DE GRUYTER Basic Income Stud 2023; 18(1): 137–140

Book Review

Geoff Crocker (2020). *Basic Income and Sovereign Money. The Alternative to Economic Crisis and Austerity Policy*. Cham: Palgrave Mcmillan, 98 pp. ISBN 978-3-03036-747-3, €59.94 (Hardcover Book), ISBN 978-3-03036-748-0, €46.00 (eBook)

Reviewed by **Lei Delsen**, Radboud University, Nijmegen, The Netherlands,
E-mail: Lei.Delsen@ru.nl

https://doi.org/10.1515/bis-2022-0020

The book offers an alternative more structural economic explanation for the 2007 crisis in modern high technology economies and a radical policy proposal.

The structure of the book is unusual. Part I The Proposal as Policy consists of four chapters. Chapter 1 summarises the main issues and claims and core arguments. Technology advances, accompanied by reduced workers' bargaining power, reduced the wage component of output and required unearned income to fund consumer expenditure that inevitably led to increased unsustainable public and private debt in the economy which caused the 2007–2009 economic downturn. A very bifurcated UK labour market emerged where a small high skill elite commands ever higher remuneration and a large lower skill group suffering depressed wages and in-work poverty. The "big claim" is: a combination of basic income and debt-free sovereign money reduce consumer and government debt, and so avoid economic crisis and austerity policy, raise the standard of living for lower income groups, and offer environmental gains.

Chapters 2 and 3 are the core of the book. In Chapter 2 the explanation of the 2007–2009 crisis by excessive lending by commercial banks and poor banking regulation by governments is dismissed. Blaming banks and governments is considered a "standard scapegoating reaction" by societies in crisis. It is concluded it is a real possibility that economic crisis is structural. The policies to correct the crisis were ineffective and counterproductive. Tighter financial regulation reduced the potential output Gross Domestic Product (GDP). Quantitative Easing (QE) failed to increase UK GDP, but raised bond and share prices and hence increased wealth inequality. Austerity to reduce debt harmed GDP growth and increased poverty.

In Chapter 3 an alternative radical diagnostic of the Great Recession is developed. The radical policy proposal is mainly based on ideology and economic theory and far less so on established objective evidence. The core argument is that the unstoppable technology leads to more productivity, explaining the decreasing share of labour in production and insufficient purchasing power to buy the product and services produced. Historical evidence, however, shows that when new technologies make old jobs obsolete, new jobs will always appear. The author also does not consider UK government's union reforms and "make work pay" policies to explain the weakened labour movement, decreased wage share and labour market dichotomy (e.g. Standing, 2017).

Geoff Crocker builds his arguments on the UK economy by a number of simple historical data graphs, showing labour income lagging behind consumer expenditure, and a widening gap between consumer disposable income and output GDP. Unearned income (decreasing share of private pensions and welfare benefits, increasing shares of dividends and consumer credit) became necessary to fund expenditure. The author states that the call for benefits created government deficits and public debts (in 2017 85% of UK GDP) that can never be repaid. In reality public debts are repaid, but new debts were created faster than the old debts were repaid. Moreover, the UK debt-to-GDP level (over 100% in 2022) is not particularly high in historic terms (Ellison & Scott, 2017). High levels of public debt are more sustainable than claimed. From the similar developments of the GDP/disposable income gap and household loans, the author concludes that the widening gap was made up by an increase in household loans, resulting in unsustainable household debts that can never be repaid from the declining wage share of production. However, similar developments do not imply causation. Research shows that rising indebtedness of households is directly related to high levels of inequality. Wealth inequality and income inequality exacerbate overconsumption (e.g. Banuri & Nguyen, 2020). People are tempted and pressured to buy regardless of whether they can afford. Rising private household indebtedness in the UK causes increasing inequality (Wood, 2020). A vicious circle of inequality and expensive borrowing is the result.

One extreme (austerity) is replaced with another extreme: an adapted version of Modern Monetary Theory (MMT). Under MMT, the central bank can always avoid default by 'printing' more money without any inflation. Taxes are not needed to finance spending (Kelton, 2020). Only countries like the US, UK and Japan can adopt MMT. Euro currency area member countries, for instance, do not meet the preconditions. MMT's policy recommendations lack a sound economic foundation; they rely on a highly simplified and implausible political economy (e.g. Palley, 2020). Crocker argues against (new) wealth, land or pollution tax and in favour of debt-free sovereign money for funding basic income. To avoid inflation, the issue of sovereign money and payment of basic income is constrained by the available supply of resources of the economy. MMT's job guarantee is replaced with a basic income guarantee. Unlike MMT, no monopoly on money creation applies. Money is created by central and local government, the central bank as well as commercial banks. Shortcomings remain.

In Chapter 4 basic income is presented as a panacea for many society's ills: it enhances social justice, environmental outcomes, human life choices, human flourishing, and welfare system efficiency, corrects coexistence of massive wealth and grinding poverty by providing adequate income. As the proposal cannot be tested in laboratory, a phased roll-out is suggested: gradual implementation of basic income and sovereign money over time in an iterative learning process. The political feasibility can be questioned. The proposed basic income – £1000 to all adults in the first year – is not universal and is conditional. This approach suffers the same drawbacks as earlier basic income pilots: microeconomic results may differ from macroeconomic results when scaled up as well as political manipulation of the process or the outcomes. At best, the proposed basic income represents a partial solution to the social concerns. Inheritance tax, wealth tax and progressive income and consumption tax are effective in addressing current wealth and income inequality and overconsumption, the root of the environmental crisis. Crocker fails to mention these taxes which, in addition, could also fund the basic income. This not only reframes the argument for basic income, it also boosts its political feasibility.

The three chapters of Part II The Context of the Proposal in Contemporary Economic Thought read like appendices to Part I. It contains unnecessary repetition of topics and arguments from previous chapters. For instance, in Chapter 5 it is concluded in the books reviewed there is substantial common agreement on the destabilising effect of private and public debt, and QE and austerity are criticised. Chapter 7 repeats the arguments for basic income: social justice, welfare system effectiveness and deficient aggregate demand due to technology led productivity growth. Although the literature clearly disagrees on whether sovereign money can be debt free, the policy proposal is not reconsidered. Apart from feasibility, also the desirability of debt free money can be questioned: according to Kelton (2020: 90–94) national central banks could pay off the entire national US and Japanese public debt tomorrow without collecting a penny from the tax payers. The literature in Chapter 6 is inconclusive on the role of trade union power or technology explaining the output/demand gap. Also the policy recommendations in the reviewed publications vary: basic income or wider unionisation and a higher minimum wage. Crocker's claim remains unaffected: only a basic income can overcome the technology led de-linkage between productivity enhanced output and falling real wages.

The serious financial crisis and the COVID-19 crisis have revived MMT and discussions about basic income. The COVID-19 income and financial support policies in the US and Europe made clear that governments do have the opportunity to expand the money supply quickly and drastically, in agreement with

MMT. The book has its limitations; still the book is well timed to contribute to the debate.

References

Banuri, S., & Nguyen, H. (2020). *Borrowing to keep up (with the Joneses): Inequality, debt, and conspicuous consumption. Policy Research Working Paper No. 9354*. World Bank.

Ellison, M., & Scott, A. (2017). *VoxEU column: 323 years of UK national debt*. The Centre for Economic Policy Research (CEPR). https://cepr.org/voxeu/columns/323-years-uk-national-debt.

Kelton, S. (2020). *The deficit myth. Modern Monetary Theory and the birth of the people's economy*. PublicAffairs.

Palley, T. (2020). What's wrong with Modern Money Theory: Macro and political economic restraints on deficit-financed fiscal policy. *Review of Keynesian Economics*, *8*(4), 472–493.

Standing, G. (2017). *Basic income and how we can make it happen*. Pelican Books.

Wood, J. D. (2020). Can household debt influence income inequality? Evidence from Britain: 1966–2016. *The British Journal of Politics and International Relations*, *22*(1), 24–46.