

# On Funding a Basic Income by issuing New Money

Livingrant Paper #3 September 2017 [www.livingrant.ca](http://www.livingrant.ca) please circulate widely

In developing any coherent model of a Basic Income, it is very important to have worked out how it should be financed. To do this you have to develop a sound economic understanding. This is not so much about having to learn anything new as in discarding ideas which have no basis but are pervasive. This requires some critical thinking skills.

## the eternal sorrow

As someone who has advocated for a BI over many years, I know that the financing aspect of it is very hard to talk about without getting tangled up with flakey economic ideas. I think there are more flakey ideas about money than any other topic except food.

This essay is not about trying to refute all these flakey ideas or to be a primer in real economics. It is focussed on the one flakey economic idea which BI advocates will most need to deal with. That is, that you could fund a BI or even all government functions simply by issuing new money.

This is the eternal sorrow of advocating for an income guarantee. I have been doing such advocating for over forty years. Almost every time you try to hold a forum on it, the 'funny money' people show up.

Monetary schemes really are not part of the discussion of BI. Yet when I have encountered these types, they have always tried to link their hobby horse with a BI. They insisted they were proponents of a BI, or whatever we were calling it back then, but knew nothing about it.

They had no idea of the history of the BI concept, or the various models for implementation, or the object of a BI. They just wanted to obsess about their monetary scheme. I couple of times I was worried that Mister Funny Money was going to mess his pants if he could not get me to see this brilliant idea.

Sometimes people who are serious BI proponents get caught up in this nonsense. Most of these monetary schemes are based on a set of half truths rather than straight lies. Thus they can be very persuasive to people with a limited economic understanding.

I detest 'funny money' theories and resent them because it makes it harder to get listened to when trying to talk about BI. Especially when I lived in Alberta, people immediately associated BI with these kinds of ideas and rejected it because of that. I would get an eye rolling, "oh, here is this Social Credit

"Funny Money" nonsense again" response.

## some history

The Social Credit party in Alberta in the depression era inspired the term "funny money". This shameful history is illustrative of the destructiveness of all quack monetary schemes. It is offensive that some official publications of UBI organizations cite 'Social Credit' and the Aberhart government in Alberta as examples of early attempts to implement a form of guaranteed income.

Considering the academic backgrounds of so many UBI advocates, it is puzzling as to why they cannot engage in some historical research. The Social Credit idea was conceived in England by Major Douglas. He was another of a long history of charlatans who discovered a way to make money by promoting a monetary panacea designed to sound brilliant to know-nothings, and to get them to send money to their institutions, usually little more than a mailbox.

Douglas was also a leader of the powerful green shirt movement in England at that time. This was a branch of the fascist movement; black shirts in Italy, Brown shirts in Germany. He was surprised when a 'Social Credit' government came to power in the Canadian province of Alberta and asked him to send 'experts' to set up his 'system' there.

However, it eventually became clear that there were no 'experts' who could explain how Social Credit actually worked. Yet this unfortunate historic accident did allow a far right political party to consolidate itself in power in Alberta. It stayed there for 36 years, with dire effects on the subsequent evolution of the province.

The Aberhart government issued the infamous 'funny money'. These were certificates with coupons to be clipped and spent within a set time. Since the government would not accept them as payment for taxes, no one would accept them as payment for anything else.

The federal government began a law suit against the province for impinging its sole authority to issue the currency. Premier Aberhart shelved his Social Credit program. The depression in Alberta was finally ended the same way as everywhere else; when the world war led to taxation of the large amounts of real money which the wealthy were sitting on because they could not make a big enough return.

## closed circuit

The moral of this story is that the idea of running government programs by simply issuing new money is a scam; always! Sometimes it gets its power from the idea that taxes and government are an evil. Faced with the dilemma of having to have at least some money with which to run things, adherents of this dogma often adhere to one or more of these 'funny money' schemes.

For other funny money people, it is the idea that the rich are too powerful, we can not make them pay to fund social programming, we have to go around them somehow. Unfortunately, if there really was a way to create a new revenue stream large enough to run something like a BI, you can be sure the wealthy would have expropriated it for themselves.

Yet if there is anything which should be universally understood by now, given the 500 years of history and experience with capitalism, it is that capitalists invest only when they can get the large profits that can come only from monopolies. The wealthy class, what is now being called "The One Percent", can just sit on their money and do not need to invest in anything productive.

Our present economic problem comes from corporate and individual wealth holders sitting on huge piles of 'dead money'. A BI funded by a tax on unjustified concentration of wealth would be a perfect way to get this money back into circulation and get a real economy going again.

It can be done. Many countries are doing it and fending off attacks on civil society by wealthy and corporate interests. These are usually the countries with the strongest economies, simply because of doing this.

Thus, the idea of funding a BI by issuing new currency ends where it began; with the unwillingness to challenge the wealthy classes and their misrule of the country.

## points to pick

Nonetheless, proponents of "just issuing new money" do have some points which could be responded to. They are not pure moonshine, but come from misunderstandings of economic principles. They contradict conventional economics, which is another set of beliefs not grounded in reality.

For example, issuing new money will not necessarily cause inflation, at least not immediately. It depends on what the people who get the money do with it. Weimar or Latin American style hyperinflation happens when people have no confidence in the currency and exchange it as fast as they can for more stable money.

Mister Funny Money will say that new money does not

cause inflation because there is so much 'slack' in the economy; so much unused productive capacity. This is a variant of the "Phillips Curve" fallacy; that there is a relationship between unemployment and inflation. There isn't.

An obvious question is, what would happen once all this slack in the economy has been taken up? But a better question would be, where does all this new money go to after it has been issued and spent? It does not just go "poof" after somebody has used it to buy groceries or a new pair of shoes.

This money would eventually find its way to the capital reserve funds of corporations and foundations, there to be sat on or used destructively in speculative investments. The only way to get these masses of 'dead money' moving again is with taxes on wealth and the wealthy. If this were done in Canada, there would be plenty of money to finance a BI.

Funding government program expenses by running the mint overtime would also cause a problem similar to the "Resource Curse". Money for some people would become too easy to get. Without a basic discipline over the economy, so that a unit of currency must be made before it is spent, people lose track of the real cost of things.

One final point; while issuing new currency just to run programs, meaning day to day living expenses and operating costs for organizations, is bad, issuing new money to fund capital projects is good. It will not cause economic distortions because it is creating new wealth. Government should not borrow to fund capital projects.

To conclude; we know well how to fund a BI of the size needed. It does not involve doing anything that is not known and successfully done. There is no need to invent anything or to try anything that has never been shown to work.

It is hard enough to get people to consider a concept such as a BI, which has never really been done. It is offensive to sincere BI advocates to try to load onto it concepts which are plainly false and failed, and which also have really nothing to do with a BI.

