

Basic Income & perverted global labour market

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Widening scope of debat on Basic Income

- In stead of debating on 'affordability' and 'laziness', BI as key to change and improve the economic system
- Such a debate could broaden the public support for BI
- Key-point of the relation BI and economic system is the **functioning of the (global) labour market**
- In this respect BI also could be an essential contribution to the debate on the international economic and **financial crisis**

What about the economic system?

- Economic system brings **more prosperity** for everyone, if (sustainable) *equilibriums* can be obtained
- Two visions:
 - ‘free markets can do that’ (**Friedman**, ‘Washington Consensus’), and
 - ‘a combination of markets and government-spending is necessary’ (**Keynes**, ‘Bretton Woods model’)
- Both systems came to an end by world wide clashes:
 - ‘Free markets models’ clashed in 1929 and 2007,
 - ‘Bretton Woods model’ clashed around 1980’s (stagflation)
- Experts are still confused now...

What about the economic system ?

- The **economic system** is meant to bring more prosperity in a society.
- When this has to be durable, it has to function within the borders of the **ecological** system and
- of course to obey the rules of that **specific society**.
- The economic system itself and its different parts in particular have to tend to self-adjusting i.e. to equilibrium
 - Markets (can) bring these equilibriums
 - Markets have to be assisted by government adjusting

What is wrong with the economic system?

- The economic system can be seen **on different “playing fields”**:
 - National, regional en world-wide (global)
 - Goods and capital operate on a global scale, labour markets on a national/regional scale
- **Keynes** told us what could go wrong: “...*prevent export of deflation...*”, (that’s what happening between ‘Asia’ and the ‘west’):
 - Imports and exports of countries have to **be in balance** (*structurally*), between countries;
 - Besides a combination of market and government in the national field, he therefore proposed an **Clearing Union** (Bancor) internationally to guard these balances
 - Bretton Woods regime was a **weaker** variant, but the only possibility
 - Bretton Woods became less sustainable as capital became internationally more mobile...
- He pointed out the problem of economic policy; be it national be it international (the functioning of it **within a specific society**)

What were the problems of Bretton Woods ?

- The first problem was the “Bancor” i.e. the **global banking** system was proven not to be possible.
- A very important second problem was the illusion that the monetary system was leading in international economics. The politics of Milton Friedman in the Reagan era has illustrated clearly that **money politics felt down** in regulating economy.
- In the forties international trade was **marginal** in economic life even in Great Britain. Global economy has not been invented yet.

What went wrong with Bretton Woods?

- International trade was a **derivative** of domestic economic policy,
 - National governments could steer their economic systems by using e.g. monetary and budget measures; there was **no world-government**, but...
 - International coordination was necessary and **only possible** using the “*dollar-exchange standard*”, the ‘Achilles’ heel’ of Bretton Woods, exchange rates were “fixed but adjustable” (*a ‘pseudo’ golden standard*)
- When the “dollar-exchange standard” **broke down** too (1973), the very last regulation of international trade was gone. Economic **globalization**, the international development and integration of markets for goods and capital (big multinational enterprises) **took the lead** and overshadowed domestic agendas (politics).
- The playing field of global capital was getting to be paved, with poor regulations and with gradually fading away even these.

Hyper-globalization took over

- In the eighties, domestic economies became **the subservient** of International trading entities (global firms).
- Gradually they were operating on the playing field of the global market. In maximizing their **profit** they took advantage of the very big **differences** of labour costs between developed and developing economies. As they **drag** their products over the globe, letting them pick up the cheapest labour and selling them at the markets with the (most) spending power, facilitated with steady cheaper transport-costs.
- Labour markets could **not adapt** to the new situation, but were forced to some extend. (*Schröders' Agenda 2010 in Germany*)
- New markets have been opened, Brasil, Russia, India, China (BRIC) etc... and international capital and - companies changed their organisations and moved and **are moving** yet their production plants to **cheap labour** countries
- In the words of Bernard Kündig: *"...the increase of productivity worldwide was 'paid' by cheap labour."*
- Overproduction and under-consumption increases, in China resp. in USA and...the **financial system filled the gap...** (remember Keynes: *"mind the gap!"*)

Again, what is wrong about the global economic system?

- The warning of Keynes: “*mind the gap!*”, is about the world-economic system and (sustainable) *equilibriums*.
- There are now **two playing fields** of the economic system, both are incomplete and only a part of the story:
 - on a global scale capital-, investment-, multinational companies operate
 - on a national or regional scale, people operates i.e. labour/employment, income/purchasing power/small enterprises.
- Equilibriums in real terms do not develop, the financial system, that has lost all constraints, **fills the gaps**, but real equilibriums disappear more and more (also ecological ones).
- Why? Production with cheap labour takes place in Asia/BRIC-countries! And consumption of these products is in the USA and EU. **Exchange-rates** are by no means any indication of trade relations, they are getting better the term **coincidental.....**

Function and functioning of the labour market

- Keynes already indicated a different **gap** that of **the subsistence income** as a real problem for the functioning of the **national** labour market, as the wage in its function of income cannot sink under subsistence level.
- Some national governments **try to fill** up this gap between ‘low production costs’ and ‘high enough income for consumption’ by means of subvention.
- But the **global** labour market is the reality for the multinational, is **his playing field**.
- And the national/regional market is the **peoples playing field**, because he lives there.
- Now the **“problem”** of the classical economy **arises** again : in fact the labour market as such **only exists** above the subsistence level. From that point on the marginal disutility of working time has a meaning and only as this equals the real wage, optimal welfare is possible. So a basic income does not have to be a **part of the wage at all**.
- If the provision of a basic subsistence income could be made **independent of employment**, then equilibrium wage should be able to free itself from its historical connection with the subsistence level, and to raise or fall as the demand for labour changes **without causing serious distress**. (*according to Keith Roberts 1982*)

Different playing fields

- Starting with people we see an enormous discrepancy between the costs (in \$) of living in the different parts of the world. This **discrepancy is exploited** by the global enterprises to maintain/increase their profit, **irrespective** the consequences on the respective local/national economies/societies.
- As we have seen this has **enormous impact** on societies but for the company : “profit counts”. This position of the capitalist enterprise has been devastating in big parts of the world, but this position is **only logical** in an economic sense. The company does its job.
- In society and on the environment the impact is huge, it brings poverty in both worlds and it is not going to stop, it will continue and accelerate itself without constraint, stirred up by the profit goal.
- This power is **too big to be managed** and also no rules are capable to stop it. As people is dependent from it for living and government supports it by taxation. Only when people would be **made independent** from it for their living, they possible can take control again, because their bare existence is not ancillary on the system.
- So basic income is the tool for mankind **to defend itself** against the devastating power of the multinational capital.
- On the other hand introduction of a basic income, that thus **equalizes the playing fields** of all local communities and brings these on **a even global level**, will have a de-globalising effect and so will revitalize the local economies and brings people again on a level that is at least even with the global enterprises.

What kind of adjustments we are talking about ?

- Bringing all countries the labour markets on an even concurrence level, by paying them a unconditional basic income, **levels out** the differences in labour costs at the bottom level.
- At first instance the western labourer will get about € 10.000,- p.year, whereas the BRIC-labourer, will get let's say € 1.000,- p. year. Above that, also taxation of labour is not longer rational as is the social security fee. For the Netherlands it could bring back labour costs from € 35.000,- to € 10.000,-. So a **reduction of ±70%**; in comparison the reduction in the BRIC countries would be negligible....
- The lesson: When existence levels differ too much, you cannot get a decent competition (of labour) and also no sustainable equilibriums. Because equilibrium only can appear on the (very) long run and this tendency **will destroy** whole societies and generations when not the earth itself.
- As in a era where labour was scarce, it was logical to raise tax on labour; then now, as there is quite some overcapacity and as raw materials and other basics are running short, taxation is needed on those materials to make cradle to cradle possible and to get sustainable equilibrium.

Here the Basic Income comes in (1)

- Because essentially, BI means also a disconnection of the relation between labour and income i.e. the cost of labour.
- BI evens out differences of prosperity level between nations and regions on the costs of labour. It so functions as a kind of an **exchange rate**.
- Then wages are the price of labour an entrepreneur wants to pay and a labourer is willing to accept, because his subsistence level will be covered by BI.
- Then markets can function more decently and **perversity disappears**.
- BI could provide protection to national economies from hyper-globalization, because differences of labour costs will be rubbed out and brought on **an equal level**.
- Besides that, it will make the national economy itself more **competing** by freeing the labour market itself.
- In a way, you might say that BI is the **missing link** in the Bretton Woods dilemma.

Here the Basic Income comes in (2)

- The global market must be the subservient of national/regional markets instead of the other way around.
- Only then sustainable equilibriums can be obtained, either by protection measures or.... by a Basic Income,
- BI is also an instrument for demand management
- BI is an alternative for flexible exchange rates
- BI is an instrument to steer the labour market:
 - If e.g. people does not work enough to uphold their prosperity level, their government could lower the BI in order to stimulate people to work harder, or...
 - The country's parliament might also decide to a lower prosperity level in economic terms because other things in life are more important.

Requirements of a BI

- In this model, BI cannot **be paid** by taxation or premiums as part of labour costs. This would frustrate the effect on **labour costs**, as mentioned. Also implementation would be hard and illogical (black money).
- It can be paid by **all kinds of other taxes**, especially by taxes on consumption, pollution, use of energy or raw materials, all usage that burdens our environment.
- In a way, financing BI is just another way of dividing the national income, in order to improve the functioning of the economic system, **affordability** already is proven in a technical way.
- From a economic perspective, BI should be unconditional, because the labourer has to be free to choose whether he will accept a job or not, and as a consequence **all markets will function better**.