Why and How Basic Income Must Be Financed by Monetary Creation

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THE SINK TANK

We are a French think tank focusing on how to finance environmental transition, with Basic Income as a keystone.

Our model is based on French economy, but can be scaled internationally.

This presentation is a summary of our approach. It will (hopefully) be thought-provoking, but would need far more developments.

We argue that a 20% GDP Basic Income can be 100% financed by monetary creation if it is part of a larger environmental shift, along with strong control mechanisms.
WHY BASIC INCOME SEEMS DOOMED TO UTOPIA
BASIC INCOME SHOULD ALREADY EXIST

• A unique, bi-partisan proposition
• Tremendous advantages vs. redistribution
• A (probable) massive public support

And yet, apart from scarce experiments, basic income is nowhere on political agendas worldwide.
EVEN WORSE... ADVERSE TRENDS

It seems like we have never been that far from success:

• Almost everywhere in the world: taxes and public expenditures are diminishing.

• Almost everywhere in the world: right wing political agendas are (quite successfully) attacking welfare in general.
AND GENERALLY SPEAKING...

In reality, it seems like it will never be the right time for a significant Basic Income:

• Its financing needs, at some point, taking money from someone who’s got money: they won’t be thrilled, and they’re strong enough to protect their interests.
THE SHORT CASE FOR A BASIC INCOME FINANCED BY MONETARY CREATION
The case for monetary creation

Obviously:
• No redistribution = no one loses a dime.
• Money creation = it costs absolutely nothing.

On a symbolic level:
• No redistribution = no stigma for recipiendaries.
  As a society, we decide to create the money needed to keep each other safe.
OUR MODEL

A significant Basic Income financed by money creation
A global political agenda

This is of paramount importance: Basic Income would be implemented inside a larger new macro-economic model aiming at a cleaner liberal economy.

1. A positive, global aim: environmental transition
   1. We need to change our consumption.
   2. We need to change the way we work and produce.

2. The end of redistribution
   1. A Basic Income to end poverty.
   2. A Basic Income to end Welfare.

3. No rupture with the capitalist frame
How much?

Our French model is set to come close the ideal amount of 25% GDP:

- €900 per adult/month
- €300 per <18/month
- No condition whatsoever
- Close to the poverty line

A yearly cost of €600b/year (20% of French €2,400B GDP)

Can we create that much money?
Character of created money

- A complementary money created by the State
- At par with Euro
- Non convertible

- Can be used for any commercial transaction on national soil.
- Can be used to pay taxes (with a cap TBD annually)
- Can be used to pay wages (with a cap TBD annually)
HOW CAN IT WORK?

How realistic is it to create 20% GDP money?

> Mechanisms to limit inflation
Inflation, inflation, inflation!

Inflation is of course the main concern.

• First, we are obviously convinced that an increase in quantity of money does not automatically mean an increase in prices.

• Second, we argue that the 3 mechanisms we imagined will prevent unwanted inflation.
1) Characters of the new money and of Basic Income

- Using a complementary money instead of pure euros will by essence limit some of the uses of the revenue.

- With a significant Basic Income Revenue, a slight diminution of paid labour can be expected, households revenue might not rise that much.

  - This tends to keep Demand reasonable.
2) Money destruction

With a considerable use of money creation, the State & public administrations will change their revenue structure:

• Important tax cuts can be implemented.
• No longer need for public bonds and other private credits.

➢ In our model, the State reimburses approx. €170b of public debt every year.
  – out of a stock of €3000b (20 years of money destruction ahead)
2) Money destruction

Moreover, tax cuts + basic income will bring a lot more available money to the private sector (households and business).

- We can thus expect that bank credits will decrease, reducing private money creation along with destruction of existing euros (private credits stock).
3) The great counterpart: the EVT

We propose to suppress all business and consumption taxes (VAT, profit taxes, production taxes...) and replace them by a single tax: the Environmental Value Tax.

• This tax would be based on each business environmental footprint. EVT’s rate and amount would compensate 100% of said footprint.

• Rates will be re-assessed yearly:
  - businesses that have improved their production (cleaner processes) will have their tax rate reduced,
  - leaving those who have not with a bigger share of the tax to pay.
EVT: one quick exemple

1 kg beef
€20
+ 35% EVT
= €27

1 kg organic chicken
€15
+ 3% EVT
= €15.5

1 kg industrial « wings »
€11
+ 30% EVT
= €14.30
3) The great counterpart: the EVT

- Fossil fueled products & services will be more expensive.
  - This is a wanted inflation.

- Environmentally friendly products & services will be more affordable.
  - This is deflationary.

- The rate of the EVT being variable (depending on each business footprint), companies will face a tremendous competitiveness challenge.
  - They will have a hard time raising their prices.
3) The great counterpart: the EVT

The EVT requires a thorough fiscal database (including prices of almost all products and services) that would obviously be a solid monitoring tool. Abusive price raises could be easily spotted, allowing:

- to open discussions with the sector representatives,
- if needed, to launch well-targetted price control actions.
Addendum

THE MODEL: A FEW NUMBERS
Revenues

- Taxes on revenue and assets: €335b
- Other taxes: €130b
- Taxes on production and consumption (incl. VAT): €405b
- Social contributions: €400b
- Credit & bonds: €70b

Expenditures

- Taxes on revenue and assets: €500b
- Public services (security, education, health): €600b
- Other taxes: €100b
- Equipment & environmental expenditures: €110b
- Subventions to businesses: €80b
- Debt interests: €40b
- Welfare (Net subsidies: €465b)

Monetary creation

- Basic income: €700b (600b + 100b transition costs)
- Transition costs (€ creation): €100b

Public services

- Security, education, health: €600b

EVT

- Environnemental Value Tax: €600b

Today: €1300b (excl. Debt)

Tomorrow: €1530b (excl. Debt)
Our Model
All data: France, 31/12/2019 (in €b)

Citizens pay for their public services
- Taxes on revenue and assets: 500
- Other taxes: 100

Businesses pay for their impact
- EVT (Environnemental Value Tax): 600
- Equipment & environmental expenditures: 400
  - Inc. debt reimbursement: approx. 170

The State provides essential needs
- Monetary creation: 400
- Basic income: 700
  - 600 + 100 transition costs
**Our Model**

**All data: France, 31/12/2019 (in €b)**

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**Today:** €1270b

**20% less taxes**

= a lot of money left in the economy to finance a shift in production

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**Tomorrow:** €1000b
OUR MODEL

All data: France, 31/12/2019 (in €b)

Expenditures

110 Equipment & environnemental exp.
80 Subventions to businesses
510 Welfare

Net subsidies: 465

€230B more expenditures
= a boost in public env. investments
a lot of money as incentive
to the shift in production

Today: €700b

Tomorrow: €930b

Expenditures

Equipment & environnemental expenditures: €230B

Basic income: €700

600 + 100 transition costs
Thanks for listening!