Can a citizens' dividend save the Eurozone?

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How it works

- In order to meet its mandate of price stability, the European Central Bank (ECB) makes cash transfers directly to household bank accounts. Could take form of zero coupon perpetual loan, intermediated by the banking system.

- ECB determines size and quantity of transfers/loans.

- Estimates of amount needed to close output gap and deliver inflation mandate: 2-5% of GDP (i.e. €600 to €1500 per capita).

- Although an innovation in monetary policy, very conventional economics - i.e. transfer payments, 'tax rebates’ etc.

- Note: *existing* policies have fiscal effects and redistribution effects.

- A citizen’s dividend at zero interest rates has no direct fiscal effect, and favours no group or country.

Why it is necessary

Current policies are based on hope - ECB has no serious contingency plan.

- Effects of QE on demand are highly uncertain, possibly negative (particularly negative interest rates).
- QE and negative interest rates are high risk policies: creating financial instability.

Cash transfers to households:

- Well understood.
- No serious economists doubt that demand in Eurozone would rise.
- Empirical evidence from US US policies show immediate, large effect on spending.
- Has been advocated by all mainstream schools of economics as solution to deflation/liquidity trap (Friedman, Haberler, Keynes, Bernanke).
- Policy is fair - equal transfer to all, does not favour borrowers, lenders, or interest group

Problems with existing fiscal & monetary policy

	Fiscal policy	***Monetary policy***
Pros	1. Impacts spending directly 2. Supports other objectives (infrastructure, inequality)	1. Immediate decision & effect 2. Broad consensus on what to do 3. Not ideological 4. Easier to coordinate
Cons	1. No consensus 2. Spending is not timely 3. V difficult to coordinate 4. Vested interests/politicized	1. Effects indirect, ineffective, risky

Cash transfers by ECB

Why better than fiscal policy:

- Works immediately, no vested interests, ECB can calibrate quickly.
- Does not threaten ECB independence - no need for coordination with fiscal policy.
- Appeals to right, left and centre of political spectrum.

Why better than (current) monetary policy:

- Impacts demand immediately.
- Fair - does not favour borrowers or lenders.
- Does not involve distortion of assets prices/financial instability. Allows households to make their own decisions.

Legal obligations of the ECB

- ECB is failing mandate to deliver price stability.
- ECB has no plausible contingency plan to combat a new recession.
- Cash transfers from ECB to households is NOT fiscal policy as defined by EU law. Involves monetary base and would be implemented independently of National Treasuries and budgetary policies - therefore monetary policy.
- Could take form of perpetual zero coupon loans to households, intermediated by banks (TLTRO).
- Would protect independence of ECB and be subject to price stability mandate.

Conclusion

- We have no contingency policy.
- Eurozone needs to innovate, succeed and show citizens the benefits of membership.
- Citizens dividend is optimal: it works quickly, it is fair, it preserves independence of monetary policy. Alternatives are risky, arbitrary and unproven.
- At zero interest rates, technical issues are minor. Because it is more effective than QE, ECB balance sheet risks are lower.

Next steps:

- ECB should propose use of this power to Council of Ministers & European Parliament.
- ECB should make clear this power may be require to meet its mandate of price stability.
- Or, are we going to wait for another country to do this first and copy them when it works ... ?

QUANTITATIVE EASING FOR PEOPLE