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Basic Income and the global financial crisis - a long-term perspective

This paper has been conceived very much as a response to the global financial and economic crisis which has been unfolding since 2007 and which has become particularly intense since the effective implosion of the US banking system in September 2008. As noted by a number of supporters of the Basic Income (BI) concept, this situation has shown the huge potential value of the immediate widespread adoption of BI in bringing immediate relief of the acute symptoms of the crisis by acting as a counter-cyclical economic stabiliser, in that it would serve to spread purchasing power more evenly - and thereby sustain the overall level of economic activity above what would otherwise be very depressed levels as businesses and individuals seek to reduce their excessive levels of debt. In this regard it would be far more cost-effective than the government stimulus packages that have been widely implemented across the developed world (as well as China), consisting of either

a) costly construction and infrastructure projects which typically have little positive economic impact once the construction phase is ended and are often of doubtful long-term economic benefit (such as urban "regeneration" projects), or
b) tax or interest rate relief targeted at the most heavily indebted, which tends to flow into the paying down of debt rather than any significant stimulus to consumption.

In contrast BI transfers, particularly to the high proportion of the population on low or no incomes and with relatively few debts, would mostly feed through rapidly into consumption and thus into revived production of goods and services.

Important as these short-term economic benefits of BI could be – in addition to the obvious social benefits – they are relatively insignificant in relation to the potential importance of its role in facilitating the creation of a more stable and sustainable global economic order than that which currently prevails and which has brought the world community to such seemingly total breakdown. What this paper rather tries to do is look at the crisis in terms if its more long-term systemic significance – instead of as a temporary cyclical maladjustment or an aberration of financial or economic management – and to consider how BI might serve as an essential feature of a radically transformed economic model more in tune with the needs and aspirations of ordinary people across the globe. From such a perspective the crisis may be seen more as the culmination of a historic process of obsolescence of a global economic system which – ever since the Industrial Revolution ushered in capitalism as the dominant mode of production some 200 years ago – has been geared to

a) maximising output – as measured in terms of economic value added (GDP),
b) allocating resources based on a competitive market system which prioritises those activities yielding the highest rate of return on capital employed, and
c) distributing income (value added) to individuals mainly on the basis of their ability to sell their labour in a supposedly competitive market.

This economic model is based on the implicit ideological assumption that, under conditions of more or less "free" competition, it will tend to a general equilibrium in which the key economic resources – capital and labour – will be fully employed at their optimally remunerative level. It has long been generally recognised that in practice such a balance in the supply of and demand for resources can never be attained and that in any case markets are subject to cyclical disruption such as to cause socially unacceptable levels of distress. The most obvious reason for this is that, in more or less uncontrolled markets involving thousands or (in some cases) millions of different producers, imbalances between supply and demand are constantly prone to arise and mutate, so that continual volatility of output, incomes and prices is effectively built into the system. This problem – which has become even more pronounced in the era of extreme trade liberalisation (known as globalisation) of the past 30 years – has been the basis of the long-standing critique of the system by Marxist, and other economists, which has compelled states to adopt ever greater degrees of intervention in markets so as to achieve tolerable outcomes for most of the community.

While this inherent instability of the system has never been overcome, it was for long found possible to sustain the illusion that it could be rendered acceptable provided there was a prospect that economic growth rates could be held at a high enough level over time. What has changed over the last 30-35 years is that this perception has become increasingly untenable. This is primarily a function of technological change – particularly the electronic and digital revolutions. For these developments, which may be likened to a new industrial revolution, have had the effect of reducing the need for both capital and labour per unit of output as the productivity of both these factors of production has increased. Hence in order to bring demand for these productive factors back into balance with rapidly rising capacity - filling what economic policy makers call the "output gap" - a dramatic and sustained increase in the rate of economic (GDP) growth would have been needed.

So far from such an acceleration of growth, however, the world economy has evidently entered a period of long-term stagnation – relative to the period of the post-World War II boom when they were (exceptionally) stimulated by post-war reconstruction. This is reflected in a decline in global GDP growth from an average of some 4 per cent a year in the 1960s and early 70s to 2-2.5 per cent since 1990.[1] Indeed there is every reason to believe that, given the inevitable tendency of consumer markets to become saturated over time – not least because of people's dwindling marginal propensity to consume as their real incomes rise – the long-term economic growth rate cannot be sustained significantly above that of population. Moreover, bearing in mind that

a) world population growth rates are now beginning to decline from historically high levels – and probably need to decline further in face of the constraints of a finite planet, and

b) average resource consumption per head of global population (though not for the poorest) will need to stabilise if not decline for environmental reasons,

it is probable that the growth rate in real effective demand for both capital and labour will remain negligible – if not negative – for the indefinite future. Given this combination of trends in overall supply and demand, therefore, for both capitalists (investors) and workers the demand for – and thus the market / economic value of – their respective most vital assets has inevitably begun to decline and can be expected to continue to do so.

Faced with this reality the global community will be forced to recognise that attempts by vested interests to sustain the perception (let alone the reality) of a durable revival of growth

1 International Monetary Fund, *World Economic Outlook*. September 1999. Chapter 1. The exceptional period 2003-07 - when recorded average annual growth soared to over 4 per cent thanks to the unsustainable credit bubble which has since collapsed so disastrously – was clearly an aberration..

in demand for capital and labour will be increasingly futile. Moreover it will be seen as ever more damaging to the collective interest, bearing in mind the distortions to markets and waste of resources that results from trying artificially to encourage increased consumption and investment – e.g. through ineffectual urban regeneration schemes and subsidies to motorists trading in their old vehicles for new ones (known in the US as “cash for clunkers”). This has in fact been most spectacularly demonstrated by the present catastrophic financial crisis, which is essentially the result of incentivising increasingly risky speculative (hence essentially unproductive) investments in a vain attempt to sustain the market value of unneeded capital. Thus it is ever more obvious that the attempt to achieve economic growth at a rate high enough to absorb the rising global surplus of both capital and labour has become self-defeating - and indeed damaging to the public interest.[2]

These inescapable truths have long been implicitly understood by a minority of analysts (e.g. André Gorz, Jeremy Rifkin), who have pointed out the dangerous irrelevance of a competitive, growth-oriented economic model purporting to advance welfare via “full employment”. Now since 2008 even mainstream institutions such as the British government-sponsored Sustainable Development Commission and the UK-based think tank the New Economics Foundation (NEF)[3] have recognised the need to downgrade or abandon growth as the basis of future economic development and to consider the implications of this at least for the labour market. This necessity is made all the more compelling by the multiplying evidence of collapsing labour markets – particularly in developed countries – in spite of the current desperate attempts of governments to stimulate a revival in activity and employment.[4]

In this context it is both legitimate and urgent for advocates of BI to seek to bring it from the fringe to centre-stage – i.e. from its limited and selective application in developing countries (mainly through cash transfer schemes targeted at the poorest) to a more generalised implementation, *without means testing*, in developed and developing economies alike, given that structural unemployment has now reached epidemic proportions in both. In doing so, however, it will be vital to justify BI in the framework of a “macro” model of the economy that is based on a recognition that the traditional growth-oriented one is no longer tenable on a global scale.

Starting from this basic premise it follows that

1) A central justification for the introduction of BI is that there is no possibility of providing full-time employment for a large (and growing) proportion of the global population, particularly once it is accepted that economic growth must henceforth be negligible. By relieving individuals of the necessity to seek employment in order to survive, BI would obviously help to alleviate the more extreme negative social pressures resulting from this demeaning and futile competitive struggle.

2) Given the limits to growth and the requirement to achieve a degree of social justice, labour markets would in any event need to be regulated in order to prevent individuals or groups securing a disproportionate share of more or less static GDP (value added) – beyond the basic stipend to which all would be entitled as of right. This would involve some form of de facto rationing of earning opportunities, to be

2 See Shutt, *Beyond the Profits System: Possibilities for a Post-Capitalist Era.* Zed Books, London 2010.
3 *Prosperity without growth? The transition to a sustainable economy* by Tim Jackson. Sustainable Development Commission. London 2009*; 21 Hours: Why a shorter working week can help us all to flourish in the 21st century.* New Economics Foundation. London. February 2010
4 See, for example, *America's jobless picture is alarmingly bleak* by Mort Zuckerman. Financial Times, June 7 2010

achieved by a) limiting average hours of work (on a weekly, annual or even lifetime basis), and b) regulating rates of remuneration (probably on the basis of a maximum ratio of, say, 5:1 between the highest and lowest paid).[5] By the same token there would have to be restraint and regulation of competition between enterprises (and thus of prices) within a given country or region so as to ensure an adequate level of aggregate purchasing power and fiscal autonomy within each community (however defined) – although there would remain a need, as now, to ensure significant net transfers between wealthier and poorer regions.

3) International trade. Just as there would need to be restraints on individuals and enterprises within a given entity gaining an excessive share of aggregate value added (GDP) it would be equally unacceptable for foreign entities to take substantial value added out of the economy – other than on a reciprocal basis (assuming a continuation of the international order based on nation-states). Thus the introduction of BI would pose in particularly stark relief the problem of the "race to the bottom" presently imposed by anarchic globalisation, since continued acceptance of the latter would threaten the capacity of a state to retain a sufficient level of domestic value added (constituting its tax base) to fund BI as well as other public expenditure. Indeed it is self-evident that, under a system based on recognition that full utilisation of productive factors is unattainable, competition would have to be strictly limited. Hence it would be essential to abandon the "non-discriminatory" WTO model of international trade in favour of limits to market access on a global and regional basis together with bilateral / multilateral reciprocal trade agreements. This should ideally discriminate in favour of other countries applying BI at comparable levels, given that they are more likely to have similar cost structures. At the same time restraints on cross-border capital flows would need to be reintroduced.

4) Moving away from a profit-based economy. In an economy where growth and competition would be limited it is inevitable that enterprises would be far less driven by the principle of profit maximisation. That is because, in markets that will inevitably be more regulated, the scope for making and reinvesting large profits will be effectively limited, with the consequence that traditional private investors will find it increasingly unattractive to put money into commercial ventures, particularly to the extent that they still bear the risk of losses. As a result the share of value added in the economy that normally accrues to profits – typically at least 10 per cent of GDP in industrialised economies – would be almost entirely available for other purposes, including the financing of BI transfers.

5) Reallocation of other resources currently wasted. In addition to redirecting this flow of now redundant profits – as well as that devoted to servicing the debts artificially loaded on to corporate balance sheets – huge sums of public money could be saved by ending the massive subsidies to otherwise unprofitable, and often unnecessary, private investment (e.g. in nuclear power), which is only justified as a way of creating outlets for excess capital and labour. At the same time, as pointed out by many other advocates of BI, the substantial state resources devoted to coercing the unemployed into "work" - and administering ever more complex means-tested benefit systems - could also be more usefully spent.

In summary it is clear that adoption of BI will necessarily imply a quite dramatic shift in the philosophical basis of economic organisation. The essence of this change will mean that the

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5 The precise modalities and criteria to be adopted would need to be developed in accordance with the revealed dynamics of the labour market as well as political preferences, which are obviously hard to anticipate in the abstract.

freedom of enterprises and individuals to deploy resources and compete for markets – on the assumption that there is effectively unlimited scope for expanding the utilisation of capital and labour – will be restricted in the interests of assuring basic security for all in a world where the scope for growth is manifestly finite. While some may deplore such a reversal of the liberalisation of the past 30 years as an unacceptable restraint on individual freedom, it is surely true that many more will welcome the prospect it could bring for them of a different kind of freedom they hardly enjoy at present – to pursue their individual aspirations without the need to subordinate their whole lives to a struggle for material survival.

The wider implications of such a transformation of the economic system point to a wholly different vision of society from that currently prevailing, which in turn will require a radical redefinition of the scope and purpose of many facets of human activity – e.g. education. Equally it will obviously require communities to devise mechanisms for taking collective decisions on matters – such as the appropriate criteria for income distribution and allocation of resources – which at present are in theory determined by the supposedly neutral operation of the “free” market. It is beyond the scope of this paper to try to identify the whole range of institutional and other changes that may result from such a fundamental shift, which will in any case only be discovered through debate and experiment over many years. It is nevertheless appropriate to urge those with a belief in the ideal of BI to recognise that the time has arrived when it can and must move from being a distant, somewhat utopian vision to a reality implementable within the foreseeable future. For while some may argue that BI is a luxury we can only afford once the world economy as presently constituted attains a high level of prosperity, the truth surely is that such a radical change can only be realised at a time when (as now) the existing order has manifestly broken down.