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UBI as a response to Inequality in Society
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Environmental Challenges and Basic Income

By Stephen McCarthy

Introduction

I first came across the idea of a Basic Income in the articles of Samuel Brittan writing in the Financial Times. Was it the early 1980s? I don't exactly remember. At the time it seemed that the welfare state, in Britain as in other European countries, was robust enough to support people in hardship. But a Basic Income would offer an additional freedom – some possibility for those who wanted to live in an alternative way, musicians or artists perhaps or just dreamers, to follow their dreams. How different the world seems now!

At the time I was working at the European Investment Bank as a development economist concerned with its development lending in Africa. And in the early 1990s I wrote a somewhat reflective book[1] on meeting the development challenges on that continent. I came to what then seemed a somewhat fanciful conclusion that the best way for western countries to distribute aid resources would be to throw dollar bills out of helicopters as they criss-crossed the country – a rather crude form of a Basic Income. Since then of course a number of developing countries, such as Brazil, have started to address the problem of domestic poverty with something very similar - conditional income transfer schemes. External development agencies however have not taken up this approach; I can only assume because it would transfer power to the poor and necessitate a loss of paternalistic patronage on their account.

In recent years my interest has turned more to environmental challenges which, as I will explain, has brought me back to a consideration of UBI. So it is the argument from the environment that I wish to focus on in this paper.

Environmental Constraints

The starting point of the argument is well known, discussed in many papers and by many authors more knowledgeable than I am. Western countries are consuming material resources at a rate which is unsustainable and at the same time overloading the capacity of the natural environment to absorb the associated waste products. The most frequently cited example of unsustainable extraction relates to fossil fuels, oil in particular, with many arguing that the 'peak oil' transition – when new oil basins are no longer being discovered faster than oil is being consumed – has already passed (Heinberg, 2011: 15-17). New techniques for extracting shale gas and oil will certainly postpone such a day of reckoning for a while. But it is a mathematical certainty that continued growth in the use of a finite resource, however much rising prices may both reduce demand and unlock new sources of supply, will eventually lead to the exhaustion of the resource. However, oil is not the only resource in

[1] *Africa; the Challenge of Transformation*, I. B. Tauris, London, 1994

limited supply. Similar considerations apply across a range of raw materials – phosphates being an important example (Gilbert, 2009).

Likewise the Earth's eco-systems have only limited capacity to absorb the waste products that the activity of mankind generates. Again, the most pertinent example of the latter is the absorption of greenhouse gases produced by burning fossil fuels. But it is by no means the only example. Ecologists have identified nine specific eco-systems – the Nine Planetary Limits - governing and constraining the recycling of waste products (Rockström, 2009). Of these three - climate change, biodiversity loss and the nitrogen cycle - are considered to have already passed the critical limits necessary to maintain an environment conducive to humanity.

Focusing, for now, specifically on fossil fuel availability and the associated problem of greenhouse gas emissions, we can easily imagine technical solutions that would simultaneously avoid oil depletion and also reduce, over time, the greenhouse gas problem. As the Stern Report (2006) pointed out, huge investments would be required - notably in solar power, new cycles of nuclear fission and eventually nuclear fusion – though such investment at around 2% of GDP, would not be disproportionate to what mankind continues to spend on waging war. However, in popular imagination the scale of the problem is greatly underestimated; the contribution of a few solar panels and wind turbines will be very small. In reality, the United Kingdom, for example, could not maintain its current pattern of energy demand, even with efficiency savings, merely from domestic renewable resources without recourse to either extensive nuclear power or importing energy from huge solar farms in the Sahara desert (MacKay, 2009: 203-213). That conclusion can easily be extrapolated to other European countries – notwithstanding the significant contribution that renewable energy now makes to electricity supply in countries such as Germany and Spain. The nub of the problem is that all forms of renewable energy come from the sun, are very diffuse, and consequently require enormous tracts of land to be devoted to energy collection – whether in the form of wind farms, solar arrays or (least efficient of all) biofuel crops[2].

Apart from such technical solutions various economic tools and policies are also proposed for dealing with climate change. The most coherent of these is the use of carbon taxation to influence the balance of supply and demand in the energy market. Neo-classical economists argue that, in a free-market system, the problem of resource scarcity is self-correcting: as raw materials become scarce, prices will rise to reduce demand. But this won't do the trick.

- First, the price mechanism is an unreliable policy instrument; it reflects only short term balances of supply and demand, leaving the longer-term to look after itself. The gyrations in the international oil price in recent years only serve to demonstrate how fickle the price mechanism can be.
- Second, the impact of price changes bears very unevenly, and unjustly, across the human population. As oil resources diminish and become ever more expensive, a small number of millionaires and billionaires would continue to jet blithely around the world, long after the mass of the population could no longer afford to heat their homes. This of course touches on the question of inequality, a focus of this conference, to which I will return later.
- Third, the price mechanism only affects goods which are bought and sold. Things held in common, such as the air we breathe, fall outside this framework altogether. A way around this difficulty is to place monetary values on environmental goods and services so that they can either be brought within the framework of the market economy or at least priced into

[2] Solar PV panels are the most efficient way of converting solar energy into electric power. With current technology, in a not-very-sunny country such as the United Kingdom the average energy output is only about 20 Watts per sq. metre. Obviously this figure would be somewhat higher in a sunny climate and there is still some room for technical improvement – but this will always be a diffuse form of energy supply (Mackay, 2009: 47).

economic calculations. However, such calculations are fraught with both technical and ethical problems. It is an approach which takes utilitarianism - the philosophy that underpins economics - to an extreme, to a belief that a monetary value can be assigned to the whole spectrum of human experience. Unfortunately it is also a mind-set that in many aspects of modern life we have practically come to take for granted – for example when we seek compensation for this or that suffering or inconvenience that we may have experienced. But it is a philosophy rather peculiar to the modern world, one that other societies in the past might have considered extremely bizarre.

So economic considerations and policies, as with technical fixes, have a role to play in addressing the resource constraint and environmental problem, but they cannot provide a solution on their own. At some stage humankind simply has to extract and consume less of the Earth's non-renewable resources and to generate fewer waste products. From this I will argue that this necessarily implies eschewing further economic growth, at least in those parts of the world which already have high levels of material and energy consumption. But first a couple of parentheses.

Two parentheses concerning the rich and poor and world population:

Before proceeding I want to stress, first, that the discussion relates primarily to the 'Western' prosperous economies. Poorer people in other parts of the world – Africa, most of Asia and Latin America – have not hitherto caused the problem. They have not been over-consuming the world's resources. And, while they may reasonably aspire to some of the greater material comforts that those in the West now take for granted, will consequently demand more resources in the future and will expect some continued economic growth, they have not (yet) become addicted to the desire to consume that is so characteristic of the West. We should not blithely assume that they are inexorably committed to aping the same materialist values and lifestyle that richer people in the West have adopted.

Secondly, in discussions on environmental and resource constraints the 'problem' of overpopulation is invariably raised. Frequently the implication, no doubt arising from a disguised xenophobia or even racism, is that those living in the poorer parts of the world should stop having children, or if necessary be forced to do so. In reality it would be more logical and effective to apply such a population policy to those living in the rich countries who are actually causing the resource constraint problem.

There is no quick fix to 'overpopulation'. The key element is fertility reduction and fertility rates have been declining overall as a result of the better education of girls in most regions of the world. This feeds slowly, with a time lag of around one generation, into population growth. Consequently the world population is now growing rather more slowly than in the recent past and is expected to reach around 9.6 billion by 2050 (UN, 2013) and may even plateau near this level.

Let us now return to the argument: does reduced material and energy consumption in the future necessarily imply zero or declining or economic growth? Or can economic output become sufficiently less 'resource intensive' to such an extent that our economies can continue to grow while accompanied by an absolutely declining level of demand both of raw materials and on the Earth's ecological sink mechanisms?

It may help to consider this issue by introducing the IPAT equation: $I = P \times A \times T$. In this I, the overall environmental impact, is a function of: P, the total population; A which may be considered as

'affluence', or GDP per capita; and T, 'technology', (the environmental impact of a given level of economic output). The IPAT equation should be seen as a way of organizing the discussion rather than an operationally useful formula to which numbers can be ascribed.

Now there is some evidence that T (the environmental cost of a unit of output) is slowly declining. We can see this in much of our own daily experience; for example cars become lighter and also more fuel efficient. Thus, Jackson (2009: 77-82), using data from a number of western countries, estimates that the energy intensity of each unit of output certainly has been dropping, since around 1990, at a rate of around 0.7% a year[3]. But, taken across the world as a whole over the same period, the increase in world population, about 1.3% a year, and that in per capita output, about 1.4% a year, together far outweigh the declining resource intensity per unit of output[4]. The numbers are necessarily imprecise but the conclusion is clear. T has not been falling nearly fast enough to offset increases in population and 'affluence'. If we wish to reduce the overall environmental impact then we have to accept zero or even negative economic growth rates – at least in those parts of the world that have already reached prosperity and already live with an abundance of material goods and services.

In contemporary discourse negligible economic growth seems like a frightening prospect. But during the vast sweep of human history it has been the normal experience. It is only in the last two and a half centuries that the world, or part of it, has witnessed growth rates above, say, half a percent a year, and only since the 1950s that economic growth has been elevated to its pre-eminence as a political objective – partly as a consequence of perceived competition between capitalism and communism during the Cold War[5]. Thus growth economics is an example of a relatively recent social 'value'. Nevertheless it has become the *lingua franca* of contemporary political discourse, promoted by politicians and the media. Indeed the recent financial and economic turmoil has only served to amplify the growth discourse. Now that the immediate financial crisis has receded into the background, the overwhelming tendency in public debate is to consider how the Western countries can get 'back on track', put the blip behind them as it were, and continue to grow their economies as quickly as in the previous half century. Anything less is perceived to be unthinkable.

Two further parentheses on the weakness of the GDP metric:

As a value by which to guide our societies and measure 'progress', GDP growth is a deeply flawed metric. The first problem is technical. GDP only measures (or attempts to measure) human activity which falls within the monetary sector i.e. the paid economy[6]. And much of what purports to be GDP growth is simply the effect of moving some activities from the non-monetary sector into the monetary economy. Moreover, GDP gives the same weight to all monetised activity, regardless of whether such activity is socially desirable or not and it also disregards the distribution of monetary income. All of these considerations, which are discussed more fully in the Appendix, may actually have a detrimental consequence for

[3] Randers has similar data: a 40% drop in energy intensity from 1970 to 2010. He expects this decline to accelerate in the future (Randers, 2012: 100)

[4] Indeed, so far as carbon is concerned, to achieve the IPCC's target of 450 ppm by 2050, Jackson estimates that the carbon intensity of economic output would need to decrease by 7% a year between now and then.

[5] There is an emerging discussion within the economics profession whether indeed the pace of technical change will continue to sustain economic growth for those countries, such as the US and EU, which are already at the technological frontier. This is an interesting debate but, while equally threatening to the prevailing political discourse, it is quite distinct from the themes of this paper (Gordon, 2012).

[6] Of course attempts are made from time to time to bring non-monetary activity into the calculations but these are presented rather as rough footnotes to the main theme.

human welfare and flourishing. You can have positive GDP growth in a society becoming ever sicker and more dysfunctional.

The second consideration is rather more philosophical. We live in a world where material consumption (including 'services' as well as 'stuff') is seemingly presented as the purpose of life; the way to live a fulfilled life. So vast industries and areas of human endeavour are concerned with creating new material desires and then devising trinkets to satisfy those fleeting desires. The reality is that the trinkets do not satisfy for long. As has been said: 'Consumer culture perpetuates itself here precisely because it succeeds so well at failure' (Jackson: 100).[7] For many people in the Western world, though not in the world as a whole, any sense of the transcendent, going beyond material reality, has largely disappeared. But as Skidelsky and Skidelsky (2010), and other authors point out, compared with the span of human history our present material values are simply an aberration. Speaking for myself I consider our present set of values, which are apparently so deeply embedded in what makes us 'tick', to be, in reality, extremely fragile. The consumerism we worship is a false god. And false gods do not in the end satisfy; they do not survive for long. So I expect that the dethroning of economic growth will eventually occur, not primarily as a consequence of rational arguments (such as I'm trying to make in this paper!), but more as a result of widespread disenchantment and disillusion with the ethics and values of the society in which we live.

In summary: through the vast sweep of human history people have been able to live happy and fulfilled lives in societies without economic growth. There is nothing to fear in going back to such a way of living – though how we get from here to there may be more problematic.

Political Imperatives for Economic Growth

For now, however, we need to consider why the seemingly rational arguments fail. Why do people and their leaders and spokesmen focus almost entirely on economic growth at the expense of any broader considerations of human well-being or indeed of the environmental unsustainability of growth over the long term? There must be some explanation for this. So the final sections of this paper will attempt to answer this question and then consider what economic policies could foster a move towards a steady-state economy.

At a simplistic, almost tautological, level a response to this question is to perceive politicians and their acolytes as merely the high priests of the current secular religion. This preaches that more 'stuff' will make people feel happier and more fulfilled. So more 'stuff' has to be provided. It should be said, however, that even by its own theology this religion has failed most people over the last three decades. The growing economic surplus has been increasingly appropriated by the rich; the mass of the people have experienced little improvement in their income levels over that period as has been most comprehensively demonstrated by Picketty. Meanwhile the *populus* is growing restless as the Occupy Movement across Europe and the US, the political success of Syriza in Greece and Podemos in Spain as well as other protests across Europe have demonstrated.

However, there are at least three more technical reasons for the pre-eminent place that economic growth assumes in current political discourse. They are:

[7] Jackson attributes this idea to Grant McCracken, *Culture and Consumption* Chapter 7.

- fiscal sustainability or in most Western economies the current need to repay high levels of government debt;
- maintenance of international competitiveness;
- the desire for 'full employment'.

I will comment briefly on the first two of these before concentrating on the third.

The problem of repaying government debt has come to the fore in Europe and the US over the last seven years as a result of the financial crisis and subsequent economic recession and stagnation. Briefly, assuming the overall fiscal balance is broadly unchanged, then government debt is only sustainable so long as the nominal rate of GDP growth is faster than the nominal interest rate on the debt[8] – hence the need to keep up the GDP growth rate. Otherwise the government surplus has to be increased or the debt will become unsustainable. This of course applies to an orderly world. But borrowing and lending is merely a manner of allocating a bundle of rights of ownership or usage over particular assets during a certain time period. For every borrower there is always a lender (even if modern financial instruments sometimes make it difficult to identify exactly who they may be). But the bundle of ownership and usage rights can be modified and that is true of loan contracts as of other property rights[9]. Historically the most common way out of unsustainable national debt has been either inflation or default or a mixture of both. Both of these are *de facto* methods of reassigning ownership rights. The process may, for a while, seriously disturb the confidence which economies need to flourish, so it is certainly not to be embarked on lightly. But of themselves debt obligations do not impact on real assets in the real world. In short, for the purpose of the discourse that we are engaged in here, government debt is a red herring.

The political need for international competitiveness is often expressed as a need to 'keep up with', which probably means 'keep ahead of', other economies in some kind of international race. Much of this rhetoric emerged during the Cold War, when there was an arms race between two nations with totally different economic structures. This was the era when GDP statistics were first widely deployed to show that 'we' were doing better than 'they'. The fear now is more that China and the other BRICS will drive the West into penury with an overwhelming barrage of cheap gadgets and trinkets. But we have to accept that an eventual convergence of material living standards across the nations of the world is practically inevitable. Indeed this would be something to welcome in the name of humanity. Lower income countries, having ready access to existing technology, will almost certainly grow faster than those Western countries that already function at the technological frontier.

However, it is the third political imperative – maintaining 'full' employment – that I would like to focus on for the rest of this paper and which provides the link with UBI.

The underlying problem is this: technical change and improvement, in itself a good thing, leads to a continuing increase in factor productivity. Now a steady-state economy, as I am imagining here, is not a world frozen in a technical time warp. Mankind will continue to be inventive and we can expect productivity to continue to improve. Thus, for a constant level of output, ever fewer labour inputs will be required. We only need to notice the extent to which manufacturing and other processes have become automated to see that this has been happening for a long time. Consequently the political objective to maintain 'full employment'[10] necessarily requires a rising level of economic

[8] Plus, if the debt is denominated in a foreign currency, the rate of depreciation against that currency.

[9] For example the ownership of a piece of land is hedged round with legal and social constraints. It certainly does not confer the right to do whatever you want with it!

[10] Parenthetically, what is meant by full employment is of itself problematic, since with the tendency for ever more human activities, such as the personal care of others - children, the sick and the old - to become monetised, the absolute level of full employment today is much higher than it would have been a couple of generations ago.

output, of both goods and services, to offset the increasing technical efficiency. Looked at another way, in moving to a steady-state economy of 'sufficiency' rather than of excess[11], the requirement for paid work will decline. Either average working hours, or the proportion of the working age population who are employed, will fall. Interestingly Keynes in an essay written in 1930, *Economic Possibilities for our Grandchildren,* foresaw such a state of affairs: a time when mankind would be faced for the first time since creation with 'his real, his permanent problem – how to use his freedom from pressing economic cares, to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably as well' (Skidelsky and Skidelsky, 2012: 4). Essentially Keynes' argument was that continuing improvements in productivity would reduce the demand for labour at any given level of output. Crucially, he also assumed that we would reach a point of sufficiency when no further economic output was necessary, when people had acquired what they needed in income and capital to support their station in life. This he thought would take around a hundred years, perhaps from 1930 until 2030. From this point on people would have to work perhaps only about fifteen hours a week in order to meet their material needs. They consequently would have increased time and opportunity for leisure. Of course what Keynes did not foresee was the obsession with economic growth driven by consumerism – the ever-increasing demand for material goods. So the reduction in working hours that he foresaw simply did not happen – at least not yet.

There will be an additional driver of this trend towards lower employment. A vast range of economic activities is currently directed towards creating and nurturing popular desires for new 'stuff' – material goods and novel experiences. In the economic future that I am imagining such activities will be largely redundant – not to say counterproductive. Thus much of the sectors of brand advertising[12], marketing and public relations would necessarily disappear.

The problem of course is that paid employment is perceived as the principal means by which most people acquire income – that is share in the overall output of the economy[13] - as well as have some status in society. So, in the mind-set of current politics, to accept lower employment would be political suicide. Conventional politicians cannot advocate or even accept zero or declining economic growth, hence they cannot face up to the reality of looming environmental constraints.

Another parenthesis on the link between employment and income:

Nevertheless, the perceived requirement to have a job in order to share in economic output is not quite as rigid as it seems. The modern state allows for several categories of exceptions: the unemployed, those who are sick or disabled, students, those who stay at home to care for children or the old and, not least, children themselves and pensioners. Different countries offer varying levels of financial support to these groups of people, with perhaps the US at one extreme and the Scandinavian countries at the other. Taken together these 'exceptions' typically total rather more than half of the population[14]. Nevertheless, somehow the economy still functions. Economic goods and services are still produced in abundance, income is generated and is distributed throughout the population, both by formal and informal

[11] The Skidelskys argue that we, in the West at least, live in an economy of 'abundance', whereas economic discourse continues to turn around an economy of 'shortage'.
[12] By brand advertising I mean advertising which merely serves to draw attention to a particular brand, without conveying any specific information. Most advertising now seems to be of this nature and it is a zero sum game, since if any brand chooses to opt out they risk being displaced by one of their rivals.
[13] Another important income source for a minority in a capitalist economy is to reward the owners of capital, which includes those owning private pensions. One of the causes of increasing inequality is that the owners of capital have since the 1980s accumulated a steadily increasing share of economic output.
[14] In Germany it is estimated that out of 10 people: 2 are children, 2 are pensioners, 1 is unemployed, 1 is sick or disabled and only 4 are in paid employment.

> mechanisms – albeit very unevenly and, it seems, with increasingly bad grace towards the 'undeserving' poor and those perceived as feckless. So a gradual decline in the opportunities for paid employment, as economies move to a steady-state, need not be such a new or frightening prospect as it may at first appear. It is little more than the continuation of a trend already far advanced. We, like Keynes, have to learn to foster and celebrate this trend and the opportunity for increased leisure that is offered, rather than consider that anything less than having as many people as possible in paid work is a regrettable aberration.

So far as I am aware very few economists have actually modelled a zero growth economy to understand how it might work. Peter Victor, one of those who has done so, states: 'a key ingredient is a shorter work year, which would help to spread employment among more of the labour force. The benefits of greater productivity would thus be directed towards more leisure time, rather than increasing GDP' (Victor, 2010).

Introducing a shorter working year by legislation, something that France attempted, is likely to be fraught with practical problems as well as being rather draconian. But, as I don't need to stress here, UBI offers an alternative. In a pure form the basic income would be paid to all irrespective of whether or not they choose to work and thereby earn additional income. Since the opportunity of living frugally off the basic income would be open to all, the choice not to work would not carry the same social stigma now associated with 'living off the state'. In the 'no-growth' scenario that I envisage here, where there would be declining opportunities for paid work, a basic income, even if introduced at a modest level below a 'minimum income', would still affect people's propensity to work at the margin. It could then be increased until a balance was found between the supply and demand for paid employment.

Ironically, while the topic remains taboo in the mainstream political discourse of the West, an increasing number of middle income countries, such as Brazil and Mexico, have already introduced cash transfer, 'basic income', programmes on a limited scale. Perhaps without the deadweight of existing social security programmes, they can approach the problem with a more open mind. They may also more easily recognise that the goal of full formal employment for their populations is hopelessly out of reach. Such programmes need not be expensive. Brazil's *Bolsa Família,* together with parallel pension programmes, was estimated to reach 39% of the population in 2007 at a cost of about 1.5% of GDP (Hanlon, Barrientos and Hulme: 40).

A Word on Inequality

We cannot finish this discussion without touching on the principal theme of this conference: growing inequalities in income and wealth across the Western world especially in Britain and the United States (Lansley, 2012: 13-30). This really is the elephant in the room in the whole discussion of UBI. No doubt others better qualified than I will have more to say on this, so I confine myself to a couple of remarks.

A reduction in inequality may be an outcome of UBI, but, unfortunately, it also seems to me to be a necessary pre-condition for its introduction. Growing inequality in many if not all European countries is causing a slow breakdown of social cohesion, a diminishing sense of the 'common good'. This has been illustrated by Wilkinson and Pickett in their book *The Spirit Level*, (2010) where they demonstrate strong correlations between income inequality and all manner of social breakdown and dysfunction.

Moreover, growing inequality has been accompanied by the continued monetising of all sorts of human activities and experiences. This has the effect of turning wealth into power – something that Picketty worries over in the later chapters of his book. Public goods, i.e. good things which are offered to the public simply for the sake of the common good (including justice), are increasingly removed from the public sphere and are only available to those private individuals who can pay for them. By contrast, the 'good life', as envisaged in this paper, requires that good things and experiences should so far as possible be available to the population as a whole and not merely to the wealthy.

In a situation where money and hence power and influence is increasingly concentrated in the hands of the few I find it difficult to see what political force would drive a decision to share our undoubted economic abundance more fairly. We are up against a strong and prevailing neo-liberal discourse which justifies inequality as being necessary for our societies and economies to function[15]. This is absurd but the influence of such discourse should not be under-estimated.

By Way of Conclusion

Probably the most compelling arguments for UBI concern social justice and the offer of greater freedom to people to choose the sort of life they would like to lead. However, in this paper I have chosen to address the topic from a different angle:

- Environmental and resource constraints will, at some stage, force western economies to let go of the goal of economic growth. (In my own opinion this letting go will also be driven by changes in social values – what people and societies understand by a fulfilled and worthwhile life. I believe that we will overcome our addiction to 'stuff' and rediscover the 'good life' – in short find a deeper, more spiritual, answer to the question: 'What are we for?')
- In purely economic terms the abandonment of the goal of economic growth will necessarily lead to a reduced demand for employment – either a reduced working year, or, more likely, just fewer jobs.
- Since jobs are currently perceived as the principal mechanism by which people share in the economic output of a particular society – a perception which is only partially correct - a scenario of declining employment presents the current political discourse with an enormous dilemma, For the time being the only doors that politicians see as open to them are: denial of the inevitability of looming environmental constraints, while at the same time resorting to ever more desperate measures to re-stimulate growth and create jobs – indeed any jobs, however artificial, unnecessary and soul-destroying they may be.
- UBI offers a different way out of this dilemma. It would both stimulate and also support the transition to a society that lives within its environmental means. UBI explicitly recognises the abundance of what we already have rather than the apparent shortage of things we don't need.
- But UBI also demands considerable social cohesion, which, at the moment, is being undermined by increasing disparities in wealth and income.

Clearly the transition to such an economy of sufficiency would call for other economic policies and taxation measures. Carbon taxation to change the energy supply/demand balance is an obvious example. Outlawing or taxing brand advertising would also be desirable, since such advertising

[15] The usual political justification for income inequality is that entrepreneurs and executives have to be paid handsomely to persuade them to perform – a proposition for which there is little or no evidence. In the 1970s Western economies had much higher levels of marginal taxation and much narrower income and wealth distributions and yet they seemed to function well enough. Again, value change seems to me to be the key here.

merely serves to create unsustainable psychological desires in people for ever new things, fashions and services[16].

A zero growth economy, in which the abundance of output is shared among citizens by right, and not just by the input they may have contributed, may seem rather utopian. But societies with negligible economic growth have been the historical norm. It is only over the last two or three centuries, starting with the availability of mechanical, rather than human or animal power, that economic growth began to accelerate. Some now argue that that historical phase is drawing to a close and that we are gradually returning to the norm (Gordon, 2012) – though now with much greater overall prosperity and with less physical work being demanded of the population. If that is really the case it adds even more urgency to finding new ways of distributing the fruits of an economy in an equitable way. And for this, UBI in one form or another, seems to be the best game in town. The difficulty rather is in imagining ourselves in a different place to where we are now – a place where we can graciously accept the abundance that we already have and rediscover those human, personal, familiar things that make life really worth living. Sadly, current political trends, notably the recent weakening of the social security network that has been a characteristic of most European countries for the last few decades, seem to point in a different direction - one of social breakdown. European society has been there too - many times – a small comfortable elite underpinned by a huge, marginalised and largely invisible underclass of serfs and beggars. The main difference would likely be that, whereas in the past the marginalised would have been labourers toiling over a small patch of land, in the future they are more likely to consist of office cleaners, 'care' workers, illegal migrants, or the thousands engaged in anonymous factories preparing ready-made supermarket food every day[17]. Nevertheless the values and attitudes that we live by can and do change – and nowadays more swiftly than ever. In that lies hope for the future.

Luxembourg, March 2015

Earlier versions of this paper, which approach the same topic though from slightly differing perspectives, can be found here:
http://institute.eib.org/the-environment-the-economy-and-the-good-life/
and here:
http://www.dantemag.com/2015/02/what-are-we-for-that-is-the-question/

[16] Banning activities may seem draconian and illiberal. But societies have always outlawed practices considered to be socially dysfunctional: polygamy in most countries; more recently, smoking in public places; and in some European countries certain forms of advertising to children.
[17] They are rendered invisible by being employed by sub-contractors and gangs, many of which operate on the margins of the law.

Appendix

Weaknesses of GDP statistics

The weakness of GDP statistics as a measure of human well-being can be summarised in five points:

- The first is that GDP statistics only include human activity, or work, in the monetised economy. Unpaid and voluntary work, however socially valuable, is not included in the calculation. So, all activities that take place within the home (I am not referring to working *from* home here) are excluded from the GDP calculus. As a result, as activities are drawn increasingly into the monetised sector so they enhance the measured GDP even though in many situations human welfare may not be increased. Is paid 'care' always better than care within the family? So as activities, such as the care of children, the sick or the elderly, which in the past were almost entirely outside the monetary economy are increasingly drawn into it, as more people hire child-minders, nannies, nurses or send their young children to crèches or put away their old-folks into 'homes' GDP increases. But is life necessarily better?
- A second point is that GDP calculus includes 'bads' as well as 'goods'; full prisons and military forces engaged in warfare increase a country's measured output. Personally I would add also include in the 'bads': first, much of the 'security' industry, since it largely feeds off and simultaneously nourishes the climate of fear which even democratic governments now use as a means of social control; and, second, most of the world of advertising (wherever it goes beyond the mere dissemination of information), because it stimulates the consumption of material goods and creates and then exploits insatiable desires in ordinary people for novelty and for things beyond their reach.
- Third, the rising price of positional goods has an impact on measured GDP. These are goods whose desirability, and hence monetary value, derives almost entirely from their rarity or uniqueness. Houses with a view of the sea are an obvious example. The rising price of such goods reflects their scarcity, rather than any contribution they may make to human well-being or happiness. More perniciously the entire luxury goods industry is geared towards creating desires for goods which are only produced in limited quantities.
- Fourth, GDP is often popularly thought of as a measure of national wealth, whereas it is strictly a measure of income - a flow not a stock. It measures what is produced and/or consumed in an economy in the course of a year. It takes no account of the building up or drawing down of a nation's capital stock whether that be in the form of machinery, buildings and infrastructure, the educational level of the population or, importantly for the present discussion, the natural capital of resources in or on the ground. A natural catastrophe, such as a tsunami, can wipe out a stock of capital but also lead to an increase in GDP through subsequent reconstruction.
- Last, but by no means least, GDP statistics take no account of the distribution of income and wealth. So a dollar in the hands of a billionaire is given the same weight as a dollar in the hands of a pauper. From the perspective of human welfare, which GDP purports to measure, this distortion is clearly absurd.

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