

HOW DO WE PAY FOR IT?

Basic income and sovereign money

Geoff Crocker and David Frayne



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About the authors

Geoff Crocker spent his main career in global technology strategy consulting for multinationals, SMEs, government departments and agencies. Geoff worked in transition of the Russian economy from 1990 to 2006, supporting the reorientation of industry sectors into the global market economy.

Geoff has worked extensively as an advocate for basic income, launching and editing the [website 'The Case for Basic Income'](#), and through his recent book ['Basic Income and Sovereign Money – the alternative to economic crisis and austerity policy'](#). He has also helped initiate a research project on the economics of basic income at Institute of Policy Research Bath, the Basic Income Conversation hosted at Compass, and the conference *'Is it Time for Basic Income'* at the Bristol Festival of Ideas, UK.

David Frayne is a writer and researcher with a longstanding interest in the future of work and welfare. He has undertaken research on basic income modelling, pilots and advocacy, collaborating with organisations including Autonomy and the Basic Income Conversation. He currently works as a research associate at University of Cambridge, where he studies changing norms of working time.

The logo for Basic Income Conversation, featuring the words "Basic", "Income", and "Conversation" stacked vertically in white text on a red speech bubble background.

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About the Basic Income Conversation

The Basic Income Conversation is an initiative, powered by Compass, to promote the idea of a universal basic income in the UK. We work with people across civil society to understand the opportunities, questions and concerns around basic income. We help organisations decide if they should add basic income to their policy toolkit and look at how it fits alongside other big policy reforms. We work with researchers to ensure the basic income debate is informed by research. We help coordinate a growing network of cross-party politicians and activists to put basic income at the top of the political agenda.

Foreword

The question of funding is what takes basic income from a utopian idea to concrete proposal. This is a tricky step to navigate as whatever way you slice it you're working with enormous sums of money. This can lead to out of hand dismissal of the policy or people shying away from the conversation, feeling they need a PhD in economics before they can comment.

The basic income funding models that have dominated the discussion for the past few years are the ones that use changes to the tax and benefit system to fund a basic income for all.

A proposal designed by Stewart Lansley and Howard Reed was published by Compass in the paper '[Basic Income for All: From Desirability to Feasibility](#)' in 2019. It outlines how we could start off with a modest basic income funded through tax and benefit reforms. Then, over time, develop a citizen's wealth fund from progressive taxes that is used to top up the basic income, a bold proposal for a higher level of basic income.

This paper deals with an even bolder proposal. Here David Frayne speaks to Geoff Crocker about a debt-free sovereign money funded basic income.

A debt-free sovereign money funded basic income is a different tact towards making basic income practically and politically feasible. Where others have designed something that looks like it belongs in our existing system and, have shown through microsimulation that even a modest basic income could significantly reduce poverty. A debt-free sovereign money funded basic income looks to the future and proposes something that buffers us against the trends in the labour market that are looking more and more pronounced as time goes on.

This proposal is bold. And rather technical, which can be a risk as it counts on economic literacy and an acceptance that a national budget functions differently to a household budget. Something that is consistently misrepresented in policy making. But as someone trying to garner support for a basic income I welcome boldness, that is after all what attracts us to basic income in the first place. So we are keen to work with Geoff to unpack these ideas and the new research he is driving forward as a compelling route to funding a basic income. We need to be able to answer when people ask "How do we pay for it?" and if you're looking for a bold answer to that question this model might be the one for you.

Geoff was crucial to the inception of the Basic Income Conversation. He is exploring theories on the labour market effects of automation and technology and how a basic income could be used to protect people's incomes through these changes. The key facets of this work are making the case for a basic income funded by debt-free sovereign money and developing macroeconomic models to demonstrate potential impacts at the level of the economy rather than the household. All of this is touched upon in this paper.

Basic income is an opportunity to question some fundamental beliefs about our society. To question whether it is ever acceptable to put conditions on solutions to poverty. To ask "Why shouldn't we universally have access to income?". And to propose funding models based on the economy we should be striving toward, rather than the one we are misled to believe demands austerity to balance the budget.

Cleo Goodman
Co-Founder, Basic Income Conversation

Basic income and sovereign money

A Conversation with Geoff Crocker

"How do we pay for it?"

It is a question that has rung in the ears of basic income supporters far and wide. Where some have written off the feasibility of basic income, based on extortionate back-of-the-envelope calculations, others have carefully shown how - through a combination of progressive taxation and modifications to the existing welfare system - a basic income with deep impacts is perfectly achievable.

The basic income advocate Geoff Crocker takes neither approach. His book, *Basic Income and Sovereign Money*, argues that states can fund a basic income by creating currency, and that this might be the only way to create a basic income that addresses the big economic problems of our time. David Frayne talked to Geoff about why theories of money are relevant to the basic income debate, whether there is an alternative to austerity, and the ideal place that work might have in our lives.

...

David: Hello Geoff and thanks for talking to us. I think aspects of your case for basic income will be familiar to people tuned into the current debates. You suggest that citizens ought to have security, a choice over what to prioritise in life, and a share of society's collective wealth. You have also dismissed today's conditional welfare system for its withholding nature and the way it intrudes in people's lives.

However, it is also fair to say that your defence of basic income has less familiar features. A good place to start would be your argument that basic income is a necessary remedy for the major causes of economic crisis.

Your book starts out by suggesting that the stability of the economy increasingly relies on an injection of 'unearned income'. Why is this the case?

Geoff: Data shows that ever since 1948, our total consumer expenditure as a society has grown faster than our total earned

income. In 1948, we earned enough to cover our expenditure, but this changed in 1995 when we started spending more than we were earning. This gap is made up with ‘unearned income’ which consists of pensions, dividends, welfare benefits, and household debt. There’s a question of equity here too – shareholders and pensioners have generally benefited from growing payments, whereas welfare benefits have been squeezed by austerity, and low income households have turned to ruthless ‘pay-day’ lender loans at exorbitant interest rates.

It’s this debt which tipped the economy into the 2007 crisis. There was nothing wrong with the supply side of the economy – people simply lacked the necessary income to purchase the goods, services, and assets like houses, which the economy was well able to produce.

By 2018, household debt had reached a staggering £1.2 trillion. We are awash with both household and government debt. We need to get income to people, and debt out of the economy.

In a recent talk for the London Futurists you also talked about technology, suggesting that ‘technology makes basic income not just a nice thing, but a necessity’. Can you explain why technological change plays such a central role in driving the crises you are describing?

Technology allows us to produce things more efficiently, but it also changes the composition of capital equipment and labour in the production of goods and services. As automation increases output for each hour worked, then wages become a smaller proportion of the value of that output. If we think about the economy as a whole, society’s total earnings then become insufficient to fund consumer expenditure. When technology means we rely increasingly on unearned income, basic income can make sure that this is available to everybody, equally.

We have certainly seen a lot of commentators stoking fears that ‘the robots are coming for your job’, supporting your view that work is becoming insufficient as a means of distributing income. Although there are also others suggesting that this is a bit of a gambit or exaggeration.

I am thinking of academic studies suggesting that any job displacement is likely to be concentrated in particular sectors, and also those arguing that we will see more workers labouring alongside technology (possibly under more strain and surveillance than before). In your book you also consider the scenario of a polarised labour market, where a well-paid technological elite command a mass of low-skill workers.

Do these more ambiguous forecasts on the impact of automation upset your thesis about the economic importance of unearned income, or do the main points still stand?

It's unfortunate that the argument has been framed in terms of expecting robots everywhere. Robots will fulfil many roles and indeed already are, but the core argument is more subtle. Automation comes in many forms, not simply as 'robots', but as more efficient ways of producing goods and services. Most of us, for example, pay bills with internet banking and no longer go into a bank branch. We use automated ticketing, paid by contactless card on public transport. Algorithms are being used to diagnose medical symptoms, and in the field of legal case law.

These widespread changes in technology may displace jobs outright, but they may have the subtler effect of decreasing aggregate income from employment. Overall, employment is maintained, but total real wages are dropping, or at best standing still. Pay is low, we have in-work poverty, and job satisfaction is also low. And yes, the job market is becoming polarised between well paid experts and low paid operatives, as we might expect

The bottom line is that work and wage are no longer sufficient to supply citizens with adequate income.

“Since the high productivity enabled by technology is a source of huge potential economic benefit, then it requires us to radically re-engineer the economic system to derive maximum human and environmental benefits from technology. The alternative is to suffer from a perverse system which translates increased productivity into economic crisis, government deficit constraints, the poverty of austerity, and environmental damage”

I guess one risk of pinning things on technology is that we overlook the role of depressed wages as a result of the attack on unions. I imagine some readers may reply by saying we need to focus on increasing wages and strengthening collective bargaining. Have you encountered this kind of response before?

Yes, there is a familiar debate about technology vs. reduced labour bargaining power as the cause of the crisis, but I don't see these things as mutually exclusive. If technological automation reduces demand for labour, then labour bargaining power is also weakened.

I think we also have to resist the urge to pin the crisis on particular villains, because we can miss the deeper structural factors that are depressing wages. The bulk of my professional career has been in formulating industry strategy for clients, and my experience does not really support the idea that shareholders and executive management are always determined to drive down wages – even if this has happened through globalisation, where production has shifted to low-wage economies like China. Many businesses want to feel proud of creating well-remunerated employment.

I am definitely not against greater labour bargaining power, but I simply don't believe it's the solution to the problem. In my view, the most powerful trade unions in the world could not resist the force of technology increasing productivity and driving down the labour share of output. Neither do they look after the interests and needs of wider society. I care about current inequality and income inadequacy, but I remain convinced that basic income rather than wage reform is the correct solution.

That leads us to your central argument, that society urgently needs a basic income. But you also argue that it should be funded by debt-free sovereign money – an idea that will be new to a lot of people. Reading your book, I was reminded of Theresa May's snide references to the 'magic money tree' whenever the topic of austerity came up.

How would you explain the idea of sovereign money in simple terms? Are you saying that the magic money tree really exists?

It's pretty obvious that there is a magic money tree. Governments can easily print paper money, and the electronic money which is now so dominant is very cheap to create. We really do need a new theory of money. I well remember in my first term of an economics degree, my tutor saying with his head in hands, "oh dear, no-one understands money". I think that's pretty much still the case.

We've been conned by orthodox economics into thinking that money has inherent value, and that the amount of money we have determines what we can afford. That of course is true at the individual level, for consumers. But we make a huge error if we apply this thinking at the government level to the whole economy. Money has no inherent value, but only the value it derives by being socially accepted to purchase goods, services, assets, and raw materials. The reality is that as a society, we can consume what we can produce, and money is only an intermediary in this process, like oil in a machine.

Higher productivity production using technological automation will require more money to be created to represent the value of that production. To answer your question, sovereign money is when governments, through their central banks, simply issue money without that money being added to the national debt. This is in line with Modern Monetary Theory, which argues that a sovereign state can create its own currency.

“Combining proposals for basic income and sovereign money is an example of a synergy where the whole exceeds the sum of the parts. This may read like a dreamland proposal... [but] it is the only real viable alternative.”

What do you mean exactly, when you say sovereign money ought to be ‘debt free’?

National debts have a mythical quality, in the sense that they can never really be repaid. We can think of somewhere like Japan, whose debt is over 200% of its economic output. The problem is that the creation of money to service the economy should never be defined as debt in the first place.

We have also actually seen a widespread use of debt-free sovereign money as a result of the Covid crisis. [A report by the Institute for Government](#) sets out the detail of the UK government’s £394 billion Covid spend, including £127bn of medical services, £82bn household support through the furlough scheme, and £71bn business support. Governments have initially funded Covid spend through substantial extra debt. Central banks, like the Bank of England, have then bought government debt in the secondary market, meaning the government now owes the money to its central bank. However, since in most cases, the government owns the central bank then there is no net debt, and no net debt financing cost. It’s debt-free sovereign money.

An obvious concern here is that money creation will lead to inflation, which is a common criticism of basic income. In your book, you counter this by suggesting that inflation is perfectly manageable – it is less a question of whether to print money and more a question of *how much*. There is a threshold to work within. What is the nature of this threshold?

All governments already issue money and have expenditure budgets. They also manage total demand in the economy by taxation and other measures. This would be no different if money were issued as debt-free sovereign money rather than being counted as debt. It’s the same money redefined to be debt-free, rather than being additional money.

We have to ask ourselves what the consequences would be if the current levels of national debt, typically equal to or above annual GDP, had been defined in the first place as debt-free sovereign money, rather than as an increase in the national debt. We would avoid the current interest cost of £40bn/year, but more importantly, we would avoid austerity and the unnecessary constraint on government expenditure imposed by artificial debt limits.

The real constraint on any economy is the level of real production output which the economy can achieve. Governments can afford to spend according to what the economy can produce, not according to the Treasury's financial balance.

“The key is to strictly observe the constraint of the real output of the economy, and not to generate funding of basic income and sovereign money beyond this point... It isn't a question of not printing money, rather it is a question of how much to print.”

One striking thing about your ideas is how different they are from other basic income proposals that have taken the stage in recent years. These more well-known 'revenue-neutral' schemes are achieved not by money-creation but by rebalancing the government budget. A more modest basic income is funded by doing things like increasing tax for top earners, or introducing carbon, wealth or land taxes. It is also commonly argued that these basic income schemes 'pay for themselves' to some degree, because they make certain existing benefits redundant or generate returns through things like VAT or savings in healthcare spending.

I wanted to ask what you make of this budget-balancing approach to basic income. Where do you position your own arguments in relation to these proposals? Are the approaches in competition, or can they complement each other in some way?

The schemes you are talking about calculate the costs of a potential basic income scheme and then propose how these costs can be met with various tax increases. These schemes achieve some major objectives, such as eliminating the means-testing and all the intrusion, humiliation, unfair conditionality and low uptake problems of the current welfare system. They are therefore very welcome proposals, which represent an important first step to what I consider as my more radical proposal. They are complementary in that sense.

The limitation of ‘revenue-neutral’ schemes, however, is that they fail to address the major dysfunctions in our present economies. There is an urgent need to get more income to people and get debt out of the economy – the revenue-neutral proposals do not address the increasing and inevitable inability of work and wage to deliver the population an adequate income. That’s why I propose a bolder, more radical initiative of UBI funded by debt-free sovereign money. It offers a much wider range of desired outcomes, addresses the technology challenge we face, resolves the dysfunctions in contemporary economies, delivers much needed income to people, and gets debt out of the economy.

More generally, I would also like to see a more macroeconomic focus in basic income research - by which I mean looking at the big effects of possible models on the economy as a whole, including the impact on things such as consumer spending and labour supply. The schemes you have described tend to limit their assessments to looking at how possible basic income models redistribute income (often facing the criticism that such redistributions can be achieved at less cost by targeted welfare benefits). My major focus at the moment is working with academics to make a deeper case for basic income, based on its possible macroeconomic effects.

If we can shift focus a bit, I was also fascinated by the section of your book focusing on the place of employment in human experience. This is something that would change considerably in the future you envisage. You acknowledge that employment today fulfils a whole range of needs, not only providing income, but also psychological and social goods like a sense of identity, relationships and a way of structuring time. But you also ask why policymakers are so wedded to employment as the best way to satisfy these needs.

I was interested in the passage of your book where you ask: “what are the weighted reasons for this strong commitment to employment and a wage?” Can you give us any more insight into the nature of this commitment, especially when work for most people is such an obvious pain in the neck?

Work of course can be creative, fulfilling and financially rewarding. It can also be a total drudge and effort. Creative activity will always be part of human nature and aspiration, but it doesn’t have to be defined by the 8-4 factory or 9-5 office shift. Work does offer identity, personal value, and dignity, but it is not the only source of human dignity. I would argue strongly that human dignity is inherent and not conferred by some external artefact. Many people currently don’t work and yet have dignity. Many retired people are very creatively and happily engaged. The orthodox assumption which has driven policy places huge value

on work and wage, but we need more extensive surveys to find out what people really prefer. For example, I think that most people may well vote for a 3 day week with the same income they currently have, if it were a genuine option.

It has long suited governments to centralise work. Social obligations such as sick pay, pensions, and employment from extended retirement age, are all foisted onto employer obligations to avoid them being an explicit government expenditure. This constantly loads social costs onto product price which risks making production uncompetitive, and is borne by consumers in the end. Extension of the retirement age to save government state pension expenditure has also almost undoubtedly led to a decrease in productivity which is ultimately bad news, since productivity determines prosperity.

You respond to this by calling for a “shift in mentality to one where we feel ready to determine our own lifestyles and activities”, but you also give a level-headed warning that this kind of freedom can be scary. I wanted to ask whether you think basic income would do enough to help people with the personal transition to lives less mediated by the institution of work. Would other kinds of support structure be needed?

We may well see the need for education to include more philosophy on how we can determine and live our own lives, rather than requiring them to be shaped by the institution of work. I would argue that this would increase human dignity. Institutions, including the workplace, should serve humanity, rather than constrain humanity and dictate human life outcomes. I personally rue the absence of philosophy in most UK education. We need dynamic consideration of what it is to be human, what our possibilities are, our values, our rights and obligations to each other and to the natural world. A life enabled by basic income is an important component of this philosophising.

“The need for income is clear, as is the need for identity, creativity, networking, access to technology, and occupation of the time available in life. Formal work can provide these, but not uniquely so... Either technology can be seen as a threat to jobs, wages and livelihood, or it can be seen as an opportunity to adopt different, potentially appealing patterns of life.”

I suppose a potential concern here relates to the implication that we can all expect this less job-focused future, whereas the reality is that even with a substantial basic income in place, society still faces the ethical dilemma of deciding who must do

the so-called dirty work. Philosophers have started to call this the problem of ‘contributive justice’. Does working out this problem have a place in your thinking?

I accept that this problem requires more thought and attention. The existence of bad but necessary work often leads to concerns that basic income would disincentivise work. This claim is readily countered by the point that present welfare benefits massively disincentivise work by their tapered withdrawal on any employment income – the infamous ‘unemployment trap’. Basic income may therefore not disincentivise ‘dirty work’ any more than current welfare systems, since the work would generate additional income on top of the basic income. If no-one were prepared to undertake ‘dirty work’ then either increased incentives would be needed and justified or we may need to consider various conscription schemes to achieve equity.

Now for the question we always have to ask: “how do we get there from here?” Is the world ready to accept the idea of a basic income funded by debt-free sovereign money? Are things like Biden’s Covid stimulus cheques or the UK furlough scheme perhaps a signal that higher-spend states will be accepted as a new normal?

As you know, I claim that the UK furlough scheme, along with many similar schemes worldwide, has demonstrated the feasibility of direct income payments funded by debt-free sovereign money. Through the furlough scheme 3 million people received £24,000/year costing £72bn, funded within the £875bn of debt-free sovereign money represented by the Bank of England’s purchase of government debt. It led to neither inflation, nor devaluation. This is already a major paradigm shift from orthodoxy, and has demonstrated the feasibility of radical heterodox models.

I speculate that South East Asian economies will be among the first to introduce a universal basic income funded by debt-free sovereign money, partly because they are less bound by orthodoxy. China has a huge case to fund basic income to allow its people to consume their own production, rather than buying US Treasury bonds to allow US consumers to do so. It already has a central bank digital currency in place, which offers an ideal delivery mechanism for basic income. Economies like Vietnam and Malaysia are realising that debt to GDP ratio limits of 55% are hugely restricting consumer demand and government expenditure, limiting their prosperity. It is better for them to adopt debt-free sovereign money proposals to raise consumer incomes via a basic income, than to accept an increased debt burden.

Finally, we have been seeing a lot of enthusiasm around basic income pilots, partly due to momentum in Scotland and Wales. I think a well-designed pilot could be a great thing for boosting support for basic income, but I do sometimes worry that pilots drive basic income into the long grass. We would wait years to hear some obvious things (that economic security improved people's lives) and I worry that there is sometimes too much faith in the power of evidence to change politician's minds, especially if the main objections to basic income are ideological. My mixed feelings about basic income pilots led me to wonder what role, if any, you assign for them. Are pilots of any use for assessing the bigger economic trends that concern you?

I agree with your concerns. Pilot projects by definition never pilot a true universal, unconditional basic income. Neither do they test the very important macroeconomic impacts of basic income. As you say, cross-sectional data can already evaluate income effects on a range of variables from health to general well-being, which in most cases are also obvious. There is nowhere where a basic income pilot has led to the implementation of a basic income. Pilots do kick basic income into the long grass, as has happened in Finland. The establishment tells basic income advocates that they've had their pilot and that's the end of it!

We didn't pilot the NHS. We didn't need to research whether healthcare free at the point of consumption would improve health outcomes. We just did it. We need to do the same and implement a nationwide universal unconditional basic income funded by debt-free sovereign money. That's why basic income advocates and activists need to widely promote all the arguments for basic income, including its funding by sovereign money.

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A basic income goes to everyone so it should be built by everyone. Join the Conversation and have your say.

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