Work and a Living Income for All

The MMT Job Guarantee (with particular reference to Basic Income)

Notes to support the Politics in the Pub talk given by Alan Hutchison, 14 December 2016.

This is a follow-up to the Politics in the Pub talk *We pay for it by spending the money*. In this piece I will focus on the Job Guarantee component of Modern Monetary Theory and compare it to Universal Basic Income. But before I start, let's rehearse some of the economic facts that underpin MMT.

The Theory describes how the economy of a currency-issuing nation like the UK works and it isn't anything like the myths peddled by the neoliberals. MMT shows us that:

- the UK government 'budget' is nothing like a household budget because, unlike a household, the government gets back £90 in tax for every £100 it spends and, unlike a household, the government issues the currency;[1]
- the government can and *should* run deficits indefinitely, for the thing we call the deficit is just an accounting representation of the savings in the non-government sector;[2]
- the operational reality of government spending is that it precedes taxation – the government spends newly created money into the economy and this generates an equal amount of tax and savings;[3]
- the government can buy up all the unused real resources in the economy – people and stuff – without risking inflation;
- and all this means the government can always provide meaningful work, paying around £19,500, for anyone that wants it.

Assuming that I was successful in getting these points across, then those of you who attended the first talk will have spent the last few weeks shouting at the telly every time someone:

- gets all hot and bothered about 'taxpayers' money' and how a shortage of it will cause a 'black hole' to appear in the government budget – because there is no such thing as taxpayers' money and there can never be a hole, black or otherwise, in the UK public finances;
- says that the NHS can be saved only if there is a 'strong economy' to pay for it – because the government can always afford to pay for a first class NHS, provided the necessary real resources are available (even if that means spending an extra £350 million per week);[4 5]
- claims that there is an 'unsustainable' level of government sector debt – because the so-called debt is just an accumulation of savings in the non-government sector;[6]
- makes any attempt at economic forecasting more than one week ahead – because all such forecasts are rubbish and only ever exist to support a political agenda.[7]

At the very core of MMT sits the Job Guarantee and it's there because it does two things. Firstly, it provides a real resource constraint on government spending and in doing so acts as a self-balancing inflation control mechanism. Secondly, it provides work that furthers the public purpose and a Living Income to anyone who wants it. The notes from the last talk will provide you with all the details.

But what about a Basic Income? Why can't the government just provide a guaranteed income to every citizen instead of the Job Guarantee? Or perhaps in addition to the Job Guarantee?

Well, no matter how it is funded and no matter how the administration believes the economy works, the provision of a Universal Basic Income creates some serious macroeconomic problems. If the government believes that there should be a balanced budget and that taxes fund spending, then any Basic Income proposal is going to require a much higher level of taxation. A proposal for Basic Income in the UK from 2013, one that takes a mainstream view of economics, showed that supporting an annual payment of £10,000 to every person of working age (but only £15,000 for couples and much less for pensioners, so it's hardly universal) would mean abolishing most tax-free personal allowances and raising the basic rate of tax to 50% (which rises progressively to 70% for earnings above £150,000).[8] It's a recipe for generating considerable resentment among the people who work – because they will see their 'hard-earned money' funding those who chose not to work. No one is going to vote for it.

Supporters of Basic Income who have looked briefly at MMT often see deficit spending as the answer to funding universal payments. This is a misreading of the theory, for nowhere in MMT does it say that the government can spend whatever it wants without risking inflation. MMT doesn't make inflation go away, but it does show how the government can spend much more into the economy without causing inflation. It shows that with a Job Guarantee in place the government can buy up unused resources – the unemployed and the underemployed – and provide them with meaningful work. The net result of the increased activity generated by the Job Guarantee is that output goes up and the economy can handle the extra money that government spends into it.[9] Moreover, the Job Guarantee acts as an auto-stabiliser, with more government spending when there is an economic downturn and less when there is a boom. It's all handled automatically by the demand for Job Guarantee Jobs. Basic Income can never act as an auto-stabiliser. In fact, it destroys the only auto-stabiliser that we already have: Unemployment Benefit (or whatever Kafkaesque name it has these days). It may not be the most effective stabiliser, but deliberately ditching is it madness.

The amount the government spends into the economy to support Basic Income is huge, constant and takes no account of the state of the economy. It means that the government will need to take other steps to reduce the risk of inflation in the lead up to a high point in the business cycle. In the absence of an automatic mechanism for doing this, the government will have to manage the economy manually and this will mean cutting spending elsewhere or raising taxes.[10] The trouble with this scenario is that no government has ever been very good at implementing cuts or increasing taxes and there will always be special pleading from powerful interests that result in the less powerful shouldering the biggest burden.

There's another group of people who misunderstand the spending capabilities of government, but this lot are ideologically opposed to both MMT and Basic Income. They are the sort who say 'Well, if we can just print as much money as we want then why doesn't the government give everyone a million pounds?' They suffer from a neurotic belief that deficit spending somehow 'debases' the currency and that the only way rid ourselves of the evil of 'worthless paper money' is to return to the gold standard. They are convinced that as soon as a socialist administration gets its hands on the printing presses we will be well on the way to the sort of inflationary crisis that enveloped the Weimar Republic and Zimbabwe.[11]

It's all nonsense, of course, but they do have a point: we probably do need to provide the public with a meaningful concept of the value of money. The MMT view is that taxes drive currency, that we will accept the state's money in payment for labour, goods and services because we know that the state, at some point, is going to make demands for taxes and these can only be settled using state-issued currency. We go to jail if we don't hold sufficient currency to pay our taxes. To most people, however, that's all a bit too abstract. Another way of looking at it is to consider the Job Guarantee as a mechanism for setting the base value of money. The maximum number of labour hours you can buy for a given amount of money is effectively set by the Job Guarantee wage – £100 will get you ten hours worth of labour.

Looking at it this way changes the focus from government spending to government buying. If the Job Guarantee is to operate effectively as an auto-stabiliser then the government has to buy unused resources and deploy them for the public good. It's not just a case of the government pumping money into the economy – it has to get something in return and there has to be increased output. And that deals with the flippant suggestion that the government just gives everyone a million pounds. It can't do that because most people don't have a million pounds worth of labour or goods to give the government in return.

How does Basic Income stack up when you look at the value of the currency in this way? Not very well, it has to be said. That's because the government doesn't get anything in return for the money it spends – it's not actually buying anything and it can't direct the spending for the public good. Under the Job Guarantee the government gets ten hours of work (with which it can further the public purpose) for every £100 it spends and that sets the value of the currency. For every £100 the government spends on Basic Income it gets nothing in return and that nothing becomes the value of the currency.[12]

When we start to think of the value of money in terms of Job Guarantee labour and put that together with the other insights that MMT provides (we don't need the rich person's tax money; trickle-down theory is bunkum) there can be no excuses when we question the growing income inequality that blights the modern world. If £10 buys one hour of labour from someone working on the Job Guarantee then why does it buy only 13 seconds of labour from the CEO of a large UK firm? To put it another way, why does a person working for the public purpose get £75 for a day's work, but a CEO gets £21,000 for a day's work? Yes, that's twenty-one thousand pounds *per day*, five days a week.[13]

Once we have a society where money is valued in terms of work which furthers the public purpose, where everyone has guaranteed financial security and nobody needs to save for retirement, there will be a shift away from the belief that we must always be striving to earn more. Many of us will be happy living on a Living Income and the wage differentials that classify different categories of work will start to disappear. And ultimately the concept of the Job Guarantee as a safety net, as some sort of backstop for the less fortunate, will disappear.[14]

We also need to consider the employers' response to Basic Income. The likelihood is that it will end up being like Working Tax Credits, only on a much bigger scale. This is because the current proposals for Basic Income in the UK are based on payments well below that on which someone can realistically live and pay their rent. Unless the unconditional payments equate to or exceed a Living Income they end up being a subsidy to business and will force down pay levels – just like Working Tax Credits do now. Employers will factor Basic Income into their wage offers and everyone will end up still having to work a full week. The employers get free labour up to the value of the Basic Income and the employees gain nothing.

The most recent proposal for Basic Income in the UK was published by Compass earlier this year and suggests a *maximum* payment of £71 per week.[15] Clearly, this is not enough to live on when housing costs are considered and we will all have to do paid work to get by. Employers will simply lower their wage offers by £71 per week and we, the employees, will all be back to where we started. This is exactly what happened when Working Tax Credits were introduced, as clearly demonstrated by the changes to the percentage of workers paid the minimum wage. After the minimum wage was introduced in 1998 the percentage of workers paid at or near the minimum wage fell steadily and had halved by 2003. From 2003, when Working Tax Credits were introduced, the percentage paid at or near the minimum wage has climbed steadily and now stands at around six times the 2003 low.[16]

Now, some supporters of Basic Income claim that they could live on £71 per week. With the exception of those who are happy to live in a brushwood shelter up on the moors, there are only two ways that they can do this: either they or their family own a property in which they can live or they expect the state to pay their rent. Those who own a property and desire a Basic Income to obviate the need to work fall into the same category as any other rich or powerful person – they are commandeering resources without regard for others who are less fortunate.

So, the latest UK proposal for Basic Income will still require the state to pay a person's rent if they are unable to pay it themselves. For example, if they don't have a job. All the proposal does is replace Unemployment Benefit with Basic Income and pay it to everyone – including Philip Green and Mike Ashley. The proposal says nothing about how it will create jobs and it says nothing about how the unemployed will be 'managed'. Will the unemployed still be treated as feckless scroungers? I suspect that they will.

The aim of Job Guarantee, on the other hand, is to replace the bulk of a benefits system that has become unfit for purpose. The Job Guarantee will pay a Living Income, not a Basic Income, and by definition this will have to cover reasonable rent or mortgage payments. There will no doubt have to be a transition period and there will be initial problems with regional disparity, but in reasonably short order it will do away with the need for housing benefit. We will move away from a situation where the level of housing benefit available in a particular area effectively sets the rent that buy-to-let landlords expect to be paid – no matter how poor the quality of the accommodation they offer.

Furthermore, the Job Guarantee has the potential to deal with the difference between accommodation costs in the south-east and those in the rest of the country. Anyone who finds themselves struggling to make ends meet in a poorly paid and not particularly satisfying private sector job in the capital will be tempted to move to somewhere else in the country – where they are guaranteed work at a Living Income and will be able to afford a much nicer place to live. The net effect will be to reduce house prices in London and to raise them in Morecambe. Neglected seaside towns get a new lease of life and employers in London are put under pressure to offer better wages.

Why does Basic Income have support among a significant proportion of people on the Left? Why are those who care about social justice, and want to roll back the changes that have been forced on us by neoliberalism, drawn to it? The public answer is that we will need Basic Income because the automation revolution is going to take away our jobs at some unspecified time in the future. But I suspect there is also a private concern, one which seems to be much more in the here and now: it's a dread of work in the private sector, a loathing of meaningless drudgery. The attraction to Basic Income, robots or no robots, derives from this train of thought:

- I am a good person and I want to do purposeful work, but I won't be able to find it in the private sector and there will be far fewer purposeful jobs to be had in the public sector;
- I may not be able to find a purposeful job, but I am not going sit around all day eating cakes and watching Cash in the Attic;
- I will fill my time with volunteer community work and I will be contributing to society, but that won't provide me with the money I need in order to live;
- I will need Basic Income in order to be a good person.

All that can be replaced with a single thought: 'I will need the Job Guarantee in order to be a good person'. That's because the Job Guarantee will create in the public sector all the purposeful jobs that we demand. When there is a Job Guarantee in place you will get paid for your volunteering.

Furthermore, the Job Guarantee does away with one of the fundamental issues with volunteering, which is that it suffers from exactly the same matching problem that employment does. Unemployment exists because there is a mismatch between the vacancies that employers want to fill and the talents, abilities and desires of the people who want jobs. Volunteering is no different – just because someone wants to do good doesn't mean that they are good at doing it. Volunteering has to be organised and someone has to ensure there is a match between what people can do and what needs to be done. The Job Guarantee ensures that the matching gets done, but unlike traditional employment it ensures that a job is found that matches the person. If one doesn't exist then it's up to the administrators to make sure that a job is created to suit the person. This may seem to an impossible task, but given the huge number of activities that can further the public purpose it is easily achievable.

Let's look at automation and the effects it will have on jobs. It's certainly a topic that is currently receiving a lot of attention in the media, much of it from commentators on the Left. The argument is that automation is increasing at an alarming and accelerating pace and a significant number of jobs will disappear. However, it's an argument that is built on a false premise: that the government can do nothing about it. And it's not surprising that we are fed this view of automation – because, paradoxically, it strengthens the capitalists' position. It perpetuates the myth that we have to rely on the 'wealth creators' – all those 'entrepreneurs' and 'innovators' – to provide us with jobs.

MMT shows us that the government can always do something about unemployment – it can always provide purposeful work and a Living Income to anyone who wants it. Furthermore, the Job Guarantee will hasten automation and we should welcome this rather than fear it. Automation will increase because the Job Guarantee will force the private sector to pay higher wages and any company that wants to stay competitive will have to increase productivity. There are only two ways that a company can achieve greater productivity: invest in training or invest in automation.[17] If it invests in training then the workers will become more skilled, have more satisfying jobs and get more pay. If the company invests in automation and this leads to redundancies, then anyone who is laid off is guaranteed a Living Income by the state – no one will be forced to survive on subsistence benefits.

The Job Guarantee will maintain demand (following a significant increase immediately after it is rolled out) and the private sector (which is nowhere near full output capacity) will want to satisfy that demand. That means there's every possibility that the Job Guarantee will *increase* the number of jobs in the private sector. When the Job Guarantee causes a rise in productivity and a resulting rise in National Income, the government will be able to increase the Job Guarantee wage and that, by way of a virtuous circle centred around training and automation, further increases productivity and National Income. At some point we will find that, for the first time in decades, the economy has reached full capacity and prosperity has been secured for all. So, no, automation isn't necessarily a bad thing.

Automation also deals with the question: 'Who is going to clean our toilets and who is going to harvest our crops?' It's a question that the Japanese answered a long time ago: they developed machines to carry out as much of the menial work as possible. We, on the other hand, rely on a servant class of cheap labour, much of it sourced from abroad, to carry out these tasks. It's the availability of an inexpensive and compliant workforce that discourages employers from investing in machinery. It results in poorly paid agricultural workers doing backbreaking work harvesting cabbages because the employers see no financial benefit in buying readily available machines to do the work. And, no, that won't put up the price of cabbages – it just means that the employers are going to have to innovate to continue making profits.[18]

Perhaps the most worrying consequence of the refusal to automate is that it provides source material for some dodgy ideas concerning class and culture. On the one hand, the UK working class are vilified for being lazy, for not wanting to take poorly paid and thoroughly unpleasant jobs. On the other, there is a sense that this sort of work is suited to foreigners, a sense that they are simpler folk and are quite happy – grateful, even – to do the difficult and dirty work.

Finally, there's the politics of it all. Proponents of Basic Income are very good at putting forward a strong philosophical case, but they ignore the reality of getting people to vote for it. It's a nice little single issue campaign with which many people feel a connection, but it doesn't deal with the difficult problems. In particular, class is the one aspect that is always missing from the discourse. Class may not get a mention, but a quick glance at the photographs that illustrate the Compass proposal shows that it is quite clearly aimed at those with a large stock of social capital and implies that we are all going to fill our new-found leisure time with painting, pottery and bee-keeping. What about the working classes? I don't see a strong call from them for Basic Income, as anyone who has seen *I, Daniel Blake* will attest. The working classes want jobs and Basic Income does nothing to provide them. Just like it does nothing about zero hours contracts or the 'gig' economy – and it will probably make those problems worse.

A progressive movement that is able to convey the basic concepts of MMT to the electorate, stressing the central role played by the Job Guarantee, will be in a strong position to draw support from across the political spectrum.[19] This isn't just because it is unveiling a new economic perspective, but because it is also offering hope to the people who have suffered most at the hands of neoliberalism. That hope is something all parties of the Left claim to provide, but they can only ever offer slightly diluted versions of the injustices served up by the Right. That's because the Left – as it is currently constituted – is never able to answer the simple question: 'How are you going to pay for it?' And it's because the Left has become far too concerned with the needs of the high-achieving and the affluent, all at the expense of the poor and the dispossessed.

There isn't an easy task ahead, but there is every possibility that a widespread understanding of MMT and the Job Guarantee will lead to a new consensus – one to rival that which was achieved in 1945. Only this time there is the chance that we will slay *all* the Giants that Beveridge identified as blocking the path to social justice.[20] ■

Notes

1 This certainly applies to the UK and other countries that import more than they export. It doesn't *necessarily* apply to countries with a strong export sector, particularly countries which have significant surplus energy resources – Norway being the oft-quoted example. It also doesn't apply to Eurozone countries because they don't issue their own currency. The euro is a zero-sum game where, by definition, there have to be losers if there are going to be any winners.

Let's look at one of the losing countries and see how different their government's policy options are compared to that of the UK government. Suppose a rich person in Greece buys a Mercedes for €50,000. The Greek economy has lost €50,000 and this is balanced by an equal gain in the German economy. If the Germans spend the extra euros that they now have back into the Eurozone economy then the chances are that most of them won't find their way back to Greece. However, the Germans tend not to do that; they tend to save the money they get from exporting their luxury cars.

How does the Greek government fill the gap and prevent their economy from contracting? Remember, Greece doesn't issue its own currency – it has to get euros from somewhere else before it can spend them. This means it only has two choices: it can hope that an extra €50,000 will be generated from additional exports or it can borrow €50,000 from a non-Greek entity that holds euros. If the €50,000 had been used to import a tractor then there is a possibility that additional exports would be forthcoming. Unfortunately for Greece, upmarket cars tend don't tend to generate export revenue and in the absence of increased exports the Greek government has to borrow. More often than not it will borrow from Germany. The €50,000 Greek 'deficit' caused by German savings ends up being offset by borrowing the money back from Germany.

It's clear that Germany does quite well out of this arrangement. Not only does it make a profit from selling the Mercedes to Greece, but it makes a further profit by lending the payment back to the Greek government. And there's another benefit afforded to Germany by this situation: the poorer economies in the Eurozone, such as Greece, keep the value of the euro relatively low and this makes German exports to the rest of the world much more competitive than they would be if Germany had its own currency.

If a rich person in Scotland buys the same Mercedes for £45,000 then the situation is very different. Just like the Greek case, the Germans tend to save the extra pounds they now have – the pounds form part of the UK non-government sector savings. However, the UK government can do something that Eurozone countries can't do: it just spends an extra £45,000 into the UK economy. It can do that because it issues the currency; it doesn't have to get pounds before it can spend them. The UK government can effortlessly offset the contraction in the UK economy that is caused by German savings. And if the Germans decide to spend the pounds then they can only ever be spent in the UK and our economy gets the pounds 'back'. All this means that you can safely discount as economic illiteracy any analysis that compares the UK economy to the Greek economy.

Notice also that spending on imports in one of the member states of the United Kingdom gets offset by spending from the central government. Most people don't realise that the UK is a currency union with four member states, just like the Eurozone is one with nineteen members. However, unlike the Eurozone, the UK is also a transfer zone. In a transfer zone it is the responsibility of the central government to ensure that funds are spread reasonably evenly across the whole zone. In the UK's case it means that, contrary to popular belief, London isn't sucking up *all* the wealth – the Barnett formula ensures that some of it finds its way back to Scotland, Wales and Northern Ireland. Yes, London probably does get more than its fair share, but it's nothing compared to the Eurozone where there is no mechanism for the euros sucked up by Germany to be spent back into the poorer member states.

2 It's interesting how often the term 'deficit' is paired with the word 'denier'. Variations on the term 'deficit denier' appear 104 times in searchable parliamentary material, with the first occurrence in July 2010 – shortly after the Tories took office [see aluta.uk/wns and aluta.uk/aax].

A lot of thought will have gone into developing the idea that the Left are deficit deniers. It's certainly nicely alliterative and easily remembered, but it's the use of the word *denier* that shows the true skill of the propagandist. Denial conjures up all sorts of negative connotations concerning mental health, together with a subliminal reference to those other deniers: the cranks who reject an overwhelming scientific consensus; the racists with a revisionist view of mid-twentieth century history.

The phrase 'deficit denier' is often deployed in the form of a complex question fallacy, where either a 'Yes' or a 'No' answer is guaranteed to incriminate. The traditional (and starkly misogynistic) example of this technique is 'Sir, have you stopped beating your wife?'. So, when the journalists ask 'Are you a deficit denier, Mr McDonnell?' they are laying a trap. He can't answer 'Yes', but if he answers 'No' it just invites the charge 'See, he's a denier!'.

The only way McDonnell can successfully answer the question is with a lengthy and detailed analysis of just what the 'deficit' is. But such an explanation is rarely allowed by the media, especially when the question is thrown at McDonnell on his doorstep as he is off to catch the bus to work. The complexity of forming a real answer to the question is another winning propagandist technique and has clearly spooked McDonnell (and his advisers) into opting for the easy route: to accept the Tory framing of the economy.

3 Government spending is temporarily removed from the economy by saving and it's useful to think of saving as a form of voluntary taxation. In any given period, 100% of government spending is destroyed by tax and savings.

4 It's worth analysing the ineptitude exhibited by the Leave campaign during the EU referendum debate when it decided to splash the £350 million figure across the side of a big red bus. Looking at the issue from an MMT perspective not only lifts the lid on the propaganda that

dominated both sides of the campaign, but also leads to us to examine the political philosophy at the heart of the European Union.

In claiming that £350 million is somehow 'lost' to the UK economy each week the strategists at the Leave campaign showed that they didn't understand how the spending gets spent. The counter claim from the Remain campaign was that a proportion of that money, around £230 million, is either spent by the EU in the UK or comes back as part of the UK's rebate – so the net cost to the UK is only £120 million per week. However, this isn't true either and it shows that the Remain campaign strategists were equally clueless.

The reality is that the amount the UK 'gets back' is entirely independent of the rebate or any decisions that the EU institutions may make about spending the money here. When thinking about money crossing national boundaries we need to think about economies in terms of currency zones and when we do this we see that that the Sterling area always gets back exactly whatever it 'sends' to the EU. So, if the bill for EU membership is £350 million per week, then the Sterling economy will always get back £350 million per week. In fact, the money never leaves the Sterling area. This may sound counter-intuitive and to see how it works we need to understand how currencies have worked since 1971, when they stopped being convertible into gold.

The EU is paid the equivalent of £350 million per week by the UK and the EU institutions do, indeed, spend some of that money here. For example, half of the £997,000 bill for the new paving that was recently installed in Lancaster city centre was paid by the EU – it was paid by the EU with pounds created by the UK government. What happens if the EU wants to improve the paving in a Romanian town? Can it use the pounds that the UK has paid into the EU? No, not directly. That's because you can't spend pounds in Romania; you can only spend Romanian lei.

The EU has to exchange the pounds for lei and the entity that provides them can do one of three things with the pounds it now has: it can save them, exchange them or spend them. If it chooses to save them then they form part of the thing that we call the 'deficit' – they are part of the savings of the non-government sector (remember, the non-government sector includes foreign entities). If it chooses to exchange them then the next entity in the chain has the same three choices. If it chooses to spend the pounds then there is only one place in the world where it can do so: here. Ultimately, this is what happens to all the pounds that most people think are 'lost' abroad.

When the pounds are eventually spent here they initiate a spending chain and at each link in that chain some tax is likely to be paid – meaning that the government will always get back £90 in tax for every £100 it spends into the EU (and £10 in savings will be created). In other words, the UK government will get back £315 million pounds each week in tax and £35 million in additional savings will be created in the non-government sector.

And because savings are always going to be spent at some point in the future, the reality is that no matter what the UK spends on membership of the European Union all the money eventually makes its way back into the UK domestic economy – to the penny, each and every time. The payment the UK government makes for EU membership is really just a subsidy to the UK domestic economy. The government is buying, albeit indirectly, an extra £350 million worth of British labour and British stuff every week because of our membership of the European Union. How do you think the referendum decision would have been influenced if the electorate had understood this? In whose interest is it for the electorate not have that understanding?

Exactly the same process applies to any UK government spending which appears to 'go abroad', including the foreign aid budget allocated to the Department for International Development. And it's easy to see why we are kept in the dark about the reality of spending on foreign aid: because it suits the neoliberal agenda. On the one hand it provides an excuse for the *Daily Mail* to stir up racial hatred; on the other it creates the illusion of a compassionate government – Cameron called it his greatest legacy – when, in fact, all it's doing is shovelling 0.7% of GDP back into the UK economy. This doesn't mean that the government can spend an unlimited amount of money on foreign aid. The spending ends up here and unless there is there is spare economic capacity to absorb it there is the potential for inflation.

The concern about any government spending abroad should never be about money. We should be concerned only with resources – people and stuff – and we should look both at the 'donor' country and the 'recipient' country when we carry out the analysis. Furthermore, we should study carefully the political reasons that underpin the decisions. For example, the US boasts about the amount of money it spends on food aid, ostensibly to alleviate food insecurity in developing nations. But we never hear much about how the food aid budget is effectively a large subsidy to US farming and agribusiness. Nor do we hear much about how dumping below-cost produce in a developing nation suppresses the local farming economy and prevents the nation from growing its way out of aid dependency.

The decisions made by EU institutions on how to allocate spending to different member states are also, by definition, political. The significant population flows that are driven by the economic disparity between member states occur because of political decisions, often made to suit a neoliberal agenda and without any consideration for the human consequences. For example, in Romania there are around 350,000 children who are deprived of a proper home life because their parents have left to seek work in wealthier EU member states. The children are cared for by older siblings, grandparents or aunts and uncles, but this can never be an acceptable substitute for having their parents at home. The problem has been recognised by *Save the Children* and they have been driven to open seventeen new centres across Romania to provide support for children who can only be described as 'economic orphans' [see aluta.uk/dwe].

We need to question why the EU institutions allow this to happen. We need to ask exactly the same questions of the EU that, now that we understand MMT, we are asking about the UK government. Why are the

EU institutions choosing not to provide employment where it is needed? Why do they rely on population flow as a solution to regional disparity, despite the problems that this can create at *both ends* of the flow. After all, this is the Norman Tebbit get-on-yer-bike solution to the problem and that was roundly rejected by the Left in the 1980s. Now, it may that there are valid reasons – the nature of the dominant currency or restrictions in the treaties, for example – why the EU institutions are prevented from adopting policies that are in the best interests of its citizens. If that is the case, then the question we need to ask is: What is the purpose of the European Union and in whose interest was it set up?

5 In the notes for the last talk I described the economy as complex system of mutual obligations – as a great big reciprocity engine. With an annual budget of around £120 billion and more than 1.5 million employees, the NHS is by far the largest component of that engine [see aluta.uk/rva]. It's the NHS, more than anything else, that powers the UK economy. All that government spending not only furthers the public purpose, but, by way of the further spending chains it creates, ensures that millions more people have jobs to go to. Consequently, we should never think of the NHS in terms of how much it 'costs'. The same goes for the Job Guarantee.

6 Mainstream economists are obsessed with rules and ratios. The most pernicious example of this compulsion was a 2010 paper by US economists Carmen Reinhart and Kenneth Rogoff. They claimed that there was a direct correlation between public debt and growth. They held that when debt reached 60% of GDP a country's growth would decline by 2% and when the ratio hit 90% growth would be halved. The paper was hailed by politicians on the Right, including our chancellor at the time, and used as a justification for austerity all over the world. Osborne used the paper to claim that public debt was the *sole* cause of the financial crisis, that 'Labour had maxed out on the credit card'.

Only, the paper was complete nonsense. It had been published without peer review and a subsequent analysis of their methodology showed that the authors had made several basic spreadsheet errors. None of their arguments stood up. So, the ideologically driven work of a couple of incompetent neoliberal economists who didn't know how to use Excel led to the immiseration of millions of people in the UK. We never got an apology from Osborne [see aluta.uk/tfd].

7 The MMT view of a great deal of economic forecasting is that it bears a striking similarity to astrology or, at best, to pseudo-science. Mainstream economists suffer from physics envy and rely far too much on complicated mathematical models, most of which produce wildly differing results when their starting conditions are modified even slightly. Consequently, it's a simple task to make the models fit any required outcome by tweaking some of the initial parameters. This means that no forecast can ever be considered to be truly independent – and that's just what the politicians want.

For example, let's look at the some of the economic forecasting made during the run-up to the referendum on continued membership of the European Union. In particular, let's examine some of the claims made by the Treasury that were just as disreputable as those involving £350 million and the big red bus. The Treasury forecasting followed a standard two-part strategy designed to bamboozle and scare the public. The first part of the strategy involves picking out of a hat a big, scary number – so big that no one could possibly understand the implications other than that they must be very bad. This was the £30 billion worth of cuts to be included in an Emergency Budget which, so the Treasury claimed, would be necessary immediately after a vote to leave the EU.

The second part of the strategy employs a much smaller number – one which is easier to understand, and preferably one that individuals and families can relate to. This was the assertion that households would be £4,300 worse off each year if the UK were to leave the EU. Most people only saw the headline figure – because the media duly fell into line and made no effort to explain to the electorate the details behind the number or question its validity.

The Treasury arrived at the number by projecting how the UK would be doing in 2030 if it remained in the UK, and comparing it with how the UK would be doing if it left the EU. The Treasury was making economic predictions *fourteen years* into the future and was expecting us to take them seriously. How accurate do you think predictions made in 2002 about today's economy would have been? If it were possible for anyone to make accurate predictions about the economy, even a few months ahead, then they would hold the key to becoming very rich. It's not possible and no one has ever made their millions out of this sort of forecasting.

The government forecast predicted that the economy would still have continued to grow after leaving the EU, but that the total growth by 2030 would be 6% less than it would have been if we had stayed. The margin of error over such a long period will be significantly greater than 6%, so the figure is meaningless. How the Treasury then applied the difference in GDP to arrive at the £4,300 per household figure is particularly devious. It took current GDP and divided it between the number of households in the UK. This appeared to give a current 'average household income' of £68,000. Clearly, most households don't have an annual income of £68,000 and it's interesting that the Treasury doesn't use this figure when setting the benefit cap for households (it is currently set at £23,000, which happens to be the true median household income).

If the UK were to stay in the EU then, according to the Treasury model, GDP would rise by 2030 to the point where the new 'average household income' would be more than £90,000. And if we left the EU it would 6% less and, according to the Treasury way of framing things, households would be £4,300 'worse off'.

Of course, the Treasury wasn't really saying anything of the sort – it just wanted people to think this was the case. The Treasury decided to frame the calculations this way to create a completely false impression in voters' minds, one that would sway the vote in favour of Remain, and Ministers went on television to push the £4,300 figure. They did this without mentioning that it was a prediction fourteen years into the future, or that it was arrived at by dishonestly assigning GDP to households and bore no relation to actual household income. The result was that many people imagined that their household would lose £4,300 pretty much from day one. It's the sort of deception that goes on all the time, because it's a very effective way of manipulating opinion to suit political ends. It explains why we often see figures for the economy as a whole, often the deficit or the national debt, divvied up per person or per household and presented as a meaningful statistic.

8 *Financing the Social State* by Richard Murphy and Howard Reed. Published by the Centre for Labour and Social Studies, April 2013 [see aluta.uk/fka]. To be fair to the authors, they do suggest the possibility of a lower rate of tax of 25% for low earners, but do not specify the threshold below which the it applies and it doesn't seem to be part of their calculations.

9 Output will go up with a Job Guarantee in place and this may seem wrong to some people, particularly those who care about the environment. There seems to be a widely held belief that increased output necessarily means more useless stuff, more tat from China and more of the planet's resources used up. That's not the case, because output means anything on which people can spend their money. So, if the Job Guarantee funds a significant proportion of the staff at the Dukes Theatre then it will be able to put on more productions – plays that the rest of us will pay to see. The ticket price is effectively a tax that pays for the Job Guarantee.

I think that many of us are stuck in the past when we think of output – we think of it in terms of industrial production for export. That was certainly important in the 1960s when the restrictions imposed by the gold standard meant that exports were essential for keeping the economy balanced. That's no longer the case in a modern economy with a modern currency – like the UK, where almost all of our GDP is derived from services.

10 Mainstream economists will say that I haven't considered monetary policy – the setting of interest rates – as a mechanism for controlling the economy. The MMT view is that interest rates are an ineffective policy tool and that the rate should be left to find its natural value – which is zero.

11 A debate about MMT often leads to comparisons with Weimar Germany and Mugabe's Zimbabwe. Paul Krugman has suggested that there needs to be an extension to Godwin's Law to cover this – something along the lines of 'The longer a discussion of economics continues the greater the likelihood of comparison to Weimar Germany or Zimbabwe' [see aluta.uk/hhs]. Strangely, whenever a claim that a particular economic policy leads to inflation there is never any mention of the inflation that occurred in Hungary in 1946 – it was far greater than that in Weimar Germany or Zimbabwe. I suspect this is because there are connotations in the Weimar and Zimbabwe examples that are not present in the Hungarian case.

For Weimar it's that inflation leads to social unrest, the rise of the extreme right and, ultimately, the worst evil the world has ever seen. For Zimbabwe the intention is much the same, only the other way around – the inflation resulted directly from the acts of an evil despot rather than leading to one taking control. In the Zimbabwean case it's also possible that some commentators are making a racist point: 'look what happened when the blacks took over'. Whatever the reason, by citing Weimar and Zimbabwe in relation to MMT the message is clear: deficit spending is evil.

12 Any Marxian economists reading this will say there is nothing new here. Only there is something new: this is a labour theory of value that is specifically concerned with work that furthers the public purpose and the Job Guarantee is the vehicle that transports the concept into the public consciousness.

13 According to the High Pay Centre, the average pay package for a FTSE100 CEO is currently £5.48 million [see aluta.uk/udm].

14 Taking the Dukes as an example again, there is no reason why most of the jobs at the theatre shouldn't be Job Guarantee jobs. It's an organization that benefits from considerable public subsidy and there's no moral reason why some people should get a bigger share of that subsidy than others. There's no intrinsic reason why a director should be paid more than front-of-house staff, an actor more than a stagehand or a set designer more than a cleaner.

This is the sort of debate, a conversation about pay differentials, that the Job Guarantee will initiate. And with a government of the Left pushing that debate in the right direction we will be well on the way to creating a more equal society.

15 *Universal Basic Income: An idea whose time has come?* by Howard Reed and Stewart Lansley. Published by Compass, May 2016 [see aluta.uk/hlz].

16 In 1998, when the minimum wage was introduced, 1% of the workforce were paid within 0.5% of the minimum wage. That fell to 0.5% of the workforce by 2003, when Working Tax credits were introduced, and then rose steadily until it reached to 3% in 2015 [see aluta.uk/zht].

17 Of course, there is an another option: export the jobs to a cheaper economy. The MMT view is that unfettered free trade is a bad thing. We should always be thinking in terms of *fair* trade, that is trade that is in the interests of ordinary people at *both* ends of the transaction. That may mean that it is necessary to impose tariffs or other checks to make trade fair.

For example, there is nothing wrong with foreign direct investment into the UK if it is productive and furthers the public purpose, however indirectly that may be. That is not the case with 'investors' from the far east buying up property in London because they know that the rising prices alone will provide them with a good return (any extra they make from buy-to-let deals is a bonus). There's a strong case for changing the law to put restrictions on foreign ownership of UK property.

18 To compare two methods of harvesting cabbages, have a look at aluta.uk/nns and aluta.uk/dar. If you were an agricultural worker, which one would you prefer?

19 The Job Guarantee is a progressive policy whose natural home is the Left. But it also has appeal for those on the Right – those who believe that there are millions lounging around on benefits, for example. Similarly, it provides assurances for those who currently see UKIP as a protector of the working class, especially those ‘core voters’ that Labour seems to have abandoned.

The Scottish National Party is an interesting case. MMT throws a big spanner into their two key objectives: independence and continued membership of the European Union. If they are successful in achieving these goals, then no matter how they resolve the problem of choosing a currency for independent Scotland they won’t be able to have a Job Guarantee. If they opt for continued use of Sterling they won’t be able to implement the policy prescriptions of MMT (because they won’t be issuing their own currency). If the SNP chooses to go it alone and issue their own currency then the restrictions in the EU treaties will prevent them from adopting MMT policies, notably Article 123 of the Treaty on the Functioning of the European Union (which prevents a member state from deficit spending) and the requirement that new members work towards adopting the euro. So, a Labour Party with the Job Guarantee as a central manifesto plank could easily take back Scotland from the SNP.

What about the Green party? Are the policies advocated by Modern Monetary Theory environmentally sustainable? Yes, they are. MMT shifts the focus in economics from money to resources and how they can be best deployed for the benefit of all. That means MMT is inherently concerned with the long-term future of the planet. Moreover, MMT shows how to pay for the programmes that we are going to need to ensure that future.

20 William Beveridge’s report *Social Insurance and Allied Services* (published in 1942 and usually referred to as simply the *Beveridge Report*) set the foundations for the Welfare State. He mapped out a route to a new society, one that worked for the benefit of all, and he identified five ‘Giant Evils’ that stood in the way of progress: Squalor, Ignorance, Want, Disease and Idleness [see aluta.uk/sba].

The purpose of the Welfare State was to destroy the Giants and for the most part it has been successful – notwithstanding the constant pressure from the Right to dismantle it. The National Health Service, free education, council housing and a comprehensive system of benefits have killed off all but one of the Giants. Unfortunately, the reforms that rolled out during the late 1940s never quite dealt with Idleness. It was wrongly assumed that the private sector would always be able and willing to provide work for all.

Note that Beveridge realised that having something to do, whether or not it was considered to be work in the traditional sense, was important for well-being and he didn’t choose to name this giant ‘Unemployment’.

Beveridge also had a definition of full employment that was very different from the one that mainstream economists use today. In his 1944 book *Full Employment in a Free Society*, Beveridge defined it as a state where there are more available jobs than there are people who want them [see aluta.uk/bbd]. That’s very different to the models that mainstream economists use now – the dominant theory tells us that any unemployment is always voluntary.

A government that brings in the MMT Job Guarantee will create the conditions under which we can achieve a true form of full employment – a form that meets, for the first time, the criteria laid down by Beveridge.

Learn more about the Job Guarantee

Here are a few resources that look at the difference between the Job Guarantee and Basic Income.

Type	Description	Link
Website	*16 Reasons Matt Yglesias is Wrong about the Job Guarantee vs. Basic* Income, New Economic Perspectives, 2014. A response by Pavlina Tcherneva with links to other material and lots of comments from both sides of the debate.	aluta.uk/drk
Paper	*A comparison of the macroeconomic consequences of basic income and job guarantee schemes*, Bill Mitchell and Martin Watts, Centre of Full Employment and Equity, University of Newcastle, New South Wales, 2004 [PDF]	aluta.uk/svm
Paper	*The Job Guarantee: Delivering the Benefits that Basic Income Only Promises*, Pavlina Tcherneva, Journal of Basic Income Studies, 2013, Volume 7: Issue 2. A response to an article in the same issue by Guy Standing entitled *Why a Basic Income Is Necessary for a Right to Work* [see aluta.uk/msw] [PDF]	aluta.uk/kla

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