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# Against precarity, towards real democracy. Kaleckian perspective on basic income

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## Abstract

The neoliberal phase of capitalism, effectively commencing in the seventies, not only resulted in the current economic crisis, but also destabilised the labour market, making large numbers of people unemployed, relegating them to precarious forms of employment, and divesting them of basic economic security. The welfare state has transformed into workfare with increasing forms of conditionality, depriving many people of decent living conditions. The remainder of the welfare state is defended from immigrants, while some members of the precariat are played off against others. The frustration of the precariat, experiencing chronic insecurity, is exploited by resurgent neofascism. In these circumstances the idea of a universal basic income conceived as a solution to the aforementioned problems has gained some popularity.

The paper investigates the potential influence of universal basic income on national Gross Domestic Product and the level of income inequalities. It uses Michał Kalecki's equations that show relations between fundamental macroeconomic factors in the national economy (like GDP, wage/profit share, budget deficit, private investment, etc.) to verify and refute some of the common objections to basic income, including: problems with financing; potential increase in social inequalities; and lowering of wages. Basic income is analysed as a strategy to renew the full employment policy that would have a crucial impact on the balance of power between workers and capital. It could also contribute to a more equal distribution of key assets in society like wealth and time, therefore equalizing the opportunity to engage in political action, which is indispensable to a real democracy. In this sense, by empowering workers, basic income, according to the thesis of Erik Olin-Wright, can also contribute to a transformation of capitalism itself. The last part involves an analysis of the economic and institutional conditions under which implementing basic income can be beneficial in a specific state.

**Keywords:** basic income – employment – Gross Domestic Product – neoliberalism – precariat

## Introduction

The paper analyses the effects of neoliberal economic and social policy consequently realised in many countries since late nineteen seventies. Referring to the analysis of Guy Standing and his concept of the precariat, it tries to show some of the current fundamental economic, social, and as political problems such as rising inequalities, pervasive insecurity and the growing popularity of neofascist parties.

The paper also investigates the potential influence of a universal basic income on national Gross Domestic Product and the level of income inequalities. It uses Michał Kalecki's equations that show relations between fundamental macroeconomic factors in the national economy (like GDP, wage/profit share, budget deficit, private investment, etc.) to verify and refute some of the common objections to basic income, including: problems with financing; potential increase in social inequalities; lowering of wages and negative effects on labour supply. A basic income is analysed as a strategy to renew the full employment policy that would have a crucial impact on the balance of power between workers and capital. The last part involves an analysis of the economic and institutional conditions under which implementing a basic income can be beneficial in a specific state.

The author's perspective is combining kaleckian (or post-keynesian) political economy with a critical approach and a radical anti-capitalist political stance.

## 1. Neoliberal capitalism and the rise of the precariat

Since the energy crisis in the seventies capitalism has been significantly transformed from the post-war welfare state model to the current neoliberal phase. The costs related to the change in terms of trade between exporters and importers of oil were offloaded on employers and thereby as shift in the capital-work relation was made to the advantage of the former.

Neoliberal reforms based on tax cuts (especially for the richest), constraining welfare expenditures, trade liberalization and privatization of parts of the public sector led to a change of crucial macroeconomic

indicators. Economic growth of OECD countries was slower than during the Golden Age of Capitalism, rates of profits were higher, and wage shares in GDP declined. By shifting from welfare to workfare with increasing forms of conditionality and expanding flexibility neoliberal social and economic policy also destabilised the labour market, making large numbers of people unemployed, relegating them to precarious forms of employment, and divesting them of a basic economic security as well as depriving many of decent living conditions.

All of these contributed to the rise of a new social class<sup>1</sup> – the precariat. This has been comprehensively analysed by Guy Standing in his book *Precariat: the new dangerous class* (Standing 2011). According to Standing the precariat “consists of people who lack the seven forms of labour-related security” (Standing 2011, 10) i.e.: labour market security (connected with governments commitment to realise a “full employment” policy), employment security (“protection from arbitrary dismissal”), job security (protection from obligatory change of jobs in the same organization), work security (safe working conditions, limited working time etc.), skill reproduction security (apprenticeships, training etc.), income security (protection of adequate and stable income) and representation security (e.g. strong labour unions).

The precariat consists of five main groups:

- a) temporary workers – they account for a half of the Spanish workforce (Standing 2011, 35), more than a half in South Korea and one third in Japan (Standing 2011, 15);
- b) part-time workers – in the United States in 2009 “over 30 million people were in part-time jobs ‘of necessity’” (Standing 2011, 35). Often the term is not adequate because many members of this group in fact work far more hours than they are paid for;
- c) self-employed – forced to start a sole proprietorship by the employers who want to cut their costs (and offload them onto their former employees);
- d) interns – being constantly rotated without a chance to get a stable, paid job;
- e) *denizens* – people not having the full range of rights (social, economic etc.), including migrants, the criminalised.

Women constitute most of the precariat because more often they work on the basis of a) to c) forms of employment, are facing discrimination in the labour market and do much more unpaid housework and care work than men (Robeyns 2001). The rising costs of education leading to the growth of student debt (Williams 2009) contributes to the overrepresentation of young people in the precariat. This tendency is strengthened by the fact that the rate of unemployment in this group is almost twice as high as the unemployment rates for all other ages. (Eurostat 2013)

From the existential perspective, what is common for all these different groups is the state of insecurity and lack of control over their time and life. Not being able to plan their future, their interpersonal relations are imminently short-term. This impossibility to plan refers also to personal development. Not knowing which skills and knowledge could be useful in the future, they feel their learning and training is only fragmentary and casual.

Insecurity engenders fear and anxiety, which tends to transform into frustration. The accumulation of the latter leads to apathy and resignation or individual and collective acts of aggression. The frustrated precariat can be and is used and manipulated by right-wing populist parties (Mouffe 2005, 66–69) which construe and identify them as “the enemy”, which has no connection with the real problems of the precariat and reasons for its frustration. The “enemies” can be external (like representatives of other civilizations or nations), “external insiders” (immigrants) or internal but not fitting in some normative, stipulated and conservative “norm” (LGBTQ, feminists, atheist etc.). Hence, some members of the precariat are played off against others. The frustration of the precariat, experiencing chronic insecurity, is exploited by resurgent neofascism. It is worth noticing that many far-right, nationalistic and xenophobic parties succeeded in the elections before the beginning of the financial crisis (nationalist Freedom Party of Austria, French *Front National*, The Danish People’s Party, the League of Polish Families and the Law and Justice in Poland) which only reinforced this tendency (parties like Geert Wilders’ Party of Freedom in the Netherlands, the Sweden Democrats, the Finns Party, neo-fascist Jobbik in Hungary and neo-nazi Golden Dawn in Greece experienced a significant rise in popularity after 2008).

## 2. Universal Basic Income: providing basic security

In circumstances presented in the first part of this article, the idea of a universal basic income conceived as a solution to the aforementioned problems has gained some popularity. According to Guy Standing, a basic income is “an income unconditionally granted to everybody on an individual basis.” (Standing 2004, 17) It does

not require any past or present labour activity, or the willingness to labour in the future (in reference to some particular offered job or in general). Nor does it require any other past, present or future activity or behaviour such as participating in training or contributing to a social insurance system. In the pure form it is paid to individuals and it is „irrespective of any income from other sources.”(Van Parijs 1992, 3) It would be paid every month and should be sufficient to cover basic biological and social needs (social minimum).

A basic income in such a pure form hasn't been yet introduced in any nation state but has been discussed for at least a hundred years.<sup>ii</sup> After the neoliberal shift, since the nineteen-eighties the basic income proposal has gained more popularity, as a result of the worsening of workers' conditions and the emergence of the precariat. This is also due to the activity of the Basic Income Earth Network (previously the Basic Income Europe Network) – the organization promoting the idea of a basic income, as well as establishing in 2006 the *Basic Income Studies* journal, completely devoted to the analysis of this proposal.

A basic income is presented to be a measure to reduce insecurity of the precariat. Standing argues that a basic security is valuable in itself as a “universal human need,”(Standing 2011, 175) but also instrumentally, because it has a positive impact on the ability to learn, tendency to be more tolerant, altruistic, and develops egalitarian dispositions.

A basic income would also provide everyone more control over their time, by giving them more of “quality time”, i.e. “time in which we are not distracted, nervous from insecurity or spent from labour and work, or by the sleeplessness induced by it.”(Standing 2011, 128) This kind of time is indispensable for building deep, stable and meaningful relationships with other people and for “leisure”, which is a more (intellectually, culturally or physically) demanding and active form of spending free time than an unthinking “play.” Quality time is also essential to select important information and learn how to do this. Hence, it is a condition of possibility of making rational decisions e.g. in the sphere of finance or politics. In this point Standing argues with two advisers of American President Barack Obama – Cass Sunstein and Richard Thaler, whose book *Nudge* (Thaler and Sunstein 2008) inspired also British Prime Minister David Cameron. Sunstein and Thaler believe that people are surrounded by too much excessive information, so they cannot make rational choices and need “nudging” by the state. Standing perceives that position as extremely paternalistic and argues that it is not a matter of excessive information but the lack of time to select it and learn methods of this selection.

A basic income has also those advantages that it eliminates the stigmatization of the unemployed (it; not only them that get money from the state, everybody does) and appreciates unpaid housework and care work done mostly by women.

There are also many opponents to the idea of a basic income. Their most important critical arguments can be summarised in three statements. Firstly, it would discourage to labour and lead to a massive withdrawal from the labour market. Secondly, a basic income would lead to lowering of wages in the amount of this benefit, hence be a subsidy to the capitalists (Husson 2006). Finally, it would lead to greater social inequalities (Barry 1992)breaking the society into two groups: one getting the basic income and earnings from labour and the other living only on money from the basic income (Husson 2006). We should cope with these three arguments as well as show the possible source of financing this grant.

### 3. Kaleckian political economy and a basic income

A closer look at the elements determining the Gross Domestic Product would be helpful to refute those aforementioned critical arguments. I would use equations provided by Polish economist Michał Kalecki, one of the authors of the theory of effective demand (apart from John Maynard Keynes).

What determines the amount of the GDP in a close economy (without foreign countries)<sup>iii</sup>? We can measure it by at least two different methods (Łaski 2009, 47). First is the income approach:

$$Y = W + P + T$$

where Y is the Gross Domestic Product, W – wages and salaries, P – profits (both after taxation) and T – government revenue. In the expenditure approach:

$$Y = I_p + I_G + C_p + C_G$$

where  $I_p$  is the sum of private investment,  $I_G$  – government investment,  $C_p$  – private consumption and  $C_G$  – government consumption. Since obviously both methods have to lead to the same result, right-hand sides of

both equations must be equal. Therefore:

$$W + P + T = I_p + I_G + C_p + C_G$$

which is the same as:

$$P = I_p + (I_G + C_G - T) - (W - C_p)$$

Since the difference between budget expenditures (consisting of government investment and consumption) and budget revenue is a budget deficit<sup>iv</sup> (D), and the difference between workers wages and salaries and their consumption (note that we assumed that the capitalists do not consume, so all private consumption is the consumption of households) is the same as workers savings (S<sub>w</sub>), we can present the equation as below.

$$P = I_p + D - S_w$$

Now after dividing both sides by the share of profits in the GDP (P/Y) which would be represented by “p” we get

$$Y = (I_p + D - S_w) / p$$

and finally by introducing the share of workers savings in the GDP (S<sub>w</sub>/Y), represented by “s”, after some simple transformations we come to

$$Y = (I_p + D) / p + s$$

which is the crucial equation for our considerations in this article. Therefore, there are four important elements determining the amount of the Gross Domestic Product: private investment, budget deficit, the share of profits in the GDP, and the share of workers' savings in the GDP. The first two of them are positively correlated with the GDP, whereas the third and fourth have a negative impact on the GDP. One of the aims of this paper is to investigate the potential influence of a universal basic income on these four elements.

A basic income surely would cause an increase in effective demand. On the one hand, this should lead to boost of production according to quantity adjustment (Bhaduri 2007, 19) in case of all products which prices are cost-determined (like industrial goods, finished stock and services). On the other hand, prices of some products (those which are demand-determined, such as raw materials) would rise. In the economies with unused production capacity (in fact almost all current economies<sup>v</sup>) and where the agriculture is not a dominant sector the quantity adjustment would prevail, and the production would be increased with small rise in prices. Therefore, the effect of introducing a basic income would be an increase of private investment – our first element in the GDP equation.

Moreover this rise in private investment would have a positive impact on the employment rates, because of a greater demand for the labour power. Furthermore, there is another element of basic income which could decrease the rates of unemployment. According to William Jackson “Many people may today be working longer hours than they would wish, while others have no work at all; basic income could encourage shorter hours and thereby release working time for the unemployed.” (Jackson 1999, 652) Therefore, a basic income can be perceived as a form of a full employment policy. Its potential effects should be analysed on the macroeconomic level, not the micro-level as most of the opponents of a basic income do. People would not withdraw from the labour market because they would have to decide in the so called employee's market with greater incentives to perform labour – e.g. higher wages.

This last thing leads us to the second element determining the amount of the Gross Domestic Product, i.e. the share of profits in the GDP. A basic income should lead to a decline of this coefficient, whereas the share of wages in the GDP should rise. Firstly, that would be so because a basic income would get the workers away from the tight corner – as long as this benefit would exist, they would never have to worry about the survival of themselves and their families. Therefore, they could resign from some particular job if they perceived it as not satisfactory (in terms of wage or working conditions) and have time to look for a better job (also in a different city or region<sup>vi</sup>). In this sense a basic income would obviously improve workers' bargaining position, especially in the pay negotiations (Vanderborgh 2006, 5–6). Apart from an individual bargaining power, a basic income could also have a positive effect on the collective bargaining power, especially during a strike. As Yannick Vanderborgh puts it:

...a BI would make each single strike less harmful financially, since workers would keep their entitlement to a guaranteed income floor outside the labour market. With a BI, strikers would be able to face long-lasting resistance from employers, and the collective powers of unions would therefore be enhanced. (Vanderborgh 2006, 5)

The bargaining position of workers would also improve because of the aforementioned higher level of employment and a decline of unemployment rate. A better position of workers during wage negotiations means a worse position of employers. That means that a basic income should decrease profit/wages ratio and decrease the share of profits in the GDP<sup>vii</sup>. It could decline even more if one of the sources of financing a basic income would be a greater tax on profits.

The third element that determines the amount of the Gross Domestic Product, the effect of a basic income on which we have to consider, is the share of workers' wages in the GDP. This ratio depends on the income inequalities among employees. A marginal propensity to save is positively correlated with a change in incomes. If a basic income (as we said earlier) leads to a more equal distribution of employment and the amount of working hours, it will be able to reduce income inequalities between workers. However, more effective could be to significantly increase taxes on the highest incomes and in general transform the income tax system towards greater progressiveness.

Apart from the aforementioned increase in income taxes (for the richest) and greater taxes on profits, supporters of a basic income propose many others taxes which could serve as sources of financing this grant: Tobin tax (on currency transactions), higher Value Added Tax on luxury goods, wealth taxes and ecological taxes (Mylyndo 2013). All of them could be useful but in many countries a group of these taxes still would not be sufficient to fully finance the basic income (in a social minimum amount). Hence, another sources have to be found.

One of them could and should be the budget deficit. The amount of the deficit is another element of the GDP equation, moreover it is positively correlated to the Gross Domestic Product. In popular mainstream understanding a budget deficit is something which should be reduced and eliminated. The Stability and Growth Pact, which governs fiscal discipline, demands from all members of the European Union to have deficits not more than 3% of the GDP. In fact, budget deficits are not only common, but often necessary and usually beneficial (Laski and Podkaminer 2012). The state is not a big household which should not have too much debt and should always try to balance its incomes with expenditures. Contrary to households and private enterprises, states, as long as they are indebted in their own currency, can never go bankrupt.

Introducing a basic income would be also connected with elimination of some of the currently existing social assistance schemes and elements of social policy. There would be no need for unemployment benefits and all means-tested schemes aiming at reducing poverty. It would lead to significant decline in budget expenditure, and those savings could be the third source of financing a universal basic income.

The above analysis shows that all four elements determining the amount of the GDP should be changed by a basic income in direction that would cause a significant rise of the Gross Domestic Product: private investment and budget deficit would increase and the share of profits in the GDP as well as the share of workers savings in GDP would fall. This creates also the fourth and last source of its financing. Higher economic growth with higher employment rates would lead to a rise in budget incomes from taxation, hence to some degree a basic income would finance itself.

## 4. Towards real (social) democracy

If a basic income contributes to more equal distribution of income and wealth and provides the basic security and quality time for all citizens, therefore it also equalises the opportunity to engage in political action. Having quality time makes possible selecting not only those information which is connected with personal financial decisions, but also enables to investigate current economic and social problems more profoundly and critically. This obviously has to lead to a better quality of the public debate and a worse position of manipulators and populists (far-right as well as neoliberal ones). Moreover, more quality time means also more possibility to participate in the political decisions on the different levels of government and self-governing of the citizens, which is indispensable to realise a properly functioning real, participatory democracy.

In this sense a basic income would not only be a change in social policy and economy but also the whole socio-economic-political system. According to the thesis of Erik Olin-Wright, a basic income can also contribute to a transformation of capitalism itself into socialism. Wright argues that a basic income improves all of the three basic criteria of moving the society from capitalism towards socialism: "strengthening the power of labor relative to capital, decommodifying labor power, and strengthening social power over economic activity." (Wright 2006, 7) These conclusions as well as hopes and expectations are consistent with the perspective adopted in this paper.

## Conclusions: conditions for introducing a basic income

In most countries introducing a universal basic income should provide the basic security, increase the GDP and the rate of employment, decrease income inequalities, improve situation of workers and push societies towards a better, more equal and just socio-economic system. But implementing a basic income could bring such positive effects only

in countries which fulfill some conditions:

- 1) unused production capacity and the existence of unemployment;
- 2) being a sovereign issuer of currency;
- 3) having debt mostly in own currency;
- 4) agriculture is not a dominant sector of the economy.

Number one does not create much problem, but the second condition eliminates e.g. all countries of the eurozone until European Union would have the full prerogatives to run one European fiscal and social policy (became a kind of a state).

Meeting other four conditions would facilitate the implementation of basic income or make it more beneficial, however is not absolutely necessary. These are:

- 5) imperfect, selective, and inefficient social security systems;
- 6) popularity of flexible forms of employment;
- 7) relatively high level of budget incomes;
- 8) political ability to introduce new, progressive taxes.

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The notion of „class” is used here after Standing and is not a precise term from the perspective of the social structure analysis. It is not the same as in Marx or Weber but functions rather as a rhetorical or performative device. It could act like an „empty signifier” in analysis of Ernesto Laclau, which articulate different demands and links different groups. (Laclau 2001)

- ii Tom Paine is often regarded as the first proponent of the idea of a basic income or at least its forerunner. In his pamphlet *Agrarian Justice*, (Paine 1797) Paine proposed to pay every citizen who turned 21, 15 pounds sterling „as a compensation in part, for the loss of his or her natural inheritance, by the introduction of the system of landed property.” Therefore Paine’s idea was rather more similar to the capital grant proposal than a basic income.
- iii In these equations it is assumed that capitalists do not consume.
- iv Which can of course be a budget surplus if D is sub-zero.
- v In practice the production capacity is used only in the state of war or great prosperity with full employment. “Thus, in general Kalecki assumed that the level of effective economic activity is always below potential levels, and at all times there are unused productive capacities, even in the upswing”. (López and Assous 2010, 221)
- vi Hence a basic income could probably enhance geographical mobility.
- vii It does not mean that the amount of profits would decline. In fact, as the GDP increases, it should rise objectively but fall relatively to the global sum of wages. (Kalecki 1943)

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