On the macroeconomics of transition and the search for clarity

THE LONG ROAD TO A SOCIAL DIVIDEND PART 2

Ken Webster
Visiting professor, Cranfield University (UK)
Member of the Earth4All Transformational Economics Commission
This paper is the second of a series on the concept of a universal basic dividend (UBD). The first paper, “The long road to a social dividend” (Webster, 2022), made the case for recognising that humanity shares a common inheritance, literally the commons: the atmosphere, minerals, metals, fossil fuels, forests, rivers and oceans and their fisheries are obvious. But there is also a social inheritance: knowledge, technology and culture, and the physical infrastructures of cities and rural communities. Our collective wealth has been passed down the generations to us. We are the co-owners of commons that have been enclosed or degraded, and we should be compensated. We are obligated to maintain and enhance what we in turn pass down to our successors. If private inheritance of wealth is possible, then social inheritance is as well. Hence this income is best described as a dividend, a return due to co-owners and custodians that is permanent, just as the commons themselves endure, and in the case of exhaustible commons, dividends paid from the returns to the fund that are generated by fees charged during the life of the resource.

This framing of the argument provides ethical and moral grounds for a basic dividend using three principles (highlighted on p.6 of the first paper) that consolidate this values perspective: the Precautionary Principle, the Public Trust Principle and Hartwick’s rule on intergenerational equity. The first paper made a case for a basic dividend by beginning with cognitive linguist George W. Brian Arthur, economist and complexity scientist

“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 (modern monetary theory) advocates on board.”

Thomas Palley, independent economist, Washington, D.C.
Lakoff’s cogent and concise instruction to “know your values and frame the debate”. This paper seeks clarity on what follows from framing a UBD this way, and how a UBD fits with other significant ongoing macro changes.

There are resonances in the epigraphs from W. Brian Arthur and Thomas Palley around an explicit economic reorientation that could reinforce the UBD approach. Perhaps the mantra of “jobs and growth” is being undermined, or at least nuanced. If jobs are about increased production and consumption, they are, in the 20th-century context, underpinned by an assumed increase in wages. More productivity and more goods and services = better incomes and wellbeing (and, through tax, affordable welfare). However, Figure 1 illustrates a different conclusion is possible.

Increased productivity is being captured elsewhere – not by wages. Instead, precarious incomes and lower-skilled jobs are, for the most part, replacing wages and security. The graph here predates the fast-paced development of AI in the past year, which heralds even more turmoil in labour markets and the downscaling of job skills.

As Arthur and Palley have claimed, this points to the need for reorientating how the general population receives their share – as we move tentatively towards circulation instead of extraction, and distribution instead of accumulation.

Figure 1. Key economic, productivity and private employment trends 1953–2018 (Index 1953 = 100). Source: US Federal Reserve Bank of St. Louis.
This amplifies and extends the discussion elsewhere in *Earth for All: A Survival Guide for Humanity* (2022) about how production is undertaken – that we must move away from the linear take-make-dispose system (which builds financial capital mostly by degrading social and natural capital) and towards a circular economy that maintains and improves all forms of capital.

There are more prosaic reasons, too, for linking this trend to the idea of a UBD. Where is the income to come from to buy all that is produced and offered? The current reliance is on debt (particularly private debt) to bridge any gap between income and expenditure, causing periodic financial instability, and – if unregulated – this can also cause asset-price inflation, making real estate in particular more expensive. This reinforces downward pressure on consumer spending, because the cost of housing (rents and mortgages) increases more steeply and rapidly than wages.

Another reason for instituting a UBD is with employment remaining central, insecure workers work harder, longer and at more jobs for less real income, making more goods and services that fewer customers can afford, prompting further automation and labour substitution to lower costs and prices. Wage stagnation also impacts welfare, as taxes on income and consumption are the most significant proportion of overall tax receipts, e.g. the [OECD](https://www.oecd.org) average is 81.7%. Taxes on resources, wastes or capital lag far behind and have done so for decades, e.g. environmental taxes average around 2.5% in the EU (European Circular Economy Stakeholder Platform, 2021).

In the conventional approach to government funding, increased welfare demand and reduced tax intake grows budget deficits. Increasing deficits are covered primarily through borrowing. This in turn prompts calls for belt tightening or austerity measures: fewer social services and direct transfers alongside tougher means-tested barriers to access them. The assumption is that taxes constrain spending and economic growth and that the deficit should be reduced – at least in the medium and long term – to anticipate a balanced budget. The framing here is “government as a household”, constrained by available money. There is “only so much money, after all”.

In this situation and with this mindset around money, the possibility of organising a UBD seems distant. Eliminate income tax? Forget it. The two objections of “How can it be funded?” and “Is it significant enough to make a difference anyway?” soon surface.

Framing a UBD as a redistribution of a share of the economic rents received on enclosing common resources helps defuse the how-to-fund-it argument. Economic rents are unearned surpluses achieved through restricting access to a resource. By charging user fees, the surplus is economically efficient, causing less economic disruption to production and consumption than valued-added or income taxes (see the fee/dividend approach in “The long road to a social dividend”). There is no need to consider income taxes, for example, especially since the UBD is not a government welfare handout. The government is merely redirecting an unearned surplus...
to co-owners, probably via some form of commons wealth fund or citizens' wealth fund. So far so good, but the real politics of such a move are arduous, even with perceived seizing of the moral high ground and easy-to-understand relationships that enable instituting a UBD.

Could reframing a government’s relationship with money also unlock more choices around creating a significant UBD sooner and more profoundly? It’s worth exploring at least some aspects of modern monetary theory (MMT), one application of which is discussed in *Earth for All*, particularly as a tool for bringing more self-determination to some low- and middle-income countries.

**MMT in brief as seen by the Financial Times**

Fundamental to Stephanie Kelton’s book *The Deficit Myth* is the notion that countries that control their own currency can act like currency issuers rather than currency users. Currency users gather (earn or borrow) money before spending it, but governments can spend money into existence. The US Federal Reserve electronically credits bank accounts with brand new dollars, then the government taxes away the new money or exchanges it for US treasuries to get back the money it created – spending before taxation and borrowing, not after.

Therefore, worries about the state being unable to repay the national debt are unfounded, but inflation is a valid concern in this system. When prices get out of control, it is an indicator that the government is spending too much on workers, materials and so on – the real resources of the economy that are what limit the government’s actions. When a government tries to employ too many of these resources, the prices of those resources will increase.

Scott Santens, a long-time commentator on universal basic income (UBI) more generally, has looked at this question of money in detail, and his conclusion that a more contemporaneous approach to understanding money – how it is created and deployed and the relationship between stocks and flows – fits very well in the UBD discussion, and his arguments are steeped in MMT.

**Scott Santens on positioning the economy around the people rather than accommodating people to the economy**

“It means going from an additive mindset to a subtractive one. It’s like the difference between filling a hole with one shovel full of dirt at a time, or dumping a pile of dirt into that same hole followed by bulldozing away the excess. Taxation is about avoiding the excess of dirt after the hole is full, not about figuring out just the right amount of dirt to put into the hole in the first place.

“Understanding UBI [universal basic income] is helped by using this same subtractive mindset. Everyone gets money, and then money is deleted for some more than others via taxes. Because taxes aren’t about funding, and are instead about shaping the outcome of the policy, the focus shifts from how to pay for UBI to how to best shape the UBI ... Instead of deciding who should and shouldn’t get income using an inefficient and error-prone means-
MMT includes the optimistic approach of being able “to afford what we can get done” rather than the self-limiting approach of “doing only what we can afford” – viewing money as scarce and limited. Nations are not like households: they are like banks, which create money from nothing through loans and destroy money when the loans are paid off. Governments can spend money into existence and extinguish it through taxes. Put another way, it’s “pay people first then tax them later”. In MMT, taxes aren’t about funding, but are about shaping the outcome of the process, to accomplish certain goals such as inflation management, inequality reduction and incentive shifting. This is a reframing – a mindset shift and a most significant one. Money is a human invention after all and can be a very fine social technology if defined and directed in the right ways.

In “The long road to a social dividend”, paying for a UBD using a fee/dividend approach, though broadly neutral in the overall revenue from capture and distribution of economic rents on resource extraction against higher consumer charges for resource consumption, is uneven in its impact – benefiting poorer groups more and not fully compensating big consumers. Santens wants to move towards a significantly higher dividend stream and to create a foundation for economic security by rethinking the role of money, using insights from MMT and by reframing the role of taxation. It is a bold move and, to paraphrase political philosopher and economist Philippe Van Parijs, will one day make us wonder why it took us so long to fit beneath our feet a solid floor on which we can all stand.

In truth there is a mosaic of ideas around how to build this foundation. Few MMT scholars like any form of UBI, seeing it as a second-best approach, and most look to a funded government jobs guarantee scheme (JGS) to keep the economy running at a level where there are few willingly unemployed workers or idle resources. After all, they argue, a job confers more than...
just income, and much needs to be done across communities and with disadvantaged groups who value being included as equals. In considering the political-economic implications of universal cash transfers, Matthew Thompson argues that the value of UBI resides in its careful and contingent institutionalisation as one of many necessary mechanisms (Thompson, 2022). A third option to follow UBD and JGS is that of universal basic services (UBS). The New Economics Foundation describes this as a framework for increased and improved provisions of services, with access according to need, not ability to pay. Work in University College London argues that UBS is a more cost-effective guarantee of access to necessities than cash payments (Portes et al., 2017).

For advocates, UBS would simply be mandated in the same way as a living wage or living income and has a strong democratic thread in devolving decision-making. Some counter that UBS would be a state-mediated and possibly complex web of welfare programmes, whereas UBD is simply a dividend that is independent of welfare decisions. UBD is not public spending – to paraphrase author Simon Duffy, it’s a redistribution. UBD and UBS are not an either/or proposition. Earth for All discusses the role of UBS extensively, and The Case for Universal Basic Services (2020) by Anna Coote and Andrew Percy is a useful summary.

The finer-grained arguments for a government-based approach and allied policies of zero-interest and floating-exchange rates go beyond this paper but are usefully referenced here and by Pavlina Tcherneva. Unsurprisingly, MMT advocates are not necessarily allies in the UBD. When it comes to cycling back monies or the means to access income necessary to counter an overproductive, wealth-extracting and inequality-generating system, a diversity of choices abounds.

Debt free for you and me?

Are there real-world resources available to draw into the economy above asking about money and “affordability”? It is possible to go further. Writers such as James Robertson and the not-for-profit Positive Money have argued that money can be issued debt-free – there is no need to sell treasuries and pay interest if money creation comes from the sovereign government rather than banks. Commercial banks would have to limit their lending to actual deposits (100% reserve banking, Jakab et al., 2015) and would be acting as the intermediaries most people already imagine them to be. Removing – or at least managing down – the possibility for commercial banks to generate loans for existing assets through credit creation would also dampen asset-price inflation and in particular would lower housing affordability pressures.
The image of what is being attempted here as a “mosaic” is quite apt. Completing that foundation – Van Parijs’s “floor” – requires using fragments and patterns of fragments. The wider discussion around some form of UBI can be quite disorientating. None of the main options above excludes using aspects of the others, and however clear the argument is about a UBD being truly “universal” (not means-tested) and paid to the individual in cash (not in kind), there are versions of a foundation where some or all of these characteristics are absent or modified. To top it off, the language used is extremely variable: basic income, basic dividend, commons wealth fund, citizens’ wealth fund, social guarantee, no fund at all, etc.

This need not exercise us too much – the argument goes like this: it is an evolving field and very much about resetting some of the basic relationships in economics, so it is bound to look like a mosaic – or a jigsaw puzzle where everyone has a different idea about how to approach solving it.

“Whoever puts new money into circulation profits from its value minus its production cost, and decides who will have first use of the money for what. If almost all the money in circulation starts as interest-bearing debt which eventually has to be repaid, additions to the money supply will necessarily be accompanied by additions to society’s indebtedness, and money transactions will cost more than if all money circulated debt-free.

“Citizens of a democratic society would therefore expect all the money in the national money supply to be created by an agency of the state and spent into circulation on public purposes debt-free. The government could then decide how it should first be used.”

Robertson, 2009

By implementing a UBD in tandem with shifting taxes away from the income and profits of useful work and enterprise and onto the monetary-value gains of using (or preventing others from using) common resources, the UBD fits well as a complementary tool, and its potential size and rationale are reinforced.
Conclusion

This paper has demonstrated that some clarity in a very chaotic field might be possible using conscious economic reframing. The economy is becoming more productive, due in large part to technology that is bringing downward pressure on wages, and that could cause significant unemployment (Susskind, 2020). Taxing earned income or consumption adds to these pressures. If not wages, then it must be a share of what goes to financialised capital, often as rentier gains – including dividends. We can all be rentiers now. It still smells of taxation, though – of fiscal policy.

If the first reframing was to see the kind of UBI we might need as primarily a dividend, then some form of co-ownership is implied. If this dividend were derived from compensation around use of the commons, then this would clearly imply that some proportion of economic rents or unearned income from “enclosure” would be captured by user fees and distributed to co-owners, bearing in mind the types of commons under scrutiny.

The second reframing is around money and how it is created and deployed. The question of “paying for” a UBD is somewhat bypassed via fee/dividend routes and the use of an intermediary fiduciary trust: a commons wealth fund or citizens' wealth fund to create transparency. If an MMT lens is also used, then setting a useful/significant or foundational UBD is measured firstly against ensuring the economy is making the best of the resources available, and then using taxation to shape economic purpose (greenhouse gas reduction, poverty elimination, social housing development) and to erase money as required. The idea of debt-free money interestingly complements the idea of universality – money as a public utility.

What remains in practice are differing frames around locating and delivering economic security with some mix of UBS, JGS and UBD all in play, reflecting older conflicts on a spectrum ranging from market orientations, where individuals are central to economic decision-making through guarantees of employment, to the socialised provision of UBS mediated by government, or at least by communities.
References


Webster, K. (2022). The long road to a social dividend. The Club of Rome. Earth4All: deep-dive paper 05.


Earth4All is an international initiative to accelerate the systems changes we need for an equitable future on a finite planet. Combining the best available science with new economic thinking, Earth4All was designed to identify the transformations we need to create prosperity for all. Earth4All was initiated by The Club of Rome, the Potsdam Institute for Climate Impact Research, the Stockholm Resilience Centre and the Norwegian Business School. It builds on the legacies of The Limits to Growth and the planetary boundaries frameworks.

www.earth4all.life

This work is licensed under a Creative Commons Attribution-NonCommercial 4.0 International Licence.