General government gross debt as a percentage of GDP

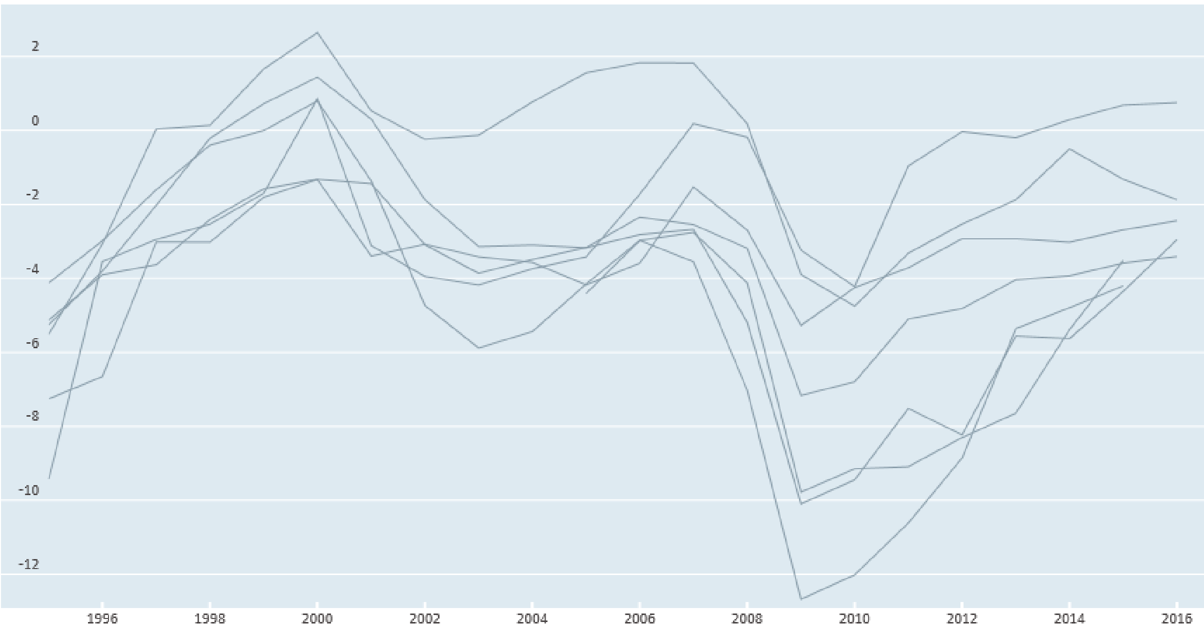
UK, financial year ending 1993 to financial year ending 2015



Source: Office for National Statistics

Data observation 6

All G7 economies, with the occasional exception of Canada and Germany, have run a deficit over the last 20 years



4 Interim conclusions

The above data observations all confirm the empirical implications of the Basic Income hypothesis ie that in high tech economies

- Basic income as a form of unearned income is an economic necessity
- Financial deficit is an economic inevitability

It is particularly notable that 1985 represents a major turning point in the UK economy when consumer expenditure rose above aggregate wages, requiring various forms of unearned income. A next research step would be to disaggregate this unearned income into its constituent components of pensions, welfare benefits, dividends, consumer credit and dis-saving. Recent and current economic events would lead to an expectation that welfare benefits, driving public sector deficit, and consumer credit rising to create economic crisis, are major components of increased unearned income sustaining consumer expenditure.

5 Policy implications

Major policy implications are derived from this hypothesis and research ie

5.1 Economic crisis policy

Basic income replacing consumer credit as a component of unearned income would avoid economic crisis eg the 2007 crisis

5.2 Austerity policy

Recognition of the inevitability of financial deficit renders austerity policy unnecessary. Consumer expenditure, basic income, and public sector expenditure are all rendered affordable by output GDP and not by the balanced budgets of financial orthodoxy.

6 Revisiting the theory of money

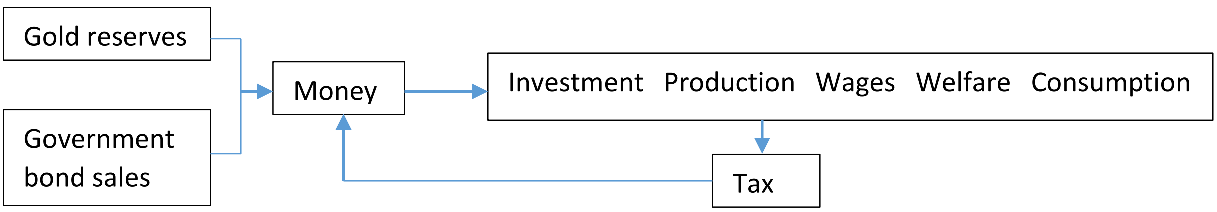
The financial orthodoxy which forces balanced fiscal budgets and thereby constrains basic income proposals to very modest levels, is a false premise.

The error results from an accountancy view of the real economy which as Keynes compelling demonstrated is a further causal false premise.

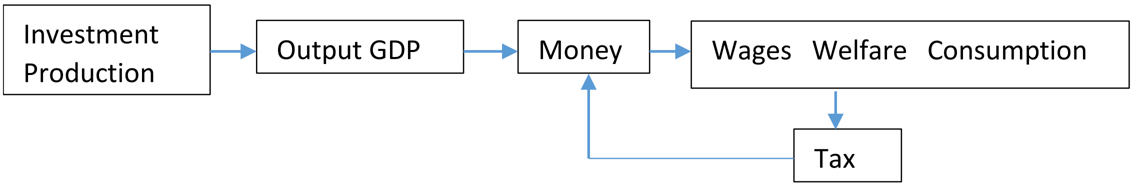
The consequence is that money is wrongly considered to be real, and to have inherent *a priori* value which then determines economic possibility and affordability. Historically, this view was incorporated in the Gold Standard whereby money in circulation was 'backed up' or constrained by gold reserves. The modern form of this error is that money in circulation is required to be balanced by the sale of an equivalent value of government bonds to investors. The reality is that money is virtual and only has value derived from its referral to output GDP (plus the historic accumulation of output GDP as assets, plus the output GDP potentiality value of land and raw materials).

A comparison of these two theories of money is shown in the following diagram

The Monetarist Theory of Money



A Radical neo-Keynesian Theory of Money



7 Conclusion

The paper presents a credible consistent model incorporating the economic necessity of unearned income, the superiority of basic income as form of unearned income, the inevitability of financial deficit to fund basic income, the impact on economic crisis management and austerity policy. Initial research of empirical economic data supports the hypothesis of the model. A revised virtual theory of money enables the model intellectually and practically.

References

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