Would a Basic Income Cause Inflation?

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Dr. Luciano Carment

About me:

- Honorary Associate - University of Sydney, Discipline of Political Economy
- luciano.carment@sydney.edu.au
- Research Interests:
  - Macro-finance
  - Inflation
  - Central banking
  - Productivity
  - East Asian economies

The Two Related Basic Income Literatures

Political Theory

- Basic income as freedom from the obligation to work for a wage.
- Imagines a generous/emancipatory BI.
- Based in a political philosophy approach.
- See for example: Olin Wight (2006), Van-Paris and Vanderboght (2019).

Policy

- Explores how basic income would impact immediate budgetary dynamics in a chosen national context.
- Typically less generous – ‘revenue neutral’
- Australian Example: Spies-Butcher, Phillips & Henderson 2020.

A Macroeconomics of Basic Income?

- It is reasonable to argue that the path dependent features of each context will radically alter the implementation of a BI.

However

- Policy making is still based on appeals to abstract economic principles (e.g. central banking and the *Taylor Rule*).
- Whether or not any a policy is potentially inflationary radically constrains its perceived feasibility.
  - This is particularly the case with inflation.

Three Key Factors for Inflation

1. Labour Supply Response (LSR)

2. Effects on Productivity

3. The Role of Indexing

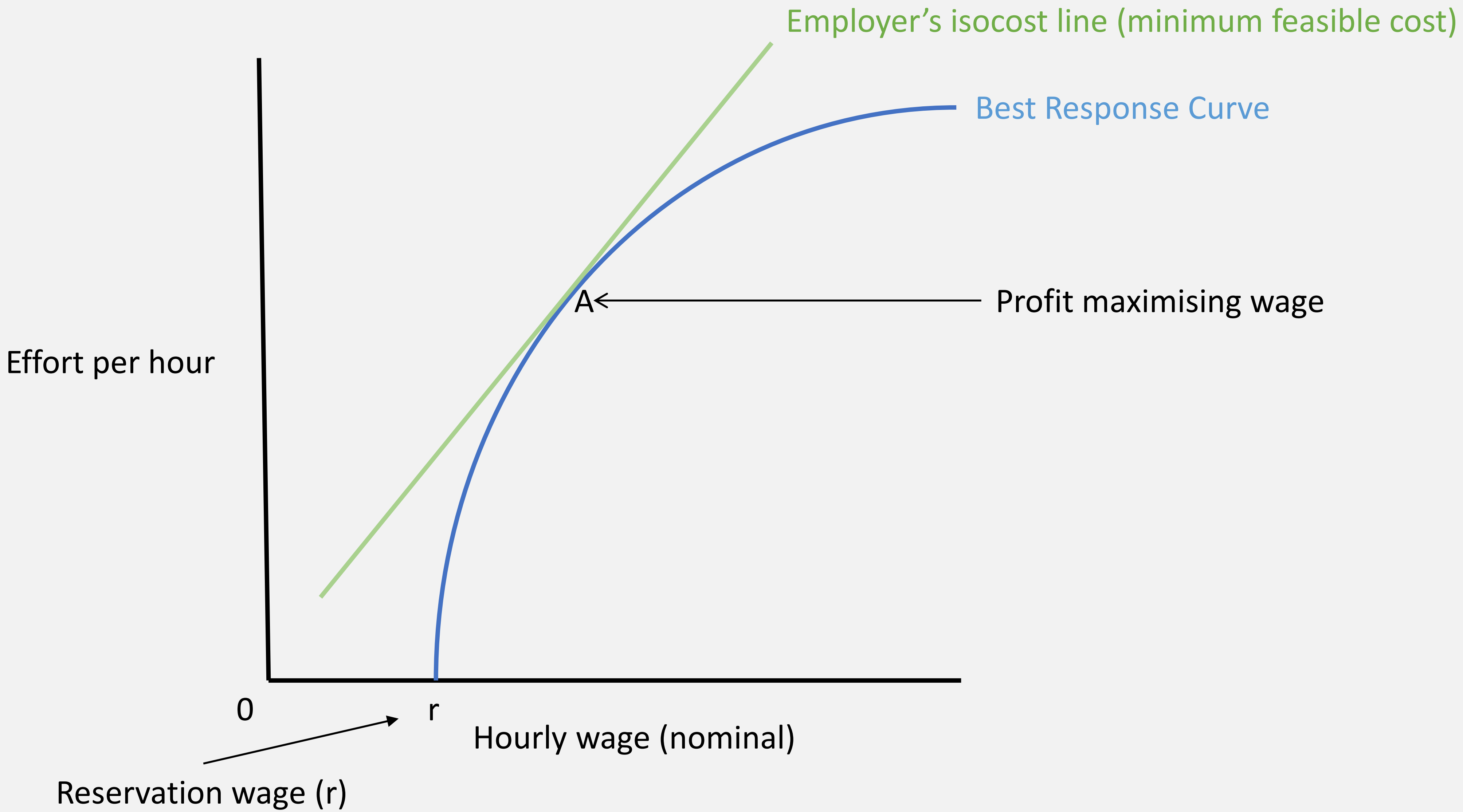
Basic Income and a *Best Response Curve*

- Used by Neo-Marxian economist Samuel Bowles - one of the few economists to attempt to do this kind of modelling for a BI, (see Bowels 1992).
- A game theory type model that includes some conventional assumptions (firm's profit maximise, absolute disutility of work).

However

- Diverges from the mainstream in that it does not assume a full employment equilibrium wage.
- Closer to Robinsons Robinson's (1962: 70) famous statement that "the level of the money-wage rate obtaining at any particular moment is an historical accident".

Labour Supply Response – Best Response Curve (After Bowels 2017)



What Determines the Reservation Wage(r)?

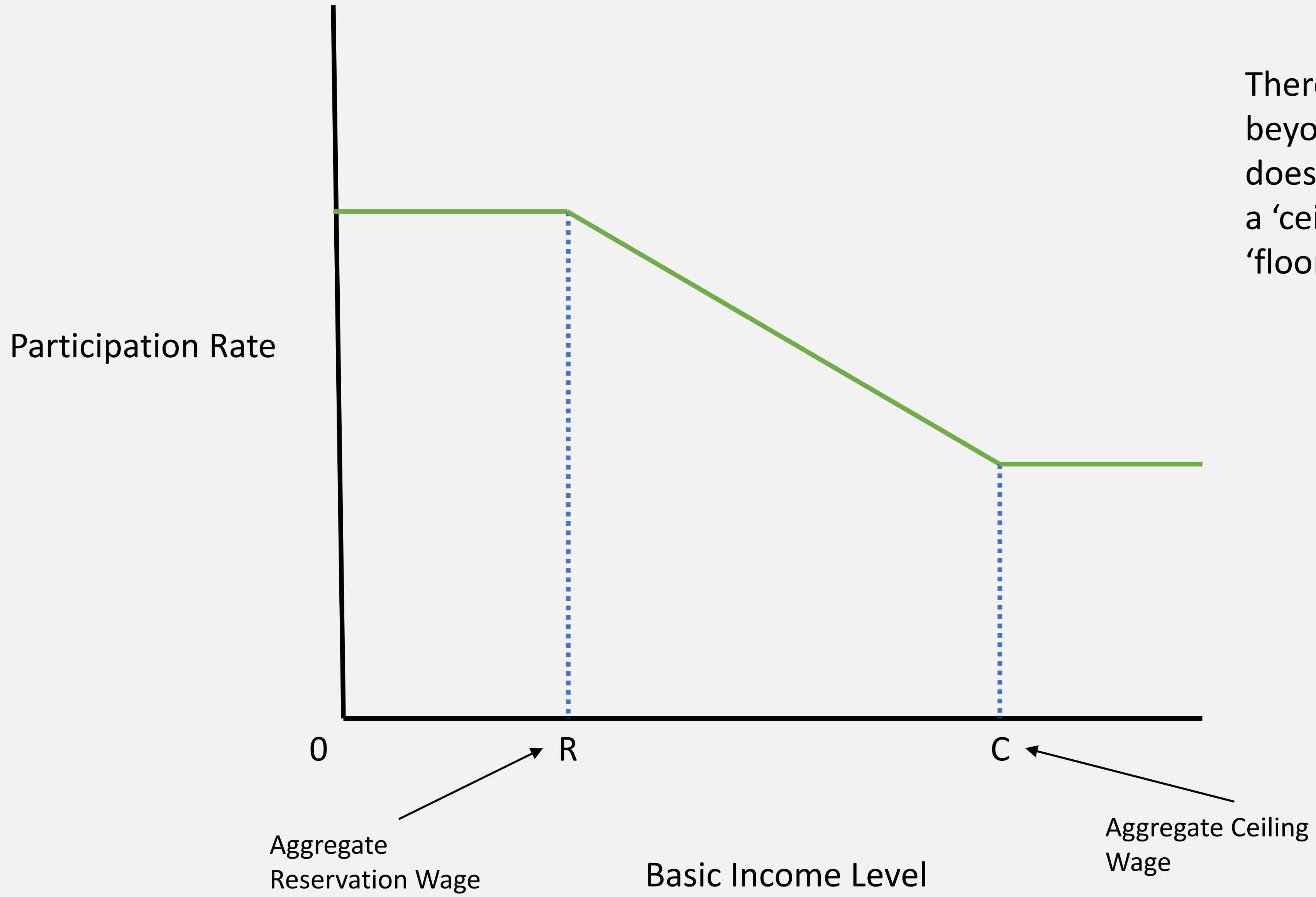
- Unemployment levels.
- Unemployment benefits.
- Other social benefits.
- Non-government social support structures (church, family etc).
- Nature of work in the industries that dominate locally.

Labour Supply Response – Aggregate Reserve Wage (short or medium-term)

Ceteris paribus, only a BI above R will start to decrease the participation rate.

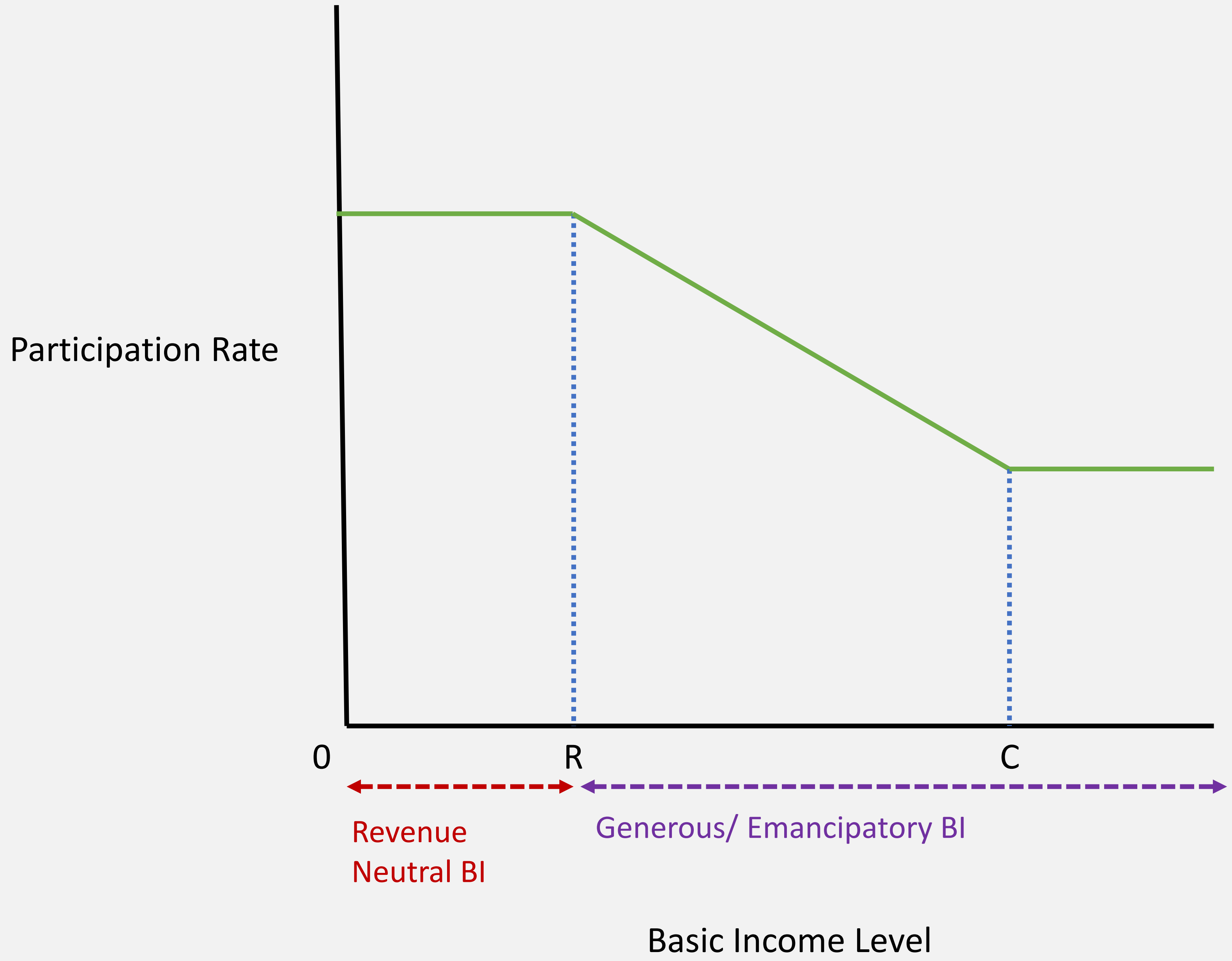
So LSR will be in the first instance reliant on those factors that determine the existing R.

Labour Supply Response – Aggregate Reserve Wage (short or medium-term)



There will likely be some point beyond which pure renumeration does not matter in terms of LSR – a ‘ceiling’ wage, C, (if R is the ‘floor’).

Labour Supply Response – Aggregate Reserve Wage (short or medium-term)



In this approach, the revenue neutral and generous versions of BI are in the short or medium term very different policies because of the interaction with the existing level of R.

Labour Supply Response in the Long Term?

- In the long term BI would likely not interact with the reservation wage but *define* it.
- Here there are countervailing possibilities:
  - Competition between a BI and wages could push R up, or pull it down.
  - Reduction in involuntary unemployment could push R up.
  - Changes in productivity (and therefore output) will also have long term effects on the level of R, especially via the setting of minimum wages.