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Basic Income and Full Employment: Learning from Polanyi, Keynes and Minsky

In her important essay on "Social Dividend as a Citizen Right", Kari Polanyi Levitt (2013) states that: "… a share in the social product as a citizen right would have won Karl Polanyi's support, both as a means of decommodifying access to economic livelihood and on grounds of moral justice." (Polanyi Levitt 2013, 114) She then goes on to suggest that there are actually three distinct reasons why her father, Karl Polanyi, would have supported a guaranteed income policy: economic, social and political reasons. The *economic* ground for his support would have been a Keynesian one: the implementing of a basic income principle would have a stabilizing influence on overall economic growth because of its positive effect on consumption spending, while also stimulating technological progress. The *social* argument in support of basic income has to do with its implications in generating a more equitable distribution of the social product; and, finally, the *political* argument in Karl Polanyi's support of some sort of universal basic income is that it would safeguard personal liberty via what she refers to as "the institutionalization of non-conformity", particularly in the cultural sector of the economy (Polanyi Levitt 2013, 115) In so doing, this would ensure that a desired balance between personal freedom and economic growth, as well as a more equitable distribution of income could be achieved in a market-based economy, since the domain of the market would now be more deeply embedded in the social sphere.

Undeniably, while Karl Polanyi would have been a strong supporter of a guaranteed income program, a careful reading of his writings would suggest that this would not have been a completely unqualified support. The principal reason for this possible qualification has much to do with his chapters on the emergence of a fictitious market for labour and the peculiarities of the Speenhamland system in Part II of *The Great Transformation*. Indeed, his chapter on Speenhamland has been a source of debate and even malaise among some Polanyi scholars, as this can be attested in the recent work of Block and Somers (2014).

The object of this short paper is to try to integrate a possible Polanyian objection to a guaranteed program while deriving useful insights from Keynes and Minsky. This is because the last two authors were explicitly committed to a full-employment goal, which could serve as a necessary complement to the basic income principle, while simultaneously removing a potential negative implication that Polanyi had emphasized in *The Great Transformation*.

A Historical Digression on Polanyi and the Speenhamland System

While a stipendiary class of wage earners was recognized by late Physiocratic and early classical economists in the latter half of the 18th Century, it has been argued that such a "market" for labour, in the sense described by Polanyi (1944), that is, a pseudo-market for a fictitious commodity, remained unfinished until the 19th Century when the process of labour commodification had fully taken place with the labour market becoming institutionally "disembedded" from the broader society. Until then, labour market concepts such as unemployment were conceptually inappropriate in a world in which a traditional sector was the backdrop and institutional setting for both agrarian and embryonic industrial capitalism emerging in 18th Century England, especially as this process was being studied by the early classical economists, such as Adam Smith, Thomas R. Malthus and David Ricardo (Polanyi 1944, 95). For instance, as highlighted in a notable contribution on the classical theory of distribution, Weldon (1988) points out:

"Classical theorists borrowed their stage setting from the durable institutions of their everyday experience. Industrial capitalism in primitive or developed form was *part* of their system but always lived in company with a large traditional economy and with many arrangements for transfer payments." (Emphasis in original) (Weldon 1988, 15-16)

According to Polanyi (1944), in order for a full-fledged capitalistic labour market to emerge, the process of commoditization of labour required that these important transfer payments and traditional support links be suppressed (also see Paton 2010). Indeed, as Marx viewed this process, the disembedding of the labour market had slowly taken place institutionally with the acceleration of the enclosure movement and the progressive uprooting of the peasantry in England. Yet, one obstacle emphasized by Polanyi for the triumph of industrial capitalism as a social system, together with the emergence of a fictitious commodity market for labour, was the Speenhamland relief system instituted in the tradition of the Elizabethan Poor Laws. This particular transfer system, which some have identified as being akin to an early hybrid form of guaranteed income program, had been put in place in 1795, whose effect, according to Polanyi (1944, 86), was to prevent or, at least, to slow down this process of labour commoditization.

The explicit aim of the Speenhamland income supplementation system was to aid somewhat these growing paupers who were lingering about in the countryside as well as to help to slow down somewhat their migration to burgeoning English towns as a way of cushioning the hard reality of an increasingly commoditized labour market that would be relying less and less on the traditional sector for household subsistence. Under the Speenhamland relief system, this topping-up of wages through parish relief would occur whenever market real wages fell below a threshold as a result of rising grain prices. Hence, its purpose was to help these working poor achieve a minimum subsistence income. This system secured a highly elastic supply of labour as agrarian capitalism spread in the rural regions of England characterized especially by strong seasonal patterns of employment (Boyer 1986, 118) and, at the same time, reduced somewhat the political threat that these growing paupers posed, because of rising political ferment triggered by the Jacobinism coming from French

Revolution and the political uncertainties generated by the Napoleonic wars (Žmolek 2013, 552).

More precisely, the Speenhamland wage supplementation model was a system of "out-of-door" relief or "aid-in-wages" to the "able-bodied" paupers who had to eke out day labour for their subsistence. Though varying across English counties, the local government assistance to this new group of working poor under the Speenhamland system was tied essentially to the price of bread and the number of family dependents, whose ultimate purpose was to maintain working households at some minimum subsistence income.

There has been much debate on the effects that this form of poor relief, administered by the local parishes, had on the behaviour of these working poor. As recounted by Polanyi (1944) and others, such as Mantoux (1928), while the explicit purpose was to help the poor achieve a minimum subsistence wage during periods of rising bread prices, in fact a variety of conflicting explanations were offered historically on the labour market consequences of the Speenhamland system. One of the most fashionable of these views at the time was the Malthusian position, which had been very much popularized by many of the political opponents of the Poor Laws that saw any income support for the poor simply recreating more paupers. This is because they assumed that income transfers to the poor would encourage demographic growth and depress market wages as the increased population eventually entered the labour force, in accordance with the classical "iron law of wages" (Stirati, 1994). A more sophisticated non-Malthusian position, also widely held by opponents of the Poor Laws, saw the Speenhamland system as an income support that, because of its positive income effect, would create work disincentives by reducing labour supply and "force wages up, or at least maintain them artificially" (Polanyi 1944, 128). This also was seen as entailing a growing burden on the Poor Law rate payers by squeezing rents through higher taxes while strengthening labour income (as, for instance, also referred to by McCloskey (1973)). There are others, such as recounted by Polanyi (1944), who rejected outright both the Malthusian argument as well as the work disincentives narrative, and yet still retained the view about the negative effect that the Speenhamland support had on market wages. Within Polanyi's perspective, this "aid-in-wages" was more in the nature of a wage subsidy scheme whose effect was ultimately to depress the market wages of the working poor even "below the subsistence level" (Polanyi 1944, 101). Ironically Polanyi's view was largely consistent with that of the Poor Laws Commission of 1834, which concluded that the Speenhamland "aid-in-wages" accelerated the spread of poverty, thus recommending the elimination of this income transfer and the establishment of a full-fledged capitalistic labour market. However, unlike the Malthusian argument, Polanyi saw the declining market wages primarily for what may be described as Marxian/Keynesian reasoning. It was essentially the outcome of competition among workers for scarce jobs within a chronically demand-constrained labour market, which pressured the poor to accept wages even below subsistence, as long as their overall household income was being supplemented by a non-market wage subsidy.

Income Supplementation Systems and Their Impact: From Speenhamland to Friedman

There has been much debate about the historical significance of the Speenhamland system of poor relief because, as previously noted, it held all the critical structural features of the modern form of a guaranteed income (GI) program. Specifically, it defined a target income level (or subsistence basket) that would permit individuals to meet some minimum subsistence requirements and it also had put in place a transfer system, via parish relief, that would supplement the income of the working poor who could not achieve that target subsistence level through their labour market activity. For those policy analysts who see some form of GI system as the next step in the double movement to "re-embed" the labour market within the social sphere and de-commoditize this fictitious commodity market, Polanyi's analysis of the effects of Speenhamland remains very troubling. This is because, as Block and Somers (2014, 114) point out, Polanyi's interpretation of Speenhamland has framed somewhat the social policy discourse in Britain, Canada, and the United States, and it has influenced many intellectuals who would otherwise be supportive of such a GI social policy, owing to Polanyi's concern that ultimately employers would take advantage of the income supplementation scheme to depress wages.

While an in-depth historical study of the Poor Laws relief system under Speenhamland may well be useful to obtain insights on the potential effects of a GI program, the conclusions obtained from research by scholars such as Blaug (1963) and others reported by Block and Somers (2014) would suggest that evidence is weak on both the labour supply effect of Speenhamland relief and on its negative consequences on wages as defended historically. Yet this would not mean that the Polanyian concerns are completely unfounded. Block and Somers (2014: 131) themselves do recognize that, during generalized downturns in economic activity, competitive pressures on wages would more easily come to bear on workers because of the buffer provided by Speenhamland relief. Indeed, for instance, the fact that during the British Industrial Revolution the flow of relief (made available to both Speenhamland and non-Speenhamland counties) moved in tandem over the business cycle (see Blaug 1963, 164) would hardly constitute a proof against the Polanyian mechanism at work, just because both regions were seeing similar increased expenditures. Rather, the evidence would suggest that an analogous responsiveness under the Poor Laws (whether it was for outdoor relief (through aid-in-wages) or indoor relief (through employment creation in the parish workhouses) to broad macroeconomic phenomena was very much at work in triggering changes in the overall flow of poor relief. Hence, regardless of whether employers would have sought deliberately to take advantage of the existence of the wage supplementation scheme, it would be hard to conclude that workers' resistance to a cut in wages would not have been somewhat affected by the wage subsidy under the Speenhamland system.

To the extent that Polanyi, Mantoux and other important historians of the Industrial Revolution who recognized a mechanism at work which, under some hybrid forms of GI program (such as the Speenhamland system), market wages had become more responsive to business cycle downturns, what would be the outcome of the existence of this possible downward pressure? Interestingly the modern literature on the effects of a GI program has been split along similar lines described above. For instance, much of the traditional literature on the effects of a GI scheme is concerned about the disincentive effects of such a program, since it assumes that individuals will be encouraged to choose more leisure rather than work as a result of the income effects, much as did some 19th century critics of Speenhamland. However, for many of the original neoclassical supporters of a GI scheme, such as Chicago economists like Milton Friedman and George Stigler, the object of such a program was hardly to encourage workers to leave their jobs and have even more of them living on GI support, as some other right-wing critics suggest. Rather the objective of a GI program was to create incentives for individuals who are currently prevented from working (because, in the absence of GI, they would lose 100 percent of their welfare transfers) to enter the labour force by taking up a job and, at least, partially get off welfare through income supplementation. However, to these neoclassical advocates of GI programs, unlike such institutional "obstacles" to labour market flexibility such as minimum wages or unemployment insurance (which they would like to eliminate and have them replaced by a comprehensive GI program), a GI system would not much "distort the market or impede its functioning" (Friedman 1962, 191). This is because it would create incentives for individuals to seek employment while reducing workers' resistance to wage adjustment that would result from the existence of an income floor set by the income supplementation scheme. It could thus have the effect of increasing wage flexibility in response to changes in labour demand, while mitigating business sector profitability in the downward direction, much as were the presumed Speenhamland effects previously alluded to. As it had been argued elsewhere, the "compensation effect" of the GI system could serve to reduce workers' resistance to a cut in their market wage, thereby recreating somewhat the neoclassical model of a "properly" functioning labour market with flexible market wages, while sustaining these workers in achieving a minimum basic income through the "aid-in-wage" transfer mechanism (see Iacobacci and Seccareccia 1989, 153-60; and Seccareccia 2010, 343-44).

Can Potential Downward Wage Effects Be Avoided While Still Adopting a GI System? Learning from Keynes and Minsky

While reviving somewhat the neoclassical mechanism of downward wage flexibility and by reinforcing the downward movement of market wages at the bottom end of the wage scale, would this not stimulate somewhat employment as neoclassical theory would predict? In particular, would the supply-side effect of the lower labour costs faced by such firms, together with the demand-side effect of the aid-in-wage policy of the expanded GI expenditures not have an expansionary effect (through both lower labour costs facing such firms and a sustained consumption demand because of the income transfers to low wage workers provided by the income supplementation scheme)? The income transfers, in themselves, as emphasized by Polanyi Levitt (2013, 114), could potentially have the positive effect of supporting workers' consumption and thus spur on aggregate demand. Unfortunately, there are at least two other negative effects on aggregate demand that one must consider which could offset this. Firstly, since market wages at the low end of the income distribution ladder would be lower than they would otherwise be without the compensating effect of the GI program, the flow of profits accruing to these low wage firms would be proportionally higher than they would have been as a consequence of the declining market wages. Hence, the stimulating effects through the income transfer could potentially be offset by the perverse redistribution to profit income earners who would have a lower propensity to consume than low income workers.

Perhaps even more significant than the market wage deflation implications discussed above, it should be understood that practically all proposals in support of a guaranteed income explicitly assume deficit neutrality or, in the case of conservative economists such as Milton Friedman historically, they would eliminate all other transfers and regroup them under the umbrella of the GI program so as to *reduce* the total net spending of the state. Indeed, in the case of Canada even a federal Conservative senator, Hugh Segal, has been trying to sway political opinion in support of GI by suggesting that its implementation would eventually economize on government spending (see Segal 2013). Hence, increased transfers to the working poor, especially during recessions, would have to be compensated either through increased taxes or through reductions in public spending elsewhere. When the increased profits and the compensatory cuts in government spending/increased taxation are fully considered, together with the cuts in market wages that can bring down with them even non-subsidized wages (that is, wages just above those directly covered by the GI program), the overall effect of a stand-alone GI program may turn out to be much less palatable than what its more progressive political supporters are wishing for, thereby creating what Buğra (2007, 180) refers to as only “an illusion of embeddedness”.

As it has been argued elsewhere, there is an alternative that would prevent such negative implications from materializing (see Iacobacci and Seccareccia 1989, and Seccareccia 1991, 2010). As Keynes pointed out in the *General Theory*, one should not separate questions of income distribution from the full employment objective (Keynes 1936, 373), which should be the overriding macroeconomic goal regardless of the size of public-sector deficits. This is why numerous post-Keynesian economists had argued already during the 1960s that the most effective means in the “war on poverty” was to achieve and sustain “tight full employment” (Minsky 2013, 3) associated perhaps with an infinitely elastic government demand for labour at a living wage (Minsky 1986, 310; Wray 2007, 13). For some, this was perhaps partly based on some rigid philosophical principle that income should be something earned and thus ought to be derived from work rather than receiving transfers under a GI system (Widerquist 1998), though hardly its punitive “workfare state” variety. Yet there was an important benefit in achieving full employment that few understood at the time. The two objectives of “full employment” and “guaranteed income” need not be mutually exclusive but can, in fact, be complementary measures in re-embedding the labour market within the social sphere. This is because, under GI, the incentive for wage reduction, which had so much concerned Polanyi (1944) under the Speenhamland model, would disappear when coupled with a Keynesian “high wage” policy of full employment (as described in Seccareccia (2004)).

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