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If citizen's income is the answer, what is the question?

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Abstract

Purpose - The article aims to argue that the introduction of a citizen's income, although a positive measure is in itself only a palliative. What is needed is a radical reassessment of economics which goes beyond the traditional arguments over welfare versus *laissez-faire* or market versus state.
Design/methodology/approach - The article provides an academic critique of present monetary policy, and in particular the emphasis on economic growth as an end in itself, often at the expense of ecological concerns and the quality of human life.
Findings – Economics has ceased to be a humanistic discipline but has developed into a set of abstract and inflexible "models" into which human beings and human communities are compelled to fit. Social injustice and environmental degradation cannot be addressed merely by choosing between these models (e.g. between socialist and free market models), or by piecemeal reforms (including the citizen's income) but by returning economics to a human scale.
Originality/value – The article provides a thought-provoking study for economists, social science researchers and think-tanks.
Keywords – Income, Economics, Monetary policy.
Paper type – Conceptual paper.

The simple question, alluded to in the title of this article, is "how do we end the wages system?" However, that question gives rise to further questions – "why end the wage system? What is wrong with it?" or the fundamental question "what is the wages system?" It is my contention that all social and environmental reforms which ignore the role of money in directing human activity are doomed at best to be palliative, addressing individual causes for concern whilst ignoring the root causes from which the individual problems stem. As Marx and Veblen were well aware, the wages system lies at the heart of social injustice and ecological unsustainability. So long as absentee owners direct the work of waged or salaried employees (whether in private or state corporations), the motivation for reform will constantly be frustrated. Where money is the master motivation, all other values fade into subsidiary considerations. The major debates currently raging about war, famine, agribusiness, debt, environmental/ecological degradation, GM, world trade and poverty all stem from one central cause. People are held into doing what they are doing because they seek to profit financially from their co-operation with others. Whether the "profit" is from speculative sale or sale of labour time becomes immaterial. Both are beholden to the same phenomenon: "it's the economy, stupid!" The money economy is dividing people not only from their work and its product, but also from the land which ultimately sustains all forms of human society. If one cannot live on bread alone, one certainly cannot live on money at all. It is absolutely essential that material goods and services exist, and that the resources necessary for the production of those resources are cultivated and conserved. The money economy has come to obscure the practicalities of everyday life.

The money economy
With industrialisation, man was liberated economically from traditional social ties, only to become enslaved by a money system operating beyond everyday comprehension. Rights and responsibilities associated with respect of the "commons" and social justice were swept aside in favour of economic pressures. Money was enthroned in place of identifiable individuals whose ability to hold sway over others could be monitored by a system of checks and balances which, however imperfect, nevertheless made the oppressor ultimately accountable. The present system of income distribution has come to seem as natural – even if as unpredictable – as the weather. Incomes are the reward for participating in the formal economy. The economic agent surrenders resources – land, labour and capital, being rewarded with a money income indicating the value/price of his input. He spends the money on his selection of commodities available on the market. Central to the operation of the economy is the price mechanism. Supply and demand for anything – land, labour, capital goods, financial services – is determined by price. Hence the highly skilled are perceived as being well-paid because their skills are in short supply in relation to demand. Conventionally, the vast differentials between the pay of teachers and nurses on the one hand, and business school graduates on the other, is justified on these grounds. There is however, no statistical evidence to support the assertion that the ratio of suitable applicants to available places is lower in respect of business school applicants compared with nursing or teacher training. On the contrary, 6,000 applications were recently received for the 127 places on a Salomon Brothers' training course:

Pay cheques at Salomon Brothers spiralled higher in spite of others who would do the job for less (Ormerod, 1992).

Meanwhile farmers and child rearers produce the raw materials and labour essential to the "real" economy (oikonomia) at little or no financial cost.

The phenomenon introduces the fact that the "free market" price mechanism is fundamentally flawed as a means to analyse the formal money economy. In theory, the higher the price, the less will be demanded and the more will be supplied. In fact as the Salomon Brothers' example demonstrates, the market mechanism does not actually work in this way. Questioning is emerging from within the economics profession itself. As leading neoclassical theorist Bernard Guerrien (2002) notes, in the world of neoclassical theory, commodities are inexplicably traded at the price where supply equals demand, and vice versa. The price is inexplicable because when the price high, the supply is high, but there is nobody to buy it at that price. But when the price is low, demand is high but there is no matching supply at that price. At the one point where the demand and supply curves intersect, exchange can occur. At all other points there is no exchange – and hence no price: at that point price is made by price-takers.

Reverse supply schedule for labour

The price mechanism is particularly inappropriate as a tool to analyse the supply of labour. In theory, the higher the wage or salary, the more labour will be called onto the market. In practice, above a certain minimum income, higher wage rates may draw forth an increased supply of labour, resulting in a rising supply schedule as the textbook model suggest. However, at an increased wage rate the worker enjoys a greater income for any given number of hours expended. If this income effect exceeds the substitution effect (of more highly remunerated labour for leisure) a backward-sloping supply function for labour will occur. In these circumstances workers exercise their freedom to acquire leisure by reducing the number of hours worked. Reverse supply schedules may preclude the existence of a determinate equilibrium wage (see Hutchinson *et al.,* 2002).

Common cultural inheritance

“Thoughts on being an economist and a grandma” was the title of a recent talk given at a local church. It would have been more aptly titled “Cat among the pigeons”. The “audience” of professionals – teachers, lecturers, doctor, international trade consultant, local businessmen – felt themselves to be on unsafe/unfamiliar ground when asked to consider their roles as economic agents. No mention was made of citizens’ income, or of the elimination of “absentee ownership” through alternative “own work” banking and management structures (see e.g. Mathews, 1999). Three very simple points were made.

(1) The common cultural heritage supplies 95 per cent of the wealth in a “developed” economy. Hence the input of a specific amount of labour (or land, or capital) is at most 5 per cent of the value given as income (wages, salary, rent or interest), i.e. a teacher’s weekly work is exchanged for a house, car, clothes, food, furnishings, electrical goods, holidays and all manner of material commodities, not one of which could the teacher produce for him/herself if he/she were to work all around the clock.

(2) Money is not created by the productive process. C.H. Douglas, author of *The Causes of War*, uses the example of a field dug and planted with potatoes, tended and harvested. If the labour, land, seed potatoes and spades are already available, the potatoes may be bagged up and sold for £5 – the first time money appears in the process. The £5 note is not “made” by the operation – it already exists, being created through the banking system. The additional potatoes may increase the material value for which the money may be exchanged: they do not create the money (see Hutchinson *et al.* (2002) for thorough exploration of this issue).

(3) The spending of money is a vote for a particular productive process, or series of processes – with all the strains on the social and ecological fabric of society – its global impact or “ecological footprint”.

The audience was very varied in its interpretation of what had been said, and vary unsettled, as if familiar concepts were being challenged. From their very different perspectives, the audience had faith in the basic principles of economics as taught by the media: the economy exists to provide society with the necessities of life. People go to work in the primary and secondary sectors, producing the raw materials and the manufactured goods necessary to provide food, clothing, shelter and all the necessities of modern life. The wealth creating sectors support the “tertiary” sector of education, health and social services through the taxation system. If people did not manufacture goods there would be no wealth to be shared by the rest of the population. Strangely, this world-view cannot handle the key sectors of the economy – farming, finance and the family.

As we have observed (Hutchinson *et al.,* 2002, pp.42-43), *oikonomia,* the material economy where tangible and useful wealth is created, is now dominated by chrematistics, the money economy that is parasitical upon *oikonomia.* The “real” economy is the one which “earth has given and human hands have made”. The money economy takes from the God-given earth, and from human society, destroying and not replenishing. A dramatic illustration was when (in the 1980s) all the women in Iceland went on a one-day strike. The entire economy ground to a halt when the human hands ceased to care for the children, the sick and so on. Even more alarming are predictions that the earth itself is taking action to evict our species (McCarthy, 2004).

In short, we have an insane system of economics which counts waste, devastation, pollution, war and social devastation as “wealth”: “it is not a sane system that before you can buy a cabbage it is absolutely necessary to produce a machine gun”, commented C.H. Douglas. Take just a few examples. A car accident or environmental disaster ADDS to GNP (the measure of wealth) because of the increase in economic activity – fire services, car replacement, ambulance, medical, insurance and so on. In the formal economy food is manufactured, not by God, but by the "food industry": in 1971 a food industry study found that total food expenditure in 1971 need only have been £1,800 million to provide a varied and healthy menu. It was actually £6,636 million – i.e. the food industry added four and a half thousand million pounds – in processing, preserving, packaging and so on, with all the attendant waste and pollution. In chrematistic terms, we were all "better off". Furthermore, today World Trade Organisation (WTO) rules and international debt force small farmers in poor countries to abandon sustainable and reliable practices (e.g. different varieties of crop, inter-planting etc.) for monocultural cash crops – coffee, flowers, and mange-tout. These cannot replace the staple foods if the international market price falls – crop fails – no food, or money to buy food (Northcott paper). Across the world, "financial services" and dealings far outweigh trade in actual goods and services, which form a mere 5 per cent. The money economy continues to sweep across the world, devouring land and cheap labour sources, leaving social and ecological devastation in its wake. Hong Kong firms no longer manufacture goods, they merely trade in goods produced in the cheap labour factories, spreading across China. Already 85 per cent of China's rivers are dead. (Welford, 2004).

The key players, business, academics and politicians – are mesmerised by the money system. If we look at historical accounts of the social credit, distributism and agrarian reform movements, we find a level of debate that no longer applies. Meetings, study groups and weekly papers, including *The New Age, GK's Weekly, New English Weekly, Social Crediter* and others (see Hutchinson and Burkitt, 1997; Mathews, 1999; Massingham, 2003). In earlier decades working people joined with professionals in study groups across the world, flocking to public meetings and engaging in debate. I was introduced to social credit by my neighbour who had attended a university extension course in economics and joined a study group on social credit in the 1930s. In the twenty-first century *Asses in Clover* is beyond the comprehension of the average citizen.

Today, professors of sociology and the other social sciences profess themselves to be unable to debate on the subject of the economy: "I am not an economist" is a real conversation-stopper. Academics go to work to earn a salary paid in money that they do not understand. It is a truly alarming situation. Professors of economics are no less ignorant on the relationship between the money and the material or "real" economy. At an international on economics, Ukrainian professors bemoaned the fact that their money salaries were not paid for months on end, so that they had to rely on their gardens to feed their families. The US and UK professors listened with incredulity: they could not hope to feed their families if their money incomes dried up completely. Nevertheless, the Eastern Europeans sought inward investment so that their economies might "progress".

Mobile truth

Perhaps the most disturbing effect of the modern phenomenon of individuals relying upon an employing institution for their means of subsistence – house, food, fuel, clothes, furnishings, transport, communications and so on – is the resultant colouring of perceptions. Hence salaried employees of a host of agencies – e.g. WTO, World Bank, DEFRA, Crop Protection Association, nuclear installations, airways, chemical, pharmaceutical, oil companies and academic institutions – accept as objectively valid truth the ethical claims of the institutions in which they are currently employed. A change of employment brings a change of opinion. In his afterword to Orwell's *Nineteen Eighty-four* (Orwell, 1949), Erich Fromm labels the phenomenon "mobile truth".

It is one of the most characteristic and destructive developments of our own society that man, becoming more and more an instrument, transforms reality more and more into something relative to his own interests and functions. Truth is proven by the consensus of millions; to the slogan "how can millions be wrong?" is added "and how can a minority of one be right?" Orwell shows quite clearly that in a system in which the concept of truth as an objective judgement concerning reality is abolished, anyone who is in a minority of one must be convinced that he is insane (Erich Fromm).

Orwell coined the word "doublethink", meaning the power of holding two contradictory beliefs in one's mind simultaneously, accepting both of them. As Fromm pointed out in 1961, Orwell was writing about the existence of "doublethink" already in the "free world", and not in some hypothetical dictatorship of the future.

The phenomenon of "mobile truth" is truly chilling. I was recently invited to a "consultation" under Chatham House Rules with a number of people employed in senior positions in WTO and other institutions as listed in the above paragraph, and can vouch for the existence of the phenomenon. Significantly, I was invited because one of the participants of the consultation had read Eimar O'Duffy's *Asses in Clover* (O'Duffy, 2003), and was convinced that I had written the whole book, not just the introduction to the 2003 edition (in the same way as Susan George (1999) wrote *The Lugano Report).*

Citizen's income

A citizen's income (CI) is an automatic, regular, unconditional and non-withdrawable income payable to each individual citizen and considered to be a right of citizenship. "Unconditional" means that it is not dependent upon workfare, means testing or any other form of eligibility test, save that of citizenship.

A mountain of research already exists on the practicalities of introducing a "basic" or "citizens" income (see e.g. Hutchinson *et al,* 2002, pp. 192-195; Healy and Reynolds, 2002; Suplicy, 2004; Gorz 1985; and the vast literature of Basic Income European Network/Basic Income Earth Network, Citizens' Income Research Group, UK). The case for CI has been well researched and publicised. Given the political will – which is increasingly coming to be the case, see e.g. Brazil, Ireland and so on – the necessary accounting skills can be brought to bear on the particular place, circumstances and time.

For Example, as Eduardo Suplicy explains:

> One should notice that it is in the USA that we may have the best evidence of what could be even better than the EITC. Because in all of the American states there are Federal income transfer programs such as the unemployment insurance, the food stamp program, the TANF and the EITC. But only in one state you have the unique and successful experience of the basic income. That happens since 1980 in the state of Alaska where 50 per cent of the royalties coming out from the exploitation of natural resources are destined to the Alaskan Permanent Fund that pertain to all residents of that state as long they are living there for a year or more. The net wealth of this fund evolved from US$1 billion, in 1980, to US$28 billion in 2004. Each year the Alaskan Permanent Fund has been paying an equal dividend to all Alaskans that have varied from around US$300 in the early 1980s to US$1,107 last year.
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> During the 1990s Alaska paid 6 percent of its GDP to all Alaskans through this system. What was the result? It has made Alaska the most equal of all American states. Whereas in the whole USA from 1989 to 1999 the average family income of the 20 per cent richest families increased by 26 per cent, the average family income of the 20 per cent poorest families increased by 12 per cent. In Alaska, as Professor Scott Goldsmith from the University of Alaska Anchorage told us in our 1X International Congress of BIEN, in Geneva, the average family income of the 20 per cent poorest increased by 28 per cent, whereas that of the 20 per cent richest increased by 7 per cent (Suplicy 2004).

The above is but one example of the maze of precedents for CI already in existence. In the UK a child benefit is universally available for all citizens, including the monarch. Current proposals for a universal state pension are based on the same principles (see Pensions Policy Institute (PPI), www.pensionspolicyinstitute.org.uk/)

The case for citizen's income

- *Complications:* the amount of form filling and bureaucracy involved in the present system as people's circumstances constantly change is time wasting and results in a degrading nightmare of rage and frustration.

- *The unemployment trap:* if on means tested income support or job seekers' allowance, one's benefit is withdrawn virtually pound for pound. As one's income rises one loses housing benefit and council tax, while one starts to pay income tax and national insurance contributions. Hence people are discouraged from entering employment and from seeking to increase their incomes.
- *The poverty trap:* if one is in low paid work and receiving tax credits and other means tested benefits, as one's income rises one loses tax credits, income tax and national insurance have to be paid, while housing benefit is lost.
- *The savings trap:* it is not worth saving for retirement when the minimum income guarantee prevents pensioners with an income from savings from claiming benefits. Citizen's income would not be withdrawn from those with additional savings. Hence there is an incentive to work and to save.
- *Income security:* as it stands, the employment system reduces employees to a permanent state of income insecurity. Many individuals are continually moving in and out of the benefits system for reasons beyond their control. Nobody should have to choose between fulfilling their responsibilities to their families by staying on benefits, and taking a low-paid job.
- *Increased flexibility:* for part-time work, self-employment care for the sick, elderly and children become options which can be planned for in confident security.
- *Increased employment:* employment would be encouraged across the board. Income (benefits) would not be lost, so all employment would provide net gain.
- *Access to lifelong learning:* with a small secure income automatically available as a right, all could engage in higher education and training whenever necessary.

Conclusion

A fog of misapprehensions surrounds the role of economic agents within the economic system. In theory a host of decisions by a host of small individuals, left to the free play of the market, will lead to the allocation of scarce resources such that the greatest good of the greatest number will be achieved. In fact the formal money economy is parasitic upon the earth and human co-operation which together create all forms of material wealth through the accumulated common cultural inheritance. Wealth is created in common. Money, however, operates on the basis of pure self-interest. Whether the player is a powerful player in the WTO, the filler of shelves in a supermarket or a salaried academic, where money is the dominant motivation other values are driven into "also ran" positions.

The rich variety of ideas and experimental schemes built up during the twentieth century contain the potential to challenge global corporate power. However, in so far as activists tack and weave operations in order to accommodate to the money system, they merely serve as safety valves into which to channel frustrations. The time has come to challenge the dominance of finance over the earth's resources. This can be done in two ways. First, it is necessary to seek out connections between one's own work and the rest through a creative listening process, i.e. to reduce the time – and money – spent on publicity and having one's own say. Furthermore, it is possible to read the Bible as if we have no money, while using (getting and spending) money as if we had never read the Bible. Hence the second line of action is to subordinate money considerations to all other considerations in our own daily lives – and to tell others what we are doing and why. Every penny we get, and every penny we spend, impacts on lives across the globe, as well as on future generations. Potentially, a citizens' income offers all the opportunity to study the money system in order to fully understand how it works. Hence, even if it did nothing else, CI would be a "good thing". Without it, we will all be "forced to keep working until 65" as work and pensions secretary says.

Frances Hutchinson is a British economist and author of several books, including *The Political Economy of Social Credit and Guild Socialism,* with Brian Burkitt (Hutchinson and Burkitt, 1997) and *The Politics of Money: Towards Sustainability and Economic Democracy* (Hutchinson *et al.,* 2002). E-mail: f.g.hutchinson@btinternet.com

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