

Universal Basic Income is Not Enough

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Economic possibilities for our grandparents

It is no secret, as Churchill has it, that the blessings of capitalism are not shared. Generally they accrue to those with the greatest market power. Sometimes, however, political economic theory predicts governments will find a way to “share the blessings” when it is worth their while.

Few would argue, for example, that the political-economic settlements of the immediate post-wars years, informed by Keynesian macroeconomic analysis, significantly boosted incomes across the (so-called) developed world. The rich still got richer, of course, but even the poor were better off.

Economic possibilities in the age of automata

However, we now face new challenges (as Keynes himself forecast). As labour productivity increases with automation, fewer workers are needed for any given level of production. In the absence of strong unions, workers lose political-economic power. Economic theory suggests this will facilitate market forces inexorably, pushing down terms and conditions of employment, and giving rise to precarity and in-work poverty. In terms of simple economics, the market clearing “wage” (that is, the terms and conditions of employment which will, in the long-run, equalise the demand and the supply of labour) is below that which will allow the marginal worker to subsist.

While the government might respond by imposing minimum wage legislation, such interference in the labour market is likely to reduce employment, other things being equal. Further, any such intervention will only benefit those who are in full-time employment. It will not benefit, for example, the self-employed. Neither will minimum wages be of much help to the quarter of the labour force who have no employment.

Neither can progressive governments simply boost demand to ensure (reasonably) full employment at a (close to) living wage. Ecological constraints imply we can no longer rely on (so-called) growth arising from the continued exploitation of irreplaceable resources such as fossil fuel and by squeezing other flora and fauna out of the food chain.

Universal Basic Income

Many would argue that the solution to this conundrum is a so-called “Universal Basic Income” which might make up the difference between the market clearing wage and the living wage. However, political-economic theory suggests this approach carries within it the seeds of its own demise.

Recall that an increasing proportion of the UK – for example, housing, railways, water, gas, electricity and health services, – is owned by, and (according to economic theory) operated for the benefit of, globalised capital. If the government simply writes out a blank cheque and offers to pay the difference between what people earn and what they need to subsist, market forces may simply compensate by increasing the cost of living or reducing wages.

Now, there will be those who suggest appropriate legislation will keep utilities prices, for example, at a reasonable level. However, not only is there little evidence of the sufficiency of such policy, it amounts to yet more interference in the market.

There is another way: If people cannot afford to subsist, simply to make it less expensive to live. This can be done through effective public competition in the market, as we show with a few brief examples.

Effective competition

Consider the lovely city of Vienna. The people who do the work on which the city relies (teachers, nurses etc.) can afford to live, thrive and survive by the simple expedient of the Viennese having a sufficiency of public and publicly subsidised homes available for rent.

Consider again, the NHS, an integral part of one of the world's best health services. The NHS is so efficient that it is cheaper for Jo and Sam average to fund the NHS through taxes and have private medical insurance on top than it would be simply to have private health cover in a USA style system.

Consider thirdly, New Zealand, where the public owns banks – or at least, a bank. “Kiwibank” was opened, at least in part, in response to public concern over the high cost of private sector banks. Kiwibank's opening addressed the perceived lack of effective competition in the sector and has been linked with improving customer satisfaction across the board.

In short, perhaps the easiest way to regulate markets is for the public sector to provide effective competition and let the market do the rest. This is not socialism, as the private sector still exists. No one is forced, for example, to go to the NHS, it is just that the NHS keeps the private sector efficient (and vice versa).

Markets in the public interest

Free-market economists have long known that, left to itself, the market concentrates power into fewer and fewer hands. No less a free-marketeer than Milton Friedman argued a major role of government is to resist this: “the citizens would be protected against the state by the existence of a private market; and against one another by the preservation of competition.”

This is not to say, of course, that there might not still be a need for a Universal Basic Income. However, alongside of this, let us try to reduce Universal Basic Costs through efficient public provision.