Basic income & full output policy

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Abstract:

The following paper summarizes the advantages of a full output macroeconomic policy target. In doing so, it suggests limitations of the familiar full employment target, both in responding to crisis, and maximizing the economy's performance in normal times.

Calibrated Basic Income (CBI)[1] is proposed as the centerpiece instrument of a full output policy suite. CBI would allow monetary and/or fiscal authorities to directly lift aggregate consumer spending to match whatever level of production can be sustained by the economy's real capacity. If capacity grows, the basic income rises to activate it. If capacity shrinks, the basic income may lower, to prevent inflation and preserve real purchasing power.

During an economic crisis, full employment policymakers are typically expected to increase benefits, subsidies, and stimulus on a temporary basis, to make up for the loss of jobs and wages. From the full output perspective, such a response is only *possible* because we are not *normally* operating the economy at its full spending potential. A calibrated basic income corrects this oversight.

Prior to and during a crisis, supplementary "hibernation" policy can endeavor to prevent or minimize necessary basic income reductions, and allow policymakers to select which portions of the economy they wish to remain adaptive to exogenous supply & demand shocks, and which portions they wish to preserve in their pre-crisis state.

CBI can be thought of as a fiscal alternative to existing monetary policy. It would enhance traditional inflation rate targeting, while delivering the highest achievable standard of living for consumers-- throughout a crisis, and indefinitely. The only disadvantage of such a policy is that it requires a reexamination of conventional monetary/fiscal objectives.

[1] A novel policy concept by theorist Alex Howlett which allows for full output targeting.

Paradigm comparison

FULL EMPLOYMENT		------>	FULL OUTPUT	
TARGETS			**TARGETS**	
1. inflation rate	Price stability; ~2% inflation in CPI.		1. inflation rate	Price stability; ~2% inflation in CPI.
2. employment	Full employment; maximum level of employment allowed by price stability.		2. output	Full output; maximum level of consumer purchases allowed by price stability.
INSTRUMENTS			**INSTRUMENTS**	
1. monetary policy • open market operations 2. fiscal policy • state spending	New money enters the economy in the form of loans to businesses, at rates determined by central bank policy. Cheaper loans sustain less profitable businesses, who hire more workers. The economy is grown by expanding the labor market. Consumer income is dependent on wage growth.		1. fiscal policy • basic income • state spending 2. monetary policy • open market operations	New money is spent into the economy by consumers. Basic income serves as both an **instrument** and as a **target**. Fiscal policy takes on a greater share of fiscal space; monetary policy is tightened, to assume a secondary role. Profitable businesses are grown via consumer spending, not cheaper debt.
INDICATORS			**INDICATORS**	
1. productivity			1. productivity	
2. output			2. interest rates	
3. interest rates			3. employment	Reduces to optimal level for best output.
4. wages	Nominally an indicator, but chronically inadequate to bring consumer demand to its highest sustainable level.		4. wages	No longer a relevant macro indicator. Markets can determine wages at whatever level is requried to attract workers.

Policy suite

FULL OUTPUT

- **CALIBRATED BASIC INCOME**
  consumer subsidy calibrated to productive capacity; erases poverty, achieves full output
- **MONETARY POLICY**
  credit stimulus tightened around the CBI; allows for a higher & more stable basic income
- **PRODUCTION SUBSIDIES**
  incentivize use of particular resources
- **TAXES**
  conserve use of particular resources; steer expanded consumption within ecological or resource constraints

HIBERNATION

- **COLD CAPACITY**
  surplus factories built prior to crisis; prepares essential supply for future strain
- **QUOTAS**
  per-customer item restrictions to mitigate panic-buying and prevent shortages
- **HIBERNATION SUBSIDIES**
  fixed cost subsidies to preserve non-essential businesses during crisis
- **BOND DRIVES**
  reward voluntary savings, to preserve higher UBI spending for those who need it

1. FULL OUTPUT OVERVIEW

Policymakers under a full output mandate have the simple, practical target of raising the basic income as high as possible, to ensure maximum-sustainable distribution of whatever the economy has the capacity to produce.

A productive and growing economy continually generates more fiscal space[2] tomorrow than it has today; full output is a moving target. Nevertheless, at any given point in time, there is a finite amount of spending the economy can sustain without exceeding constraints. Full output policy simply ensures we are not wasting any economic potential, by automatically converting otherwise unused fiscal space directly into consumer spending. We use a variable basic income instrument to **calibrate** aggregate consumer spending to productive capacity, in order to maintain stability in the general price level and preserve real purchasing power.[3]

Monetary policy retains its traditional functions during the transition to a full output paradigm. So long as monetary authorities observe their existing mandate for stable prices, a fiscal mandate to increase basic income to its maximum calibration point will trigger the appropriate monetary tightening, to make room for the increased fiscal support.

While transitioning to full output, it will be desirable to trade monetary (credit) stimulus for a higher basic income. Current monetary policy uses cheaper debt to ease selection pressures on businesses, to create more wage-payers and achieve higher employment. Consumers, for their part, are benefited only indirectly via wages. This is a problem, because the total spending allowed by aggregate wages will always be insufficient to fully activate the consumer economy.

Full output monetary & fiscal policy would tighten selection pressures on businesses, but simultaneously make available more consumer spending for businesses to capitalize on. This ensures a more productive, more profitable, less indebted private sector, by maxing out the most important variable: **consumer incomes**. Wages & employment can become passive indicators, and do not have to be considered targets for macro policymakers. They can rise or fall to whatever level markets require to maintain best output, and low and stable inflation.

The basic income calibration will then serve as a more optimal reference point when judging the merits of tax or regulatory policy. Efficient policy will allow the calibration point of the basic income to increase. Inefficient policy will have the opposite effect.

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[2] “Fiscal space” here refers to all spending potential available to all actors in an economy. Fiscal space does not have to be defined strictly in reference to a government.

[3] This model presumes an Income Theory of Money (ITM) view of the causes of inflation, as opposed to a Quantity Theory of Money view. In practice, central banks already target aggregate spending flows, not aggregate quantities of money, which lends credence to the ITM view and to the full output proposal.

2. HIBERNATION OVERVIEW

Full output policymakers will always have to weigh the trade-off between a higher basic income, and all other public sector spending. These considerations become more acute when preparing for or responding to exogenous shocks to the economy such as an exposure-risk crisis. How much prosperity must we deny consumers in the present, to prepare for possible but infrequent future emergencies?

While a CBI maximizes economic performance for consumers around present conditions, sudden demand spikes and supply shocks caused by crisis may force responsible policymakers to reduce the basic income in order to maintain calibration. Discretionary “hibernation” policy can be used prior to and during a crisis, to ameliorate this problem. Possible strategies include **A)** calibrating the basic income below its maximum potential in normal times, to reduce shocks, **B)** targeting bond drives to the general population, to encourage voluntary savings (preserving more basic income for those who need it), and **C)** using fiscal policy to invest ahead of time in cold capacity*,* i.e. surplus production capability.

Cold capacity would see investment in idle factories, maintained and periodically updated, but kept dormant until needed. When a crisis occurs, the relevant cold sector is activated into full production. The goods in question (e.g. emergency supplies) may then either be distributed directly by the state, or supplement existing stocks of private sector firms-- whichever is deemed more expedient. In practical effect, cold capacity sacrifices some level of basic income in normal times, to prevent a more dramatic reduction of basic income during a crisis.

Alongside CBI, the sparing use of bond drives, subsidies, quotas, cold capacity, and resource-conserving taxation should be sufficient to guide a crisis-stricken economy into an optimal state of hibernation. A properly hibernated economy-- although experiencing a reduced level and composition of output-- is still delivering to every consumer the maximum benefit possible, within whatever constraints monetary authorities have pledged to observe.

Today, many Universal Basic Income (UBI) advocates promote a fixed level of UBI, sufficient to afford poor citizens an estimation of basic needs-- essentially, an alternative to welfare. Full output rather conceives of basic income as an important, missing piece of economic infrastructure, which allows policymakers to continuously keep consumer spending at its optimal level. Like wages, profits, businesses, and monetary policy, basic income is a fundamental part of the emergent phenomenon of the economy, one which we simply have yet to implement.

An arbitrarily low basic income provides no economic advantages to businesses, consumers, workers, or governments, irrespective of other political or social goals. It does not make sense to operate an economy below its productive potential.

MORE INFORMATION:

Is there a natural rate of basic income?
https://www.youtube.com/watch?v=lTwim8TK_cg

Introduction to Consumer Monetary Theory (CMT):
https://medium.com/@alexhowlett/introduction-to-consumer-monetary-theory-78905b0606ca

Project Greshm homepage:
https://www.greshm.org/

Long-form interviews on CMT, full output, and basic income:
https://www.youtube.com/playlist?list=PLTe29Z9oSRp4WFBanS0aG5gGAB-k7-xbF

Academic roots of CMT / commentary on Perry Mehrling's Money & Banking course:
https://www.reddit.com/r/cmt_economics/comments/h0dito/money_and_banking_summer_2020/pdf

Other work by the author:
www.derekvangorder.com/essays