Dualism and Economic Stagnation: Can a Policy of Guaranteed Basic Income Return Mature Market Economies to *les Trente Glorieuses*?

by Mario Seccareccia*

Abstract: The starting point of this paper is an analysis of the original 19th Century classical dualistic structure of emerging industrial economies associated with a decoupling between real wage and productivity growth. This is followed by a description of how this gap disappeared during the Golden Age period of *les Trente Glorieuses* and then re-emerged after the 1970s. This is done with the purpose of providing a framework for discussing some of the literature on guaranteed income programmes as promoted by both mainstream and heterodox economists. As is well known, proposals in favour of guaranteed income have become fashionable in recent times to address this growing income polarisation that has become endemic in mature industrial economies, and this paper offers a critique of these proposals from a Polanyian perspective. While supporting the principle of a universal basic income as a means to establish a social subsistence floor, it is argued that a guaranteed income policy without also a societal commitment to full employment may trigger mechanisms that could actually strengthen labour-market decoupling.

Keywords: Classical dual economy, guaranteed basic income, full employment, Speenhamland effect.

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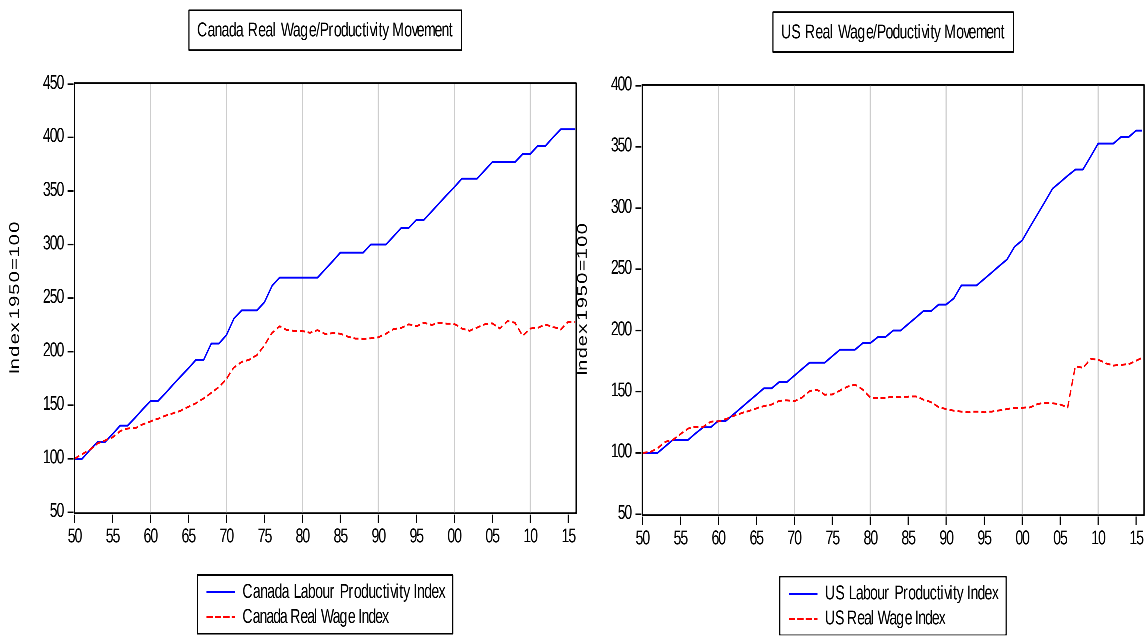
There has been much discussion in recent years, arising from the work of celebrated economists such as Piketty (2014), regarding the growing polarisation of incomes and wealth that has appeared alongside with the disappearance of jobs, particularly in the traditional manufacturing sector. As pointed out by Temin (2016, 2017), we are witnessing a long-term evolution and transformation of mature market economies, such as those of the United States and Western Europe, into what economists in the field of economic development once used to refer to as "dual economies", within which competing economic structures coexisted without sufficient linkage effects from the leading industrial sector to create conditions of more equitable income distribution and growth. Indeed, as these economies have tended towards longer-term stagnation and as manufacturing employment has suffered structural decline in recent decades concomitantly with the rise particularly of the high-tech and financial industries of the service sector, these economies also have moved in the direction of greater economic and social fragmentation. Anyone familiar with the writings of Latin American structuralists, such as Celso Furtado, would refer to this historical phenomenon as a process of increasing "structural heterogeneity" (for a discussion, see various articles in Seccareccia and Correa, eds. 2014-15). More precisely, as these fragmented economies have succumbed to forces of globalisation and policies of austerity in recent decades, these fractured societies have also tended towards dualistic structures that used to be the distinctive feature of most industrialising economies during their early stages of economic development.

During that era of the late 18th and 19th centuries, many pre-industrial societies of Western Europe and North America followed a path of industrial growth, which was spearheaded by the growth of the manufacturing sector (see, for instance, Seccareccia and Saint-Germain 2001). We see this archetypical phenomenon in Great Britain during the First Industrial Revolution, where these enclaves of industrial growth spurred on rising productivity because of major innovations and because of economies of large-scale production characteristic of the new industrial era of expansion, but with real wages remaining relatively stagnant for a very long time. This decoupling of the patterns of growth of productivity and real wages was also associated with a tendency towards a very uneven distribution of both functional and personal incomes typical of an era of embryonic industrial development or what some traditional economic historians would have once characterised as a Rostovian "take-off" into industrialisation. Eventually this gap between real wages and productivity would decline as these societies were expected subsequently to achieve greater levels of economic integration, industrial maturity, and high per capita consumption resulting from a more sustained rise in real wages and a more equal distribution of incomes.

Mature industrial economies of the late twentieth and early twenty-first centuries have followed, however, a somewhat different path to that traced over a significant part of the previous century (i.e., specifically, the period after two world wars and a Great Depression). A phenomenon of decoupling of real wages and productivity growth and the polarisation of incomes characteristic of these early industrial economies has reappeared, particularly since the 1980s in the highly developed heartlands of North America and Western Europe, as these economies have witnessed a long-term slowdown in overall growth. Instead of being a feature of industrial expansion as in the 19th Century, this polarisation has occurred as a result of growing long-term stagnation. Indeed, this decline had followed a long phase of economic expansion since World War II where real wages grew with productivity together with decreasing income disparities that had defined the post-war Golden Age of Western capitalism or, to use the more-appropriate French expression, the era of the so-called *Trente Glorieuses*. This "glorious" thirty year period from the late 1940s to the mid-1970s was an historically specific era during which secondary activities had peaked as a share of total employment in the more advanced industrial economies and living standards had grown at an accelerated pace. However, it was also a period during which policies had been put in place to achieve full employment and strong social transfer mechanisms that institutionally came to be associated with the post-war Keynesian welfare state. Since then, what was thought to be Kaldor's (1957) stylised fact of economic growth whereby relative factor shares of income remained approximately stable, as a result of real wages and productivity growing roughly in tandem, was followed by the post-1970s era of growing polarisation. The latter can be considered a period more evocative of a Robinsonian Leaden Age with problems of lower growth and rising unemployment (see Seccareccia 2013). This pattern, since the very early post-war period, is shown in Figure 1 for Canada and the United States. The twenty-five years between 1950 and 1975 display a relatively close empirical link between real wages and productivity whereby real wages had slightly more than doubled in Canada and had jumped by a bit over 50 percent in the US, while, since the mid-1970s, the link was completely broken. Although productivity growth slowed down somewhat (but still maintained an upward trend with a point of inflection in the mid-1970s), as can be seen, real wages stopped growing altogether and followed, at best, a stationary trend for over three decades until the Global Financial Crisis and ensuing Great Recession of 2008-2009. Because of the lack of long historical series that were readily available for the complete business sector on real wage movement going back to the early post-war years, we focused exclusively on the manufacturing sector. However, there is considerable empirical evidence for this stylized fact available for a wide variety of industries and countries, as well as for the complete business sector, on this real-wage/productivity de-coupling phenomenon in a large number of OECD countries that has persisted since the 1990s (see, for instance, Schwellnus, Kappeler, and Pionnier 2017).

Figure 1: Evolution of Output per Person-Hour and Real Average Hourly Earnings in North American Manufacturing, 1950-2016



Source: Conference Board, Total Economy Database, May 2017; and Federal Reserve Bank of St. Louis, FRED Economic Database.

The purpose of this paper is to offer some insights as to what may have happened to lead to a reversal towards dualistic patterns characteristic of the late 18th and early 19th centuries and to discuss what policies can seek to prevent this tendency from destroying the very fabric of these mature industrial societies. In particular, we shall look at a policy of guaranteed income (GI) that is being promoted as a comprehensive/all-encompassing social policy scheme to address these growing income disparities accompanying disappearing industrial employment and other dualistic polarising patterns that have taken hold in mature industrial economies. To do this, we shall first look at what was understood as the basis for this original pattern of development and what has happened in more recent times to revive this old dualistic pattern of growth, which was a characteristic feature of emerging industrial economies historically.

The Classical Dual Economy and the Lewis Model of Dualistic Growth

Profoundly shaped by the experience of the British Industrial Revolution, the notion of a dualistic structure became deeply rooted in British classical economic thought (see, for instance, Phillips 1965). While there has been controversy among economic historians over the question of how long this period of relatively flat real wages lasted during the First Industrial Revolution in Britain, there is some general consensus that real wages in both agriculture and industry only began to show some sustained, but fluctuating, rise sometime after the 1820s at around the time of the reform of the English Poor Laws and subsequently (see, among others, Lindert and Williamson 1983: 12). However, for that long period starting at the beginning of the second half of the 18th Century, there was a general belief in an "Iron Law of Wages" that real wages tended towards a "natural" or "normal" level (Stirati 1994), but one compatible with the subsistence needs of the workforce. This, however, was not necessarily some sort of physiological subsistence, which was sometimes supported by Malthusian population theory at the time, but, in fact, some type of social subsistence that was determined both by societal norms and by the bargaining power of these labourers themselves vis-à-vis their employers, as Adam Smith argued. While these wages can fluctuate because of rapid changes in the rate of capital accumulation, Smith contended that, given the superior bargaining position of employers over workers, the tendency in the long run was for wages to gravitate around some minimum social subsistence level; or as he wrote: "But though in disputes with their workmen, masters must generally have the advantage, there is however a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour." (Smith 1776: 67) As argued forcefully by Henry (2015), classical economists beginning with Adam Smith in the 18th Century and all the way to Karl Marx by the middle of the 19th Century, saw the real wage in the long run as a given that was not subject to the conditions of supply and demand in the neoclassical sense, but was determined by legal/societal norms in vogue that constrain workers' bargaining power and by the broad economic conditions that prevailed in the vast non-capitalist agricultural sector upon which depended the industrial sector for its domestic source of labour (and, if raw materials are not imported, even for its primary inputs). Although organically separate from the enclave industrial sector, the traditional sector formed the backdrop that would impact on the level of real wages in the whole economy. The latter traditional sector was thus the natural fall-back for industrial workers and it could even be the source of informal individual/community transfers that would be siphoned towards these precarious industrial workers to support them if market wages fell temporarily below the subsistence needs in the enclave industrial sector (Weldon 1988: 15-16).

Given the technical conditions of production, and once the real wage is set, the rate of profit or rate of surplus would then be determined. Following Smith and all the classical writers, business profits and capitalist savings, it was believed, would be ploughed back as investment, in accordance with classical Say's Law causality, which would then set the conditions for further growth and rising productivity. If the rates of capital accumulation and other conditions of growth are strong enough, this could then lift real wages somewhat, but real wages would not continue to rise unless workers' bargaining power would improve and if societal basic consumption norms change as a result of the long-run interaction between technical progress and consumption behaviour that would result in a higher social subsistence wage. Hence, there would not exist any natural tendency for real wages to rise concomitantly with productivity unless: (1) growth was sufficiently strong that would be depleting labour reserves in the traditional sector; and (2) if there was increased societal recognition of what level of social subsistence needs ought to be met over time. While the first would depend on the rate of growth of employment in the industrial sector that can lead to the eventual elimination of labour reserves from the traditional sector, the second would depend on the strength of institutional changes that, according to Karl Polanyi (1944), resulted from the "double movement", whereby societal pressures are brought to bear to strengthen the real wage based on higher social norms of what ought to be an acceptable subsistence income. These changes would arise through collective action, such as trade union pressure or through political/institutional change (such as minimum wage legislation, unemployment compensation, and other social transfers) resulting from government policy decision.

There was a long hiatus after the 1870s in the economics profession associated with the rise of neoclassical economics in which these notions of dualism and structural heterogeneity had virtually disappeared from much of the mainstream currents of economic thought. However, starting with the early writings of W. Arthur Lewis (1954), this same dualistic structure found in these early classical writings was revived and analysed by a good number of post-war economists from the perspective of development economics. Applying this analytical framework to developing countries undergoing similar growth processes, these writers studied two-sector models of developing economies inspired by the writings of the British classical economists. The original Lewis model had a hybrid classical design with a "capitalist" and a "subsistence" sector as the fundamental division, but with certain neoclassical features such as declining and even zero marginal products of labour (including the usual profit maximising assumptions). In contrast, its core analysis was non-neoclassical. As emphasized by Ranis (2004: 715), when it came to the subsistence wage, Lewis's analysis of what determined the long-run subsistence wage was non-neoclassical and was very much compatible with the features of the classical model that one discovers in the works of Adam Smith to Karl Marx based on bargaining power and social norms. Instead of marginal products, Lewis allowed that the real wage in the large traditional sector to be set to what he termed a "conventional level of subsistence" (Lewis 1954: 149), which opened the door to societal/conventional norms as to what determines wages that is outside of the usual demand/supply mechanism. Hence, the Lewis model was more than some sort of equilibrium analysis of the inter-sectoral market allocation process determined by the evolution of the wage gap between the two sectors, as sketched out subsequently by Harris and Todaro (1970) and others. It was a broad framework inspired by the classical vision of the dual economy that could be employed to explain how these Western economies of the post-WWII Golden Age became more integrated with real wages moving in tandem with productivity. As shown by Temin (2016), however, it could also be used as a very broad framework to explain the post-1970s re-emergence of these dualistic structures, as reflected in the eventual decoupling of real wages and productivity.

I wish to argue that there were certain key macroeconomic factors to explain why the dualistic structures disappeared as a phenomenon within the mature industrial world and led to what was seemingly a more integrated economy resulting from the income-equalising transformational growth of the early post-WWII period. When Arthur Lewis was writing about dual economies in the context of the developing world, it appeared as if the more highly industrialised countries of North America and Western Europe had successfully achieved a pattern of sustained and integrated growth whereby real wages seemed broadly to be moving with advances in productivity. In the context of the early post-WWII era, the problem of dualism had disappeared, at least superficially, in the advanced industrial countries and was a challenge that needed only to be surmounted by the "underdeveloped" world by embracing the classical model of capitalistic development with each country eventually "taking off" and achieving some Rostovian industrial maturity. In reality, however, this era of industrial maturity and sustained growth that had characterised the Golden Age in the Western industrial countries turned out to be a historically specific period and what followed was, in essence, a return to the fractured dual features of a much earlier era.

What precisely were the key transformations that made it possible for the advent of the *Trente glorieuses* that was not sustained after the 1970s? As pointed out earlier and already understood by Adam Smith and the classical writers, including Marx, the early post-war period was an era in which Western governments had come out of the Great Depression and WWII with a strong commitment to full employment. They had done so by pursuing macroeconomic goals that depleted labour reserves and brought these economies very close to full capacity with rates of growth of both private and public investment that pushed forward productivity growth to rates no seen either before or subsequently. Together with this, one sees already in place, since the interwar era, key institutions of the so-called Keynesian welfare state in countries like Britain, Canada and the United States that did not become fully operative until the early post-WWII years with the provision and extension of social security benefits on a universal basis along the lines, for instance, of the Beveridge plan that led to legislated reforms in Britain during the 1944-48 period. All these developments, together with the widening of trade union rights in, say, North America, to large-scale mass-production industrial sectors and eventually even to the public services, all led to a strengthening of the bargaining power of workers that, as even Adam Smith would have predicted, pushed long-term real wage growth (associated with increased consumption norms) to rates not seen hitherto. This long-term growth in wages even led to important debates regarding the inflationary consequences of national productivity-geared wage policies (Lancaster 1958) and which formed the basis of the 1960s variants of national income policies in both the UK and North America. Without strong continued institutional pressure arising from solid trade union progress and generous social programmes of the welfare state, together with full-employment policies, these high "conventional" consumption norms that were sustaining higher long-term real wages, would no longer have the underlying support and, therefore, could no longer have sustained the latter's growth.

In particular, when after the 1970s we witnessed a retreat from the Keynesian welfare state, the policy response was to embrace globalisation and export-led growth, much as it had occurred in the 19th Century with the promotion of the free trade ideology on the British Isles and then eventually with protectionist reactions to it elsewhere internationally. The problem with the latter policy of export-led growth since the 1970s is that it tends to reinforce the dualistic structures among each of the trading countries and, moreover, for it to be sustained, there must be at least one consuming country of last resort, which turned out to be the country with the world's reserve currency, namely the United States

(Seccareccia 2014). At the same time, even in the US, with the attack on the welfare state through cuts in public spending, consumer expenditures needed propping up, which came through increased availability of consumer credit as both the US economy and other Western economies slowly financialised and have been plagued with greater systemic fragility ever since. Indeed, since the 1980s, the growing financial sphere and the phenomenon of financialisation appeared *pari passu* with the decline of the Keynesian welfare state and, as is well recognised, this growth has been very fragile.

However, as much as these are important phenomena that can explain what followed as developments after the great turning point of the 1970s in the more advanced industrial societies, these latter issues will not be further discussed in the present paper, which is concerned with the narrower question of identifying what current policy options can reverse the growth in dual economies. Given our understanding of the recurrence of dualism and polarisation of incomes, I wish to discuss one of the most popular policy proposal that seems to be marketed by policy makers on both the Left and the Right of the political spectrum to address this problem of growing disparities in most Western countries. This policy proposal is for a guaranteed universal basic income, which especially to some of its anti-poverty advocates can be seen as a way to raise the level of subsistence income, just as the development of the Keynesian welfare state led to increases in real wages more in line with productivity growth during the early post-WWII period. Of special concern, there is the question of whether this comprehensive stand-alone policy of guaranteed income (GI) can reverse the recent pattern of income polarisation and decoupling of real wage and productivity growth and offer a return to the era of *les Trente glorieuses*.

Can a GI Policy Bring Economies to a New Golden Age?

The concept of a guaranteed basic income keeps reappearing in policy circles and, in recent years, has reached almost a peak of intellectual popularity. This support is hardly new and, over the last half century, has appeared officially in the anti-poverty policy menu of celebrated conservative and left-leaning economists going back historically to such disparate supporters as more “conservative” economists as Milton Friedman, George Stigler and Friedrich von Hayek, as well as more “liberal” economists as Paul Samuelson, James Tobin and John Kenneth Galbraith. However, more importantly, nowadays GI policy has caught the eye of policymakers and political movements internationally, especially on the Left. In 2016, even though rejected, Switzerland was the first country in the world to vote on universal basic income, and there are many hybrid experiments being proposed or currently under way in many regions of the world. The political support on the left of the political spectrum comes from the desire to entrench citizens’ rights to meet basic subsistence needs and to address the growing polarisation in modern industrial economies in favour of a universal welfare safety net that would prevent anyone from falling financially through the cracks. For policymakers on the political Right, while paying lip service to the principle of meeting individual basic needs through universal social transfers, it is also seen as a way to achieve a leaner and less bureaucratic welfare system resulting, supposedly, from too many distinct and overlapping income-support programmes, such as old age security, unemployment insurance, family allowances and targeted social welfare programmes, and ultimately to reduce overall expenditures of the state (see Segal, 2008; 2013).

In its most general form, a GI policy is merely a government-funded income support scheme that would assure a minimum basic income to either individuals or households regardless of one's specific labour market status in society. While actual proposals differ from each other because of such particularities as the basic benefit levels that governments would guarantee and how much, if any, benefits would be removed as employment income rises, broadly speaking GI programmes are most distinguishable according to whether they are "means tested" or fully "universal" programmes. For instance, the unconditional basic income (UBI), as advocated for a very long time by Philippe van Parijs (1995), is the most broadly based GI programme which would grant unconditionally an income on an *ex ante* basis to all citizens without either a means test or an employment requirement, even though it is somewhat ambiguous, for example, whether this "universal" transfer would be provided to all residents, including legal immigrants in these industrial societies.

The UBI can be differentiated from other popular GI programmes, namely the guaranteed annual income *cum* negative income tax (GAI-NIT) programme of the type proposed by Milton Friedman (1962), as well as by an extensive number of private sector organisations and official government commissions in various countries. In Canada, for instance, the Ontario provincial government is considering a version of this GAI-NIT. The pilot project currently in place has just been implemented in three urban areas of the province for a three-year trial covering some 4,000 individuals (see Government of Ontario 2017). But there are many other similar projects being considered elsewhere in such disparate countries as Finland and Kenya, which are being funded either by local governments or by rich donners internationally, as is the case for Kenya. Unlike the UBI proposal, a GAI-NIT programme would involve both a minimum guaranteed income and a programme-specific tax-back rate that would grant a supplement through *ex post* transfers to the working poor. Although the minimum benefits could vary a great deal among the various proposals, the purpose of the two main types of GI programmes would nevertheless be the same in offering to all citizens a minimum subsistence income. The principal difference would be whether individuals receive the transfer *ex ante* (in which case it is not means-tested but universal) or *ex post* (in which case the transfer would be provided only when an individual's employment income is accounted for and is below the threshold recognized by the fiscal authorities). However, before commenting on the problems with the implementation of GI programmes, let us first analyse more carefully the mechanics of such an income support programme.

As I have discussed elsewhere and reproduced somewhat here (see Seccareccia 2010), there are three essential design features to these GI proposals: (i) an income floor, G_0, that is a target subsistence income level, which an individual or a households would be guaranteed regardless of the labour market status, say, of individual members of the household (and which is common to all such schemes), (ii) a rate at which the subsidy is eliminated (the so-called tax-back (or benefit-reduction) rate, t, if it is a GAI-NIT scheme) whose purpose would be to create incentives to take up employment, and (iii) a break-even level of income at which the subsidy from the GI programme eventually becomes zero (again if it is GAI-NIT variety). For instance, if we assume that individuals should be guaranteed a minimum subsistence income of, say, \$15,000 annually (in fact, the Ontario plan is actually set at an income transfer of \$16,989 Can. per year (approximately 14,000 US dollars) through monthly payments based on 75% of Statistics Canada Low Income Measure (LIM), which when added to other generally available tax credits and benefits, we are told, would provide a minimum basic income to meet subsistence needs) and, moreover, at a tax-back rate of 50 percent, this would imply that with a G_0 set at $15,000 the individual income should reach a break-even level of $30,000 before the recipient loses altogether the government transfer. From the above, we could conclude that, abstracting from other income flows such as property income, the total or gross income before income taxes accruing to a person eligible for GI support would be the sum of employment income plus the GI transfer, that is:

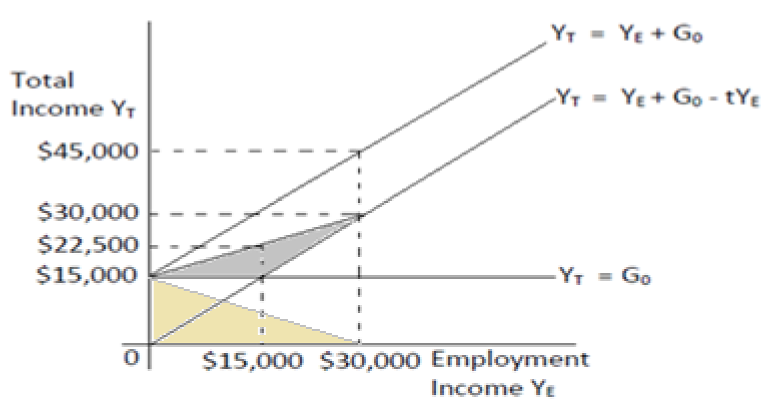
$$Y_T = Y_E + S \tag{1}$$

where Y_T is total income, Y_E is employment income, and S is the subsidy from the GI programme, with the subsidy, S, being equal to $G_0 - tY_E$. Hence, the subsidy portion would be the minimum income G_0 at $15,000 less the portion of the employment income tY_E that would be taxed back at 50 percent and would serve as income supplement to the basic income. From the above, we thus get that total income is:

$$Y_T = Y_E + G_0 - tY_E \tag{2}$$

Hence, from the above formula for the income supplement S, when $Y_E = 0$ and $t = 0.5$, $S = G_0 =$ $15,000; on the other hand, when Y_E is $30,000, $S = 0$. If employment income were to be between zero and $30,000, total income would continue to exceed the employment income because of the income support $G_0 - tY_E$. For instance, with Y_E at $15,000, the plan would generate Y_T of $22,500, and so on as Y_E rises monotonically up to $30,000 in the example below. All of this is depicted graphically in Figure 2 below, with total income Y_T measured on the ordinate and employment income Y_E on the abscissa and with the subsidy from the income supplementation programme depicted by the top dark grey shaded area as the gap between Y_T and Y_E above the level of G_0 for the GAI-NIT scheme being represented (also the value of this transfer is mirrored by the lighter shaded area of the right angle triangle at the bottom). If the worker chooses not to take up employment, the person would be guaranteed G_0. If, in its place, one is under a universal basic income (UBI) programme with t=0, then Y_T would be merely the top line $Y_T = Y_E + G_0$; on the other hand, if the tax-back rate t>0, then it would be represented by the kinked line $Y_T = Y_E + G_0 – tY_E$.

Figure 2: A Hypothetical GI Earnings Supplementation Scheme



The difference between the above GAI-NIT scheme and UBI programmes is that the latter, which is normally favoured on the political Left, would provide a total income level to low-income workers perhaps considerably higher than the GAI-NIT, as shown in Figure 2. However, for both schemes, the basic income would be an "aid-in-wages" or "add-on" to any employment income that individuals or households could earn. Indeed, this is one of the critical reasons behind the support for GI plans. Under established social assistance programmes historically, the options are either work or welfare. That is to say, under most traditional welfare systems, welfare recipients would be able to improve their overall income position only if they would accept jobs whose employment income is above the welfare level, because earnings below this level would normally be subjected to what may be described as a "100 percent tax-back rate" (t=1) in the sense that the individual recipient would lose completely his/her welfare transfers once acquiring a job. In this way, one could either be working (with zero welfare transfers) or receiving welfare (with no employment income); but one cannot receive both simultaneously, thus making work and welfare competing states of affairs for an individual worker, and welfare transfers become a "competitor" to low wage firms. Instead, with GAI-NIT and UBI proposals, work and welfare would be complementary. Individuals would be able to hold a job while receiving the income support from the GI programme, thereby, ideally, creating an incentive to take up a job while receiving an income transfer. One by-product of this could be that, like welfare programmes in general, the GI scheme would perhaps also be establishing a floor for what the 19th-Century classical economists referred to as the minimum subsistence wage. However, as we shall see below, this may not be true for market wages and can, in fact, actually remove the floor unless minimum wage legislation and other forms of income transfers, such as unemployment insurance benefits, remain in place. This is because, while there are similarities between the two concepts, a minimum basic income (such as an UBI) is not quite analogous to a minimum subsistence wage, since the two could potentially assume very different labour market functions.

This question of the incentive/disincentive effects of an "aid-in-wages" or income supplementation scheme, therefore, raises the difficult question of the behavioural outcomes of such programmes. While many mainstream economists subscribe to GI programmes, albeit mostly the GAI-NIT variety, neoclassical economists are deeply divided on the merits of such policy. For instance, based on the usual textbook depiction of the implications of such GI schemes, a good number of conservative neoclassical economists tend to be strongly critical of such proposals largely because of the micro disincentive effects that are alleged to result from the implementation of a GI programme. Starting from the questionable presupposition that poverty is primarily out of choice and that work produces disutility, it is assumed that rational individuals would trade off more "leisure" for less "work", and would therefore willingly fall into poverty as long as the government subsidises those particular individuals who are most strongly desirous of leisure. Based on this hedonistic conception of work versus leisure, there are some neoclassical economists who point to very strong disincentive effects that can lead even to a culture of dependency and entitlement, thereby rejecting its adoption on that basis.

With the GI being a pure demogrant, most neoclassical economists would agree with the view that the introduction of a GI programme could have a negative labour supply response resulting from an increased demand for "leisure" because of the presumed significant income effect that the existence of the GI would generate. However, mainstream neoclassical supporters of such programmes have argued that these effects are, in fact, empirically insignificant. Historical evidence of various controlled experiments of GI programmes in North America from the late 1960s to the late 1970s in New Jersey, Gary (Indiana), Seattle (Washington), Denver (Colorado), and the "Mincome" experiment in Dauphin/Winnipeg (Manitoba), showed evidence that corroborated what was already generally known from non-experimental studies that found relatively low negative responsiveness of labour supply variables to the introduction of such income supplementation schemes (see Hum and Simpson 1993). Indeed, in a Canadian study from the data collected from the "Mincome" experiment in Manitoba, Forget (2011) found that the labour force attachment declined slightly only for new mothers and teenagers, but it had no significant impact on labour force behaviour on the vast majority of participants. However, on the other hand, there was found to be strong beneficial effects on people's health and, among other positive effects, the Mincome GI programme encouraged young people to acquire more years of schooling. More importantly, however, the whole defence of a GAI-NIT programme going back to Friedman and Stigler was not to encourage those individuals already employed to leave their jobs and live off the GI support to sustain their "leisure" time; but just the opposite. That is to say, the goal was to induce individual welfare recipients who, because of the existing non-complementary patchwork system, are otherwise prevented from working by the current institutional structure of welfare programmes, actually to take up "gainful" employment. Indeed, as we shall see below, it is with respect to the latter that much of the heterodox critique of GI programmes has been formulated. Much of the heterodox critique of such GI schemes is inspired by the work of Karl Polanyi who questioned some of the implications of GI on the basis of both Marxian and Keynesian reasoning.

Basic Income and Karl Polanyi: Why GI Programmes Can Potentially Create Greater Income Polarisation and Wage Deflation

Most of the controversy among mainstream economists has been centred on the behaviour of labour supply and the work disincentive effects of GI programmes, and therefore the discussion remains stuck in the vortex relating to the perennial moral dilemma with which societies have struggled over the millennia pertaining to whether the poor are "deserving" or not of government income support, owing to the presumed strength of their labour supply response to a GI programme that could potentially "squander" limited public financial resources and lead to long-term welfare dependency. Most heterodox economists reject this futile debate (see Widerquist, Lewis, and Pressman 2005). Not only do heterodox economists argue that such labour supply disincentive effects are insignificant (as even many mainstream economists would agree, as discussed above), thereby strongly supporting the income transfers; but they point primarily to difficulties arising from the incentive effects that such programmes can engender on the labour demand-side and on the behaviour of individual employers at both the industry and macroeconomic levels. However, before analysing these implications, let us appreciate Polanyi's historical critique of GI, which is fundamental to an understanding of why heterodox economists are not all unconditional supporters of GI programmes.

Karl Polanyi would have been, undoubtedly, a strong supporter of a modern universal basic income, as argued strongly by Kari Polanyi-Levitt (2013: 115). This is because of the economic independence that a GI scheme can provide to each individual member of a community and also because of the possible macro re-embedding of the labour market in a way that establishes a decent minimum social subsistence income in a community at large regardless of individual labour market status. However, a careful reading of his writings would suggest that this would not have been a completely unqualified support. His historical approach totally rejected the mainstream concern about the work disincentive effects of GI programmes and, as we shall see below, he posed the problem primarily of the incentive effects on labour demand behaviour. As discussed elsewhere (Seccareccia 2015), 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 particularities of the Speenhamland system in Part II of *The Great Transformation*. Indeed, the analysis in his chapter on Speenhamland has been a source of debate and discomfort among some Polanyi scholars and advocates of GI programmes. A good example of this conflict is the analysis of Speenhamland in the work of Block and Somers (2014) that shows great uneasiness with Polanyi's perspective on what can be dubbed the Speenhamland effect.

As demonstrated in Polanyi's original analysis, it was in the context of the dual economy of the classical world of the late 18th and early 19th centuries that a first debate on the effects a GI programme actually took shape as a result of the adoption of the Speenhamland relief system instituted in the tradition of the Elizabethan Poor Laws. Administered by the local parishes, this particular transfer system, which some have identified as being akin to an early hybrid form of GI programme, had been put in place in 1795 and lasted until the 1834 Poor Law Amendment Act. More precisely, the Speenhamland wage supplementation scheme was a system of "out-of-door" relief or "aid-in-wages" to the "able-bodied" paupers who had to make a living by supplying day labour for their subsistence. Although the Speenhamland transfer mechanism was not uniform across English counties, the local government assistance to this group of working poor was tied essentially to the price of bread and the number of family dependents. The aim was to maintain working households at some minimum subsistence income, by the topping-up of wages through parish relief, which would occur whenever market real wages fell below a threshold as a result of rising grain prices.

There has been much written on the behaviour of these working poor by such writers as, for example, the French historian of the British Industrial Revolution, Paul Mantoux (1928), and, of course, Karl Polanyi (1944), and there was much controversy even during the time of the adoption of the Speenhamland arrangement over the consequences that eventually led to the repeal of that early type of income supplementation system. As detailed in Seccareccia (2015) and recounted also in Polanyi (1944), there were at least three different criticisms voiced against the Speenhamland relief system. The most popular was the Malthusian criticism that any aid to the poor in seeking to maintain their real incomes just creates more poor by sustaining demographic growth. The second criticism, which is nothing more than the modern neoclassical view, is that any subsidy to the poor could ultimately lead to a negative labour supply response and, therefore, increase the financial burden on the overall social support system. However, there was a third view that was highlighted strongly by Polanyi (1944: 128) that this form of income supplementation was *de facto* a wage subsidy to employers to encourage downward wage adjustment in times of high job scarcity. Within a chronically demand-constrained labour market reflective of a Lewis-type dual "labour-surplus" economy, it was hypothesised that the Speenhamland mechanism could facilitate the acceptance of wages even below subsistence, as long as their overall household income was being supplemented by a non-market wage subsidy.

Although the Malthusian argument is no longer taken seriously, interestingly the modern literature on the effects of a GI programme has been split along similar lines described above. As previously mentioned, much of the traditional literature on the effects of a GI scheme is concerned about the disincentive effects of such a programme, since it assumes that individuals will be encouraged to choose more leisure rather than work as a result of the income effect, much as did some of the 19th Century critics of Speenhamland. However, for many of the original neoclassical supporters of a GI scheme, such as Chicago economists like Milton Friedman, the object of such a programme was certainly not to encourage workers to leave their jobs or reduce their labour supply. As previously discussed, the purpose of a GI programme was actually to create incentives for individuals to enter the labour force by taking up a job and, at least, partially to get off welfare through income supplementation. However, to these neoclassical advocates of GI programmes, unlike traditional welfare schemes (including unemployment transfers and even minimum wage legislation), it was believed that a GI system would not much "distort the market or impede its functioning" (Friedman 1962: 191). It could thus have the effect of increasing wage flexibility in response to changes in labour demand, much as were the presumed Speenhamland effects previously alluded to by Polanyi (1944). As it had been argued elsewhere, the Speenhamland effect arises because of the "compensation effect" of the GI system. This compensation effect serves to reduce workers' resistance to a cut in their market wages, thereby reconstructing somewhat the neoclassical mechanism of a "correctly" functioning labour market with fully adjusting market wages, while still sustaining these workers in achieving a minimum subsistence income through the "aid-in-wage" transfer mechanism (see Iacobacci and Seccareccia 1989).

In a dual-type economy characterised by substantial unemployment, this effect could serve to soften employee resistance to adjustment in labour market gross earnings at the bottom end of the wage ladder because the GI supplement would rise automatically to compensate partially the wage cut, thus having a mitigating effect on net earnings of low income workers. In other words, a cut in market wages for the working poor under a GI scheme would generate a less than proportional reduction in net earnings. Secondly, one would expect a positive labour supply response from previous welfare recipients who would now no longer be penalised in taking up employment income as a result of the introduction of the income supplementation scheme within a labour-surplus economy. While empirical studies have shown this labour supply response not to be very significant, this has often been defended as the actual *raison d'être* of a GI programme and thus one cannot altogether rule out the importance of this effect. Thirdly, downward flexibility could arise from the incentive effect on firms to fragment full-time jobs into part-time ones so that these jobs could qualify for the working poor earnings' supplementation.

If these behavioural changes are significant, the implementation of such a GI policy in a demand-constrained labour market in which there exists substantial labour surplus would strengthen the downward pressure on market wages at, or near, the bottom of an economy's wage structure and would activate forces in favour of a low-wage/part-time economy. A generous unemployment insurance support and an active minimum wage policy could serve as partial counter-measures against the proliferation of low-wage jobs, but the job fragmentation mechanism would only be prevented in the unlikely case in which the minimum wage policy would also include a floor on weekly or monthly earnings. Much as was the case with the Speenhamland wage supplementation system of early 19th-Century England, such a GI programme could thus create incentives for firms to increase the proportion of jobs that would qualify for the "working poor" subsidy.

Consequently, it may be argued that a GAI-NIT income supplementation system could potentially work against the very people that it is supposed to help, especially if the anticipated Speenhamland effect on market wages is significant and widespread. Would this be true also of a UBI income support system? From what we have been discussing above, clearly the "compensation effect" would be *negatively* related to the tax-back rate, t. We have seen that in the current system where one cannot receive welfare transfers while holding a job (that is where $t = 1$), *de facto* the compensation effect is zero. On the other hand, the Friedman GAI-NIT is an intermediate case where $0 < t < 1$ and the compensation effect could be positive and significant. Finally, in the case of a UBI (that is where $t = 0$), the individual recipient will be able to retain the full G_0 transfer, as shown in Figure 2 above. This would suggest that, for a given G_0, the wage subsidy effect would always be present, with the danger of a wage deflating effect at the bottom end of the wage ladder regardless of the type of GI system. In terms of these undesirable behavioural effects being identified, what would matter crucially is the size of the minimum subsistence income guarantee, G_0, that is, whether the GI programme provides an individual or a household a high enough subsistence income. Indeed, the *greater* the G_0, the *lower* the pressure on individuals to take up any jobs to supplement their basic income, and the *lower* would be these downward wage adjustment effects. Conversely, the lower the G_0, the greater the incentive to take up a job to supplement the low basic income guarantee.

In summary, the intensity (or index) of the Speenhamland compensation effect (SCE), which we can consider as some sort of composite indicator of the labour force inducement effect (ΔLF) in driving individual welfare recipients into the labour market and/or the wage adjustment effect (ΔW) resulting from the existence of the GI, could be stated as follows: $SCE = f(t, W^*–G_0, X)$ with $\partial SCE/\partial t < 0$, and $\partial SCE/\partial(W^*-G_0) > 0$, where SCE is an index of the Speenhamland effect, W^* some measure of the "living wage" that would keep an employed person above poverty, and X other labour-market variables such as the level of unemployment in an economy that can also impact on SCE. If one can agree on what is a living/subsistence wage, W^*, as discussed by the classical economists, we can thus see that, for a given X, the critical debate is over the level of G_0. For instance, if one takes as example, the current parameter from the Ontario pilot project and the projected minimum wage for 2018, this would entail a G_0 of slightly less than 65 percent of the minimum wage and $t = 0.5$. With a guaranteed minimum income, G_0, that is this low, there may well be significant pressure on individual recipients to take up employment. That is precisely one of the important reasons why many on the political Right would be supportive of it.

In a chronically high unemployment or "labour surplus" environment, this could create downward pressure on market wages, as employers seek to take advantage of the wage subsidy. In addition to the importance of the value of G_0 previously discussed*, t*he significance of this effect would depend crucially also on the existence of a floor to market wages at the bottom end of the wage scale, established by some statutory minimum for market wages. If, instead, the minimum wage would be removed, then, as Friedman (1962) had envisaged, this would become a more flexible wage system whereby, as unemployment rises, market wages at the bottom would become more flexible downward. The consequence would be greater market wage polarisation, even if counterbalanced via the existence of GI floor that would be reducing simultaneously after-transfer income disparities. One can further infer that the *greater* is the incidence of unemployment in such an economy, the *greater* would be the market wage polarising effect of a GI system. For this reason, it is somewhat ironic that those high-tech plutocrats, who are predicting a world with greater and greater technological unemployment through the large-scale introduction of robotics and artificial intelligence, have been focusing so much of their attention on GI policy as the miracle policy solution. In the context of our analysis, the latter could just as easily exacerbate the situation because of the perverse Speenhamland effects. If their prediction of growing technological unemployment materialises, just as Karl Marx had envisioned an increasing immiseration of the proletariat resulting from ever greater technological unemployment, one could envisage perhaps an ever more bizarre dualistic structure that even Marx could not have imagined. In this case, such an outcome would be fostered via an act of state policy of transferring income to what Standing (2011) refers to as the "precariat", the working poor, associated with a greater downward pressure on market wages, together with an ever widening gap between productivity and real wages and an increasing deterioration of the market conditions of the precariat. Is this the brave new world of the future that we want and that would now be sustained more and more by state transfers via the mechanism of a minimum basic income?

If the latter is socially undesirable, it would be imperative that a GI plan be coupled with a commitment to some explicit full employment policy that would create sufficiently tight labour markets to prevent the negative Speenhamland effect on market wages from occurring. If technological change will speed up and society's material needs will be progressively satisfied by robots as the plutocrats are predicting, modern societies should find a more balanced approach to sharing increased leisure time equitably through, for instance, reduced working hours, as Keynes (1930) had imagined, rather than mass technological unemployment and greater polarisation of working hours. Indeed, according to Keynes (1936: 372), a policy on income distribution should be coupled with a full employment commitment. All those predictions about the macroeconomic expansionary effect of a GI programme, such as the recent research by Nikiforos, Steinbaum, and Zezza (2017) of the Roosevelt Institute or by Brown (2017) of the Public Banking Institute in the US, start with the assumption that a GI policy would be associated with substantive Keynesian-style deficit spending, by injecting funds into the macro-economy at the same time as unemployment rises, say, because of business cycle fluctuations. While such would undoubtedly have the desired macroeconomic outcome of preventing the full working of the Speenhamland effect, and that the GI programme would serve institutionally as strong automatic stabiliser, the problem is that when one studies the usual proposals that have come out and are supported especially by the political Right, they all start from the premise of an explicit or implicit assumption of government budget "deficit neutrality" of the GI programmes. If this is the usual institutional macroeconomic box within which such policies are framed, GI proposals would succumb definitely to the Polanyian critique previously discussed.

Concluding Remarks

GI programmes regardless of whether they are UBI or GAI-NIT types have been proposed in recent years by numerous economists to address the re-emergence of dual economies and the accompanying problem of growing income polarisation. While such policies can be important tools to address some of the negative consequences of the existing welfare system and can be efficient in eliminating some of the current institutional obstacles preventing welfare recipients from taking up jobs in the labour market, these benefits would only materialise in a world in which full employment is the norm (à la Minsky (2013) and also see Tcherneva and Wray (2005)). In the absence of a full-employment commitment and in the absence also of other floors to market wage deflation (such as a comprehensive minimum wage system and unemployment insurance), an income supplementation scheme adopted in the context of a chronic labour-surplus economy could merely become an institutional mechanism to spread low-wage employment even while guaranteeing a basic income, as suggested by Polanyi (1944). The real challenge for more progressive policy makers is how to commit themselves to achieve the twin goals of full employment and a universal basic income.

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