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Contents

Editorial: ‘The Wretched of the Earth’

Franklin Obeng-Odoom 5

Trends and Dimensions

Why Emphasise Economic Inequality in Development?

Frank Stilwell 24

Causes and Consequences

Is China Reaching the Lewis Turning Point? Agricultural Prices, Rural-Urban Migration and the Labour Share

Ricardo Molero-Simarro 48

The Impact of the 2008/9 Crisis on Inequality and Poverty in Southern Europe: The case of Spain

Pedro José Gómez Serrano, Ricardo Molero-Simarro and Luis Buendía 87

Violence, Inequality and Development

David Barkin 115

Solutions and Contestations

Hiding Neoliberal Coal behind the Indian Poor

Ruchira Talukdar 132

To be Free and Fair? Debating Fair Trade’s Shifting Response to Global Inequality

Elizabeth Valiente-Riedl 159

Continues next page

The IMF and a New Global Politics of Inequality?

Alex Nunn and Paul White

186

New Books

Review Essay: Yanis Varoufakis on Global Imbalances

Gavan Butler

232

Book Reviews

Tom Barnes, Sohail Ahmad and Franklin Obeng-Odoom

243



'SUMMIT UP'

EDITORIAL

‘THE WRETCHED OF THE EARTH’

Franklin Obeng-Odoom

The ‘Wretched of the Earth’ are neglected in our ‘compartmentalised world’. The volume of publications on inequality has increased five-fold since 1992, but many of these focus on the top one per cent of households located in the Global North (International Social Science Council 2016). The more recent publication by the leading journal, *Social Forces*, on ‘Liberalization, Economic Growth, and Income Inequality in *Advanced Industrial Societies*’ (Kwon 2016, my emphasis) continues this trend. So, in this special issue of the *Journal of Australian Political Economy (JAPE)*, I asked the contributors to focus on ‘the wretched of the earth’, how their social conditions are shaped by the appalling economic inequalities, the dire implications for society, economy and environment, why this compartmentalisation continues to deepen, and what can be done about it.

Almost all the political economic analysis of the currently extreme global economic inequalities focuses exclusively on capitalism as the root of the problem and neoliberalism as the conveyor belt. Although useful, this diagnosis needs to be situated in a broader view of the nature of Western civilisation and its aggressive expansion. Historically built on a philosophy of exclusion, monopoly, and a superiority complex, Western civilisation fuelled slavery, imperialism, colonialism, neo-colonialism, environmental pillage, and shocking forms of patriarchy. Its ‘discourse upon the origin and foundation on the inequality among mankind’, to

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quote Jean Jacques Rousseau (1776), is patronising. The tendency of its apostles is to claim that the root of inequality can be nature or nurture and that even conventions impelling inequality are patterned after natural forces (Rousseau 1776). Some of these claims are insidious, but toxic nevertheless. Such was eminently the case of the great Karl Marx. As C. J. Robinson showed in his 1983 classic, *Black Marxism: The Making of the Black Radical Tradition*, Marx erred in describing the working class in England as 'English' when, in fact, the working class to which he referred had many Black people who were not English. This historic exclusion of Blacks could not have been accidental.

Most citizens, scholars, and students of Western civilisation tend to suffer some form of superiority complex, and many suffer multiple maladies of their own self-importance and the purity of their collective race. Their protestation only comes to bear when they experience a fraction of the ills of this civilisation when it implodes. As Walter Rodney showed in *How Europe Underdeveloped Africa* (1972/2011), slaves, in particular Blacks, suffered for many years the humiliation of life with little complaint, including by progressives in the West. Of course, the slave trade was officially terminated. However, it was only when a dose of this treatment was meted out by the repulsive Nazi regime in Germany against sections of the White population that the question of slavery and race-based inequality attained world-wide attention.

This historical experience recalls the penetrating analysis by Frantz Fanon (1961) of the compartmentalisation of the world in which nobody cares about 'the Wretched of the Earth'. Slaves were disproportionately coloured and the coloniser subjected coloured peoples to the most degrading forms of work only to spit them out into townships and shanty towns. The justifying veil of 'cultural difference' used as the logic for compartmentalisation was eventually torn apart and burnt by fiery revolution which, for a while, appears to disrupt the shocking levels of compartmentalisation and appears to be bringing the wretched of the earth to the fore. Alas! With the rails and the chains of the veil and the system unbroken, racialised compartmentalisation reasserts its ugly soul moulded, writ large, in the furnace of neo-colonialism, capitalism, and imperialism.

But, the drama of compartmentalisation continues, and is arguably magnified, in today's gilded age. With some prevarication, the International Social Science Council appears to jubilate that the number

of publications on the issue has increased, but this current volume should raise concerns. Inequality was always an issue: as has been evident in the plunder of resources in Latin America and Africa, the underdevelopment of the Pacific, the Middle East, and many aspects of Asia. Many of our sisters and brothers in Indigenous communities have been living in traumatic conditions while their White neighbours have so much more to eat than they need and more than is healthy to consume. Such stark contrasts have been the focus of Latin American scholars and many others researching the 'development of underdevelopment' (e.g., Frank 1966). So, why now, why the intense interest in inequality? The simple answer is – and Thomas Piketty's *Capital in The Twenty First Century* (2014) demonstrates – inequality is increasingly becoming a major issue in the West. The West has always had a fever of compartmentalisation but this increase in temperature has reached threatening levels, which many fear that will undermine continuing class and race-based privileges. For once, it appears that there is some sort of shared interest with 'the Wretched of the Earth' for a genuinely global approach to fight a common enemy. But even then, the focus continues to be placed on 'the top 1%' in the global core.

In principle, the field of 'development studies' has adopted a mandate to broaden this narrow focus. The idea of 'development', originally found in Marx, was understood as a general social change in societies everywhere (for a brief history, see Obeng-Odoom 2013). However, concern with development has often tended to focus on how rich countries can help poor ones, usually through producing a cadre of Western-educated development specialists who travel from their homelands to help or criticise other nations and peoples. These self-appointed prophets train national cadres, internationally or nationally, to develop local plans for local progress or pontificate global ideals without any detailed understanding of local processes (Currie-Alder 2016). Indeed, in many cases, development studies has created a situation where 'public discourse has become public disco' with comedians and musicians performing on stage using preposterous stories to solicit aid to help the poor (Moyo 2009: chapter 2). In the slums of Indonesia, development has created a theatre where the poor recite poems about their poverty as entertainment for the rich who pass some crumbs to them for being able to artistically describe their material deprivation (Peters 2013). It seems that the 'New Directions in the Political Economy of Development' once identified by John Rapley (1994: 495) as 'the critique

of neo-classical theory' in the 1990s have been rolled back. There is an emergent emphasis on 'post-development' characterised by the celebration of localist interventions and ways of life. Post-development seeks to write the obituary of development itself because the life of development is the death of many (Rapley 2004). Universalist claims popularised by celebrities often create cacophonous noise in the ears of diligent students of development genuinely pondering alternatives, but does a retreat to self-help, tradition and pre-development address unresolved issues? A minute of silence is needed to ponder the words of the late Aimé Césaire:

It is not a dead society that we want to revive. We leave that to those who go in for exoticism. Nor is it the present colonial society that we wish to prolong . . . It is a new society that we must create with the help of all our brother slaves, a society rich with all the productive power of modern times, warm with all the fraternity of olden days (Césaire 1972: 52).

In my own contribution to the *Journal of Developing Societies* (Obeng-Odoom 2011), I tried to highlight some of the dangers of self-help and localism, including affinities between localism and some mainstream economic thought, the tendency of localist analyses to misdiagnose the development malady as a gigantism issue, and the penchant for localist advocates to overlook the power of reconstructing social relations and institutions across the globe.

With all its weaknesses, development studies still provides the most fruitful avenue to look for insights on global economic inequalities. A focus on inequality started in the 1960s, as H.W. Arndt's work, *Economic Development: The History of Ideas* (1987: 97-100), shows. However, the focus on inequality quickly petered out, as economists argued that a focus on growth is more important because you need something before you can redistribute it. Since then, 'inequality' has crawled on but more often slipped off the development agenda. Currently, development studies, in the form of development economics, pays more and more attention to inequality, but only as 'risk', as a brake on economic growth, or as a hindrance to poverty reduction. The relentless pursuit of economic growth is, in essence, the Holy Grail in development economics. As exemplified in the contribution of economists to the special issue of *Foreign Affairs* (vol. 95, no. 1, 2016) on 'Inequality: what causes it, why it matters, what can be done', if only growth can be sustained then inequality will take care of itself (see Bourguignon 2016). Indeed, even

without exploring different types of growth and how it is generated (Gore 2007), the mainstream economists Dollar and Kraay (2002) hastily declared that ‘growth is good for the poor’.

But whether it is growth, poverty, inequality, or any of the many changing goals and ends of development, development has become a patronising notion that creates an idealised image of the West in the South or a unique/exotic image of the South as an ‘other’. Development has become an orgy of *Orientalism* (1978), to recall Edward Said’s masterpiece. Helping the poor is a common language, as is ‘sympathy’, whether it is in terms of evaluating interventions (programme/project aid), goals – be they Millennium Development Goals (MDGs), Sustainable Development Goals (SDGs) or both. Very little attention is paid to nuanced conceptualisation in these goals (on SDGs, see Gore 2016; on MDGs see Obeng-Odoom 2012; and Obeng-Odoom and Stilwell 2013). Questions about the growing power of unaccountable NGOs and Foundations are seldom asked and yet more rarely answered. As Clifford Cobb (2015) has recently publicised, without the accountability and scrutiny to which national bodies are subjected, foundations set the agenda and frequently divert attention away from structural causes of inequality to effects such as corruption of national governments, backward culture and differential levels of human capital.

Political Economy, Inequality, Development, and Underdevelopment

The political economy of development is sometimes seen as a salvation for these deficiencies in mainstream development discourses and practices. On the one hand, this optimism is appropriate. Political economists have offered analytical studies which show that what purports to foster development, in fact, leads to its very opposite, underdevelopment. The ‘development of underdevelopment’ happens on a world scale but also within and across countries. From this perspective, undevelopment (a state of being untouched) is distinct from ‘under developed’, which is a state of suppression and oppression (Frank 1966). Many dependency theorists take the view that development is, in fact, underdevelopment. Geovanni Arrighi, for example, argues that development is an illusion (Arrighi 1991; Reifer 2011). He demonstrates that the pursuit of development leads to inequalities.

This development-inequality nexus is structural. As a modernising project, characterised by a compartmentalised world in which the 'West' is 'modern' and the rest is 'traditional' and all traditional has to look up to the modern (Njoh 2009), the vision of development makes princes of the West and servants of the South. Similarly, within the West, development glorifies opulent White privilege, while downgrading others. Although its claims to superiority have often been scrutinised by scientific studies such as J.M. Hobson's *The Eastern Origins of Western Civilisation* (2004), this philosophy continues to destroy and extend its very logic of inequality. It creates dependency and mimicry which reinforces the privilege. According to Arrighi (1991), as the dominant groups set the agenda, they hide the fact that not all wealth can be democratically appropriated. Most wealth is oligarchic and hence is monopolised by a few. Even in terms of wealth supposedly obtained using some time-honoured market principles, the few who control it actively seek to block the widespread access to its acquisition. This is what Cambridge University political economist, Ha-Joon Chang has called *Kicking Away the Ladder* (2002).

On the other hand, a new political economy is flourishing. It preaches social justice, a much bigger goal than to be found in the mainstream, but its inclination is towards respectability, technical correctness and conventional policies for redistribution. Examples can be seen in Thomas Piketty's important work and, curiously, in many of its critical reviews, including those published in the *Review of Radical Economics* (Reitz 2016), *Metroeconomica* (Skillman 2016), and *Cambridge Journal of Economics* (Rowthorn 2014). The focus on class is commendable but the neglect of race, gender and space is not. Even analytically, such an insular focus obfuscates. As an historical example, Engels' *Origin of the Family, Private Property, and the State* (1884) gave us only a partial insight into patriarchy as it is centred on class formation and dynamics in capitalism. Simone de Beauvoir's *The Second Sex* (1949/2009) brilliantly broadens the terms of the debate by examining patriarchy in other modes of production preceding capitalism, but forgets or downplays race. It is correct, then, for the Black Feminist, Bell Hooks, to ask in her 1981 classic, *Aint I a Woman?* (1982). Such neglect weakens any *avant garde*, as it did when Aime Césaire – a prominent Black scholar and, notably, Frantz Fanon's teacher – resigned from the French Communist Party, citing as his reason an insensitivity in left circles to everything other than class.

Yet, these forces intermingle, whether in *favelas* (Brazil), *aashwa'I* (Egypt), *bidonvilles* (France), or ghettos (USA). These spaces of colour are created, (allowed to) exist, and expand to contain the coloured peoples who served the colonial empire and to absorb the 'reserve army of labour' after bouts of economic depression when the white colonial regiment channelled its welfare programmes (resources extracted from coloured peoples and their land) to its own race (UN-HABITAT 2003; Peters 2013; Njoh 2009; Obeng-Odoom 2015). It is, thus, futile – as mechanistic economics does – to seek to explore whether it is race or it is class that is more important in this drama of life. Truly dialectical and intersectional analysis can only show that it is both. The slums of the wretched of the earth play an important role in absorbing redundant labour that simultaneously reduces the cost of the privileges enjoyed by White capitalist society. When this analysis cascades up, the entire Global South, the wretched of the earth, can be seen as the slums of the world. Why the wretched of the earth persists despite, in fact because of, being subjected to the modernising and patronising logic of Western civilisation is at the heart of the compartmentalisation of the world in which we live.

This Special Issue of *JAPE*

The articles in this journal grapple with these issues of inequality and global development in various ways. At the outset, I would like to thank my colleague Matt Withers, an Australian PhD student working on migration and economic development in Sri Lanka. It was he and Prof. Emeritus Frank Stilwell who invited me to become a member of the editorial team for this special issue. Working together, we developed the call for papers for the issue, distributed it, and empanelled referees for some of the papers received. His contribution was substantial and for that I thank him mightily. Walter Rodney (1972/2011: vii) once wrote that it is 'sheer bourgeois subjectivism' to try to exonerate others by personally taking on all 'remaining errors'. So, I will not issue any further disclaimers about where responsibility lies: in Rodney's words, 'Responsibility in matters of these sorts is always collective' (1972/2011: vii). Matt Withers and I asked the contributors to this issue to focus on five key questions, namely (1) what are the patterns and dimensions of inequality across the world? (2) What causes inequality? (3) Why does

inequality persist? (4) Why is inequality an important focus for political economic analysis? (5) What can and is being done about inequality and by whom?

Frank Stilwell's opening article sets the scene by calling into question the tendency in mainstream economics or development economics to focus mostly on economic growth, assuming that it will trickle down for poverty alleviation. The challenge is not simply to trickle-down economics but also about the separatist analysis of poverty and wealth. Stilwell shows that, because poverty and wealth/high incomes are two sides of the same coin, it is not sufficient to simply focus on poverty reduction as the goal. Indeed, it is *analytically* problematic to focus on one and not on the conditions that sustain the rich-poor divide. The paper serves the additional purposes of setting the scene, looking at the nature of inequality, why it persists, why it must be addressed urgently, and how it can be done. Each of these themes depends on the analytical framework adopted: class, gender, race, space or, as in neoclassical economics, the individual and the household. The scale of Stilwell's analysis is intra-national, international, and global and hence the scope for action is similarly multi-scalar.

The next article, by Ricardo Molero-Simarro, begins the process of studying particular regions and nations by looking at China. It points out how mainstream economists have, hiding behind a contrived interpretation of the work of Arthur Lewis, offered a naturalist interpretation and prediction. According to this version of Lewis, as more and more rural labour is absorbed into capitalist urban production, the grotesque levels of inequality will naturally disappear. That is, after a certain demographic transition – a so-called 'Lewis turning point' – inequality will take care of itself. From this perspective, growing inequality in China is merely a 'moment' and will vanish after some time. Yet, as careful analysis shows, both capital and state are complicit in what inequalities exist, in fact, persist in China. Pricing policies feed into state neoliberalism and this ideology is worsened by the WTO's global trade policies, which have led to the further decline of farmers' wages, putting them in a precarious situation. However, the article shows that it is possible to use Lewis' theories, approaches, or ideas to do a careful political economic analysis of Chinese uneven development driven by neoliberal state policies internally and globally through WTO policies. This article, then, is both a conceptual and empirical contribution to the debates on inequality. Where the share of labour has

increased, the driving forces have been more complex, including labour strikes and trade unionism, rather than mere demographic change.

The next article, by Pedro José Gómez, Serrano Ricardo Molero-Simarro and Luis Buendía, direct our attention to inequalities and imbalances in Europe since the economic crisis began in 2008-9. It describes in detail core-periphery tendencies, whereby the North appears to have surged forward while the South remains and even has become more underdeveloped. Contrary to neoclassical economics theory about convergence as regions 'develop', the 'two Europes' have evidently diverged, leaving convergence as a pipe dream. The article explains this growing divergence in terms of class dynamics reinforced by the institutions and policy choices of the state and international development agencies. The case of Spain is particularly instructive, not only because of its more significant divergence but also because it demonstrates that, even within the periphery (Greece, Spain, Portugal and Italy), there are differences in experiences. A strengthening of the power of employers has gone hand-in-hand with weakening the position of labour. True, welfare and social policies appear to have increased, but the negative effects of the crises have been faster in catching up with labour than the much slower roll out of social interventions. Nevertheless, without the limited social interventions by the state, inequality levels in Southern Europe would have been much worse. Enhancing the redistributive capacity and willingness of the state is, therefore, crucially important for economic policy.

David Barkin's article then describes the materialist basis of the transformation in economic policy from a focus on industrial policy to a focus on market-based, extractive industries driven growth in Latin America. It provides concrete examples of growth-based policies, showing how they are imposed and hence lack popular support and yet have become the dominant paradigm. Widely characterised by a growing dispossession of poor and vulnerable groups, this policy paradigm has also led to the increasing concentration of wealth in the hands of a few transnational corporations (TNCs) that have used international legal processes to force resource-rich poorer countries to transfer modest amounts of rent to the TNCs. This process has led to extreme forms of inequality in the region which the dispossessed and middle-class professionals protested peacefully, at first. However, as their complaints were ignored, resistance has taken on a more violent form. Either way, there is both a popular rejection of growth and a popular demonstration

of alternative ways of life and ways of organising the economy to prevent inequality and violence in the name of development.

Drawing on experiences in India and how they are shaped by global forces, the next article, by Ruchira Talukdar, makes two important contributions. Conceptually, it shows the failings of the notion of 'energy poverty', demonstrating that it does not sufficiently look at inequality. That is, its focus tends to be on absolutes rather than relativities of social experiences. Empirically, the paper shows how coal mining in India is a case of the rich benefiting twice and poor dying multiple times. Based on a model of exploitation, both of labour and the environment, coal in India pollutes the living spaces of the poor and the environment, while making the fabulously rich even richer and making urban residents better off than rural residents. More fundamentally, as the coal labourers are from inferiorised races within India's caste system, the story of coal in India is not only of class and gender but also highly racialised. These intersectional inequalities are hidden by a discourse of 'helping the poor', a discourse that has received support from the Australian political establishment in order to legitimise its own obsession with transnational coal.

Elisabeth Valiente-Riedl's article continues the heated debate between 'free trade' and 'fair trade', using a value chain framework. Although it shows that there are clear differences between the two, the lines can be blurry in practice. Fair trade can be market harnessing, contesting, and affirming. All three models of fair trade create and sustain inequality at different levels or degrees but all through the market and allied institutions or processes. Whether free or fair trade, it is a growth-based development that is advocated. This model of growth is inherently laden with unequal exchange, especially when the trade regime is inspired by neoclassical economics rather than economics centred in the classical school. These subtleties appear to lead to the development of a third way: alternative trade. Not that this is new: indeed, it was the bedrock, but fair trade abandoned it. Valiente-Riedl's call now is for alternative trade in terms of vision and politics, based on better theorisation.

The following article, by Alex Nunn and Paul White, asks whether, in relation to inequality and global development, the International Monetary Fund (IMF) has become the mourner who cries more than the bereaved. We learn that its policies, reports, public speeches, and websites are now dominated by concerns with inequality. A careful study of these reports,

including interviews with some IMF high profile staff members, however, shows that the devil is in the details. The IMF does not see all inequality as problematic. In fact, there is 'good inequality' and 'bad inequality'. The good one is what makes us take action, while bad inequality is a brake on growth and poverty reduction. Thus, for the IMF, inequality is only a concern if it prevents economic growth, not because it is unjust. Clearly, the IMF is far from becoming a progressive body. In essence, there is nothing 'new' about its 'new politics of inequality'.

This special issue of *JAPE* also includes reviews of some books that help us to understand particular aspects of inequality and development. Of the five reviews, I choose to comment Gavan Butler's, being the most extensive, but I encourage readers to also pay close attention to the rest. Butler's review considers two recent books by the economist Yanis Varoufakis, now world famous because of his role as former Greek Finance Minister. Varoufakis argues that institutions of capitalism have not only failed to bring about equal societies but also that they have succeeded in keeping societies apart. The international monetary system has been designed in such a way that the USA, through its dollar, is set up to become increasingly powerful. As the global currency, the dollar captures surpluses created in the whole world for American benefit. In this sense, the global monetary system is a Minotaur, uncontrollable or temporarily stabilised only at great social cost. A similar argument, made with reference to the European Union (EU), emphasises how power has been monopolised by Germany, and how the weak have only a limited amount of voice. So, much like the international monetary system, the EU lacks a mechanism to redistribute surpluses collectively generated and, instead, overtly or covertly sanctions the monopolisation of resources in a system in which the rich get richer, while the poor suffer more. The only solution for social justice and egalitarian re-organisation is to develop mechanisms for inter-regional or inter-national redistribution of value and surpluses. However, as Butler points out, it is crucial to ascertain the contribution of Africa, for example, to the generation of the global surpluses as, without doing so, the 'global' in Varoufakis' titles appears pretentious. Overall, however, the review is a positive assessment of Varoufakis' work, showing that only radical reforms can address global inequalities and development.

‘The Beautiful Ones are Not Yet Born’: Towards the Future...

These articles demonstrate the Ayi Kwei Armah paradox. During the decolonisation period, there was much hope for a new Global South. Revolutionary leaders arose, promising a new world, and offering powerful ideas. Yet, colonial compartmentalisation remained and, in many cases, birthed neoliberal compartmentalisation. The reason was that the social relations bequeathed by the coloniser’s philosopher (slavery, feudalism, capitalism, and imperialism) had not been repudiated. Instead, the logic was that the more that legacy or outgrowth of its roots in the form of capitalist and other modes of production could be embraced through forces of modernisation/denied through ‘villagisation’ projects, the more developed/post-developed the ex-colonies would be. It is this limitation that the novelist Ayi Kwei Armah captured in his all-time classic novel, *The Beautiful Ones are Not Yet Born* (1968).

That is where the articles leave us. They reveal the often grotesque inequalities in class, race and gender and across space. They show the entrenched character of both intra-national and international inequalities, even if some measures of global inequality have, for now, declined. They reveal some systemic causes, including the rules and the processes of development as well as the agents and institutions that have been identified. Questions about culture, natural forces, and human capital are weaker explanans, it appears. Why does inequality persist? It appears that the answer depends on which inequality, but generally, inequality persists because it is part of the development process itself.

But, if so, what can be done and by which agents? At the policy level, we can, for example, disengage from free trade and look to fair trade, as Elisabeth Valiente-Riedl argues in this issue and Arghiri Emmanuel contends in his book, *Unequal Exchange* (1972). Disengagement will block major problems, but will it change social relations? We could also look to socialism for solutions. The articles in this issue do not explicitly do so; but those by David Barkin and Frank Stilwell, for example, hint at it. Yet, the empirical record of the past and present ‘actually existing socialisms/communisms’ (including Ricardo Molero-Simarro’s article in this issue) shows a different picture. In his magisterial essay, ‘*World Income Inequalities and the Future of Socialism*’, Italian Scholar

Giovanni Arrighi (1991) subjected both capitalist and socialist systems to careful analysis, using income inequalities as a benchmark, showing concretely that the outcomes are similar. Arrighi points to the co-existence of forces of exploitation and exclusion as explanas. Western Civilisation (including particular communist/socialist ideals) holds onto the power of exploitation which forces the Global South into continuing economic disadvantage. Exclusion is different but complementary. It entails how the dominant nations and classes of the West jealously guard their oligarchic power obtained through guns and force (slavery, colonialism, imperialism) to dictate who should be excluded or should be included. This power too is exercised against 'others' regardless of whether the West is communist or capitalist, a point better developed by Aime Césaire in *Discourse on Colonialism* (1972), leading him to break away from the pin-pong of capitalism and socialism/communism. Exploitation and exclusion on a world scale, then, generate forces of 'circular and cumulative causation' (Myrdal 1944) in a compartmentalised world.

Analytically, the articles in this special issue of *JAPE* discard the post-Piketty splitting of hairs about where in the Marxist formula some measurement problem went wrong. Instead, they look more broadly at economic inequalities: by considering space, class, gender, and race. It is an approach to which Australian political economists have made significant contributions (*e.g.*, Stilwell 1993; Stilwell and Jordan 2007). This approach is challenging to development studies that treat 'poverty' as 'multidimensional' while inequality tends to be seen as a monolith. The multi-dimensional approach to inequality has demonstrated that inequality is not a monolith and hence has to be addressed multi-dimensionally. Consequently, the multi-dimensional approach has been widely embraced, including by the International Social Science Council in its latest *World Social Science Report: Challenging Inequalities: Pathways to a Just World* (2016).

A key concern with this approach is that it tends to proceed on the basis that, being separable, the consequences of the various dimensions of inequality are merely additive. Indeed, using this 'multi-dimensional' approach, some political economists tend to estimate inequalities separately for the different dimensions such as gender (Brewer *et al.* 2002), leading to mechanistic claims such as women get less than men; Indigenous people have worse health conditions, developed countries do this or that, while developing countries do so, so and so.

Methodologically, this multidimensional approach can create binaries and hence can be criticised for being only partially dialectical, as Samir Amin (1972: 191-193) reminds us in his magisterial work, *Imperialism and Unequal Development*.

One way to prepare the grounds for ‘the beautiful ones’ is to embrace the idea of ‘intersectionality’, developed by the Black feminist scholar, Kimberlé Crenshaw (1991). Doing so will enable us to look not at *dimensions* but at the *intersections* of race, class, gender, and space. We know that mainstream economics is the ‘economics of the 1%’ (Weeks 2014), so it will not serve as a good canvas for taking this reconstruction forward. As I have shown, political economy as presently constituted, has brought us so far but will take us no further. So which way should we turn? Black economists have started working on ‘stratification economics’ (see Darity 2009; Darity *et al.* 2015). It is political economy that puts the spotlight on structural intersectional compartmentalisation, rejects hegemonic discourses that deliberately or negligently categorise effects as causes, and hence pursues public policies that can bridge the gulf separating us. This political economy can, of course, do more to decolonise methodologies by borrowing from all fields, not just economics (Smith 1999), by more strongly embracing dialectics, and by considering the intersection, indeed, indivisibility between economy and nature (Maathai 2004; Brewer *et al.* 2002) at different scales around the world. Everything at the cleavage of complexities evokes intense attention and interest.

As the articles that follow show, the consequences of the growing inequalities are dire: setting in motion economic recessions, tearing apart societies and providing grounds for violence, and harming the environment that supports all of us. Whether the proposed multi-scalar solutions of stronger, wider, and more inclusive state-based structural (pre- and re-distribution) social protections at different scales can replace existing neoliberal growth-based strategies remains an open question. Similarly, non-state alternatives of collective and social organisations demonstrated in real life scenarios show that it is no longer just about the state or the market but also about the commons.

We need a new approach to equitable development that is centred on changing social relations; not just on changing goals (*e.g.*, from MDG to SDGs) or even the reach of the state or non-state, collective actors. As Charles Gore (2016) argues, we need a new *paradigm* of development.

Even if he does not fully elaborate what that means, thanks to Frantz Fanon's admonition to *The Wretched of the Earth* (1961), the struggle for a paradigmatic transformation will not be without vision:

...now is the time to decide to change sides. (235)...Come, comrades, the European game is finally over, we must look for something else. We can do anything today provided we do not ape Europe, provided we are not obsessed with catching up with Europe. (236). If we want to transform...into a new Europe...then let us entrust the destinies of our countries to the Europeans...If we want to respond to the expectations of our peoples, we must look elsewhere besides Europe (239)

What Fanon means is a total rejection of Western supremacist philosophy of exclusion and compartmentalisation. But, as Immanuel Wallerstein (1961) warns, this strategy is not a retreat into hamlet, localist life, but a pursuit of new multi-scalar social relations based on self-determination, sovereignty, equal rights, and equality of race, not just politically but also socio-economically. Voting rights which are currently denied to the 'Wretched of the Earth' in international circles where the 'veto' is the monopoly of the strong and mighty constitute an epic example of modern fascism in the world system that must be named and shamed. Past humiliating social relations (some, as degrading as servitude for three centuries under colonialism/extended slavery) and raw robbery for even longer periods must be ameliorated through *multi-scalar* reparatory justice (Beckles 2013); not aid, free, or fair trade and certainly not the blind faith put in other individual, entrepreneurial options advocated by many such as Hernando de Soto (2000) and Dambisa Moyo (2009).

Even in the *kampungs* of Indonesia (from where I construct this introduction to the special issue), the racist disintegration of Europe and its hegemonic echoes in Donald Trump's America can be felt and seen. But, being in Indonesia also powerfully reminds me of the prospects of what the Global South resolved to do during the historic 1955 Bandung Conference: to build, nourish, and expand a great alliance of the South. Clearly, the power of Fanon's advice is unmistakable. It is in this sense that the call for 'post-development' is founded but not because 'development' is wrong. Rather, the particular ideas about development, such as changing the goals of development from one (set) to another (set), ignoring systemic forces of exploitation (in the Arrighi sense), and remaining silent about the quest to become the oppressor – are hopelessly wrong. It is not because post-development is taking us to socialism –

whatever that means - but because post-development is a march towards new social relations based on equality of race, class, and gender within, between, and across a world in which nature and economy are indivisible (Maathai 2004). With the scale of implosion in the core shaking the foundations of Western civilisation, opportunity beckons for Western progressive scholars to shed off their own patronising and objectifying gaze, 'conscientise' themselves against their deep-seated subconscious glorification of the privileges they enjoy (on 'conscientisation', see Freire, 1970), and genuinely team up with their colleagues in the South to develop a serious intersectional political economy of global economic inequalities and development.

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JAPE in 2017

THE JOURNAL'S NEXT TWO ISSUES WILL COMPRISE A GENERAL ISSUE AND A SPECIAL THEME ISSUE ON 'WHAT'S WRONG WITH ECONOMICS?'.

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WHY EMPHASISE ECONOMIC INEQUALITY IN DEVELOPMENT?

Frank Stilwell

Mainstream economic analysis has rested on the general assumption that increased production and consumption will improve people's well-being. At first sight, this expectation seems reasonable, particularly in countries where material poverty is widespread. Consider, for example, the following statement from A.C. Pigou, a rather conservative man who was Professor of Economics at Cambridge University before J.M. Keynes:

The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the betterment of human life. The misery and squalor that surrounds us, the injurious luxury of some families, the terrible uncertainty overshadowing many families of the poor – these are evils too plain to be ignored. By the knowledge that our science seeks it is possible that they may be restrained. *Out of the darkness light!* (Pigou 1928: preface; emphasis added)

Pigou is to be lauded for making explicit the social purpose of economic analysis, as well as for this uncharacteristic literary flourish. Although written in England nearly 90 years ago, his views may be seen to have continuing relevance to poorer countries, indeed to all situations where basic material needs remain unmet. Reasoning of this sort can readily explain why economic growth is usually assumed to be the principal means for lifting people above conditions of poverty and its attendant 'misery and squalor'. The problem in practice is that the real world experience has turned out rather differently. Many of the difficulties of poorer nations remain in spite of, or perhaps because of, the nature of the economic growth that has taken place. Meanwhile, the more developed nations are bedevilled by persistence of poverty amidst affluence. Perhaps there is something to be said for picking up the passing reference

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in Pigou's statement to the 'injurious luxury of some families' and putting the question of distributional inequality higher on the agenda.

This article presents a case for making a more equal distribution of income and wealth central to political economy, development and social progress. It posits that poverty and affluence are two sides of the same coin, and that, therefore, the redress of poverty requires equivalent attention to the wealthy and to the structural factors responsible for the rich-poor divide. Its four main sections pose fundamental questions about economic inequality: 'what forms does it take?', 'why does it persist?', 'why does it matter?' and 'what is to be done?'

Economic Inequality: what forms does it take?

Economic inequalities are multi-dimensional: they can be regarded from the viewpoints of class, race, gender and space, for example. Which of these aspects is given primary attention usually reflects the predisposition of the analyst (whether to highlight sources of class exploitation, to challenge racism or gender discrimination, or to plan for less divided cities, for example). The analytical frames established in the social sciences also have a major impact on what is deemed worthy of investigation or simply on *what is seen*. A neoclassical economic viewpoint, focussing on individuals being rewarded according to their personal productivity, contrasts sharply with political economic perspectives that highlight the lop-sided power-plays responsible for exploitation, discrimination and other forms of social injustice.

Perhaps a relatively neutral starting point is appropriate. For this purpose we can briefly review the data on economic inequalities according to three spatial scales: international, intra-national and global.

The most familiar of these scales in the literature on economic development is *international*. The standard 'league tables' that are regularly compiled and paraded by the United Nations (UN) and the Organisation for Economic Cooperation and Development (OECD) treat each country as a single unit, compare their average levels of income or wealth and rank them according to their overall prosperity. It is on this basis that the distinction between developing and developed (or other characterisations of poor, intermediate and rich) nations has normally been made. The conventional economic measure for this purpose is Gross Domestic Product (GDP) per capita, although the Human

Development Index (HDI) is well established as a more comprehensive summary of the diverse factors affecting people's living standards.

Table 1 provides some illustrative data. The first two columns show the values of the two indicators for a range of affluent nations, the BRICS (Brazil, Russia, India, China and South Africa) and some poorer nations. Although broadly correlated, there are significant differences in country rankings according to whether GDP per capita or HDI is used.

Over time, the general pattern of these international inequalities has been relatively stable, with the more economically developed nations of North America, Europe and Australasia heading the league tables and the poorer nations in Asia and Africa in the rear. The last three decades has seen some significant shifts, however, particularly because of the rapid aggregate economic growth in China and India, the world's two most populous nations. Other poor nations, particularly in sub-Saharan Africa, have remained near the bottom of the league tables, although the picture is complicated by recent surges of growth in some of these countries, triggering claims about 'Africa on the rise' and the prospects for more broadly-based development (Obeng-Odoom 2015; Jerven 2015). One of the effects of monitoring this socio-economic data is to generate debates about how judgments of nation-wide (or continent-wide) progress can and should be made.

The second scale at which we can observe the patterns of economic inequality is *intra-national*. This turns attention to the unevenness among household incomes within each country. Again there is an array of possible measures, drawing on data provided by the governments of the individual nations. UN compilations reveal striking contrasts between countries that have dramatic internal inequalities and others that are relatively egalitarian.

The fourth and fifth columns in Table 1 present two illustrative statistical measures of these intra-national income inequalities. These are the Gini coefficient and Quintile ratio. The former summarises the extent of deviation from perfect equality in the overall distribution of income, while the latter shows the average income of the richest 20 percent of households as a ratio of the average income of the poorest 20 percent.

The final column of Table 1 shows the 'inequality-adjusted HDI' calculated by the UN, taking account of how these and other dimensions of social inequality are estimated to impact on the overall well-being of the people in each nation.

Table 1: Indicators of Income, Development and Inequality, selected countries

Country	GDP per capita (Int.S)	HDI	Gini Income Inequality Index	Income Quintile Ratio	Inequality-adjusted HDI
US	55,837	0.915	41.1	9.8	0.760
Canada	44,310	0.913	33.7	5.8	0.832
Australia	45,514	0.935	34.0	5.8	0.858
Germany	47,268	0.916	30.6	4.7	0.853
Norway	61,472	0.944	26.8	4.0	0.893
UK	41,325	0.907	38.0	7.6	0.829
Japan	37,322	0.891	32.1	5.4	0.780
Brazil	15,359	0.755	52.7	11.1	0.557
Russia	24,451	0.798	39.7	7.3	0.714
India	6,020	0.609	33.6	5.0	0.435
China	14,239	0.727	37.0	10.1	-
South Africa	13,165	0.666	65.0	28.5	0.428
Indonesia	11,035	0.684	38.1	5.7	0.559
Philippines	6,969	0.668	43.0	8.4	0.547
Vietnam	6,100	0.666	35.6	6.1	0.549
Bangladesh	3,123	0.570	32.1	4.7	0.403
Nigeria	5,911	0.514	43.0	9.1	0.320
Sierra Leone	1,966	0.413	34.0	5.6	0.241
Ethiopia	1,500	0.442	33.6	5.3	0.312

Source: United Nations, *Human Development Report* 2015, Table 3; latest data.

Notes to Table 1: [1] GDP *per capita* figures are expressed in US dollars adjusted for purchasing power parity (PPP), known as International dollars (Int.\$), 2014; [2] HDI and inequality-adjusted HDI data relate to the Human Development Index calculations, based on 2013 and 2011 estimates; [3] the Gini inequality index is a quantified representation of a nation's Lorenz Curve based on its household income distribution, ranging from a value of zero for complete equality to one for complete inequality; [4] the income quintile ratio shows the ratio of the average income of the top 20 percent of households to the bottom 20 per cent of households; and [5] the inequality-adjusted HDI modifies the HDI figures shown in the second column according to how much each nation's estimated social well-being is reduced by its extent of inequality.

This statistical information, selected from what has become a standard and widely-accepted database, can tell us quite a lot about the relationships between average incomes, inequality and human development. Among the richer nations, for example, the USA's performance and ranking looks very much less impressive when inequality and social factors affecting human development are taken into account; notably, its inequality-adjusted HDI drops below Japan's. Among the mid-ranking nations, the impacts of differences in inequality are even more striking. The high degree of inequality in Brazil causes its inequality-adjusted HDI to fall by a quarter of the value of the nation's general HDI score; the even more extreme inequality in South Africa causes its HDI to plunge by a third.

Turning from incomes to *wealth*, all countries have greater intra-national inequalities. Incomes, whether in the form of wages, rents, dividends or welfare payments, are flows over time. Wealth, on the other hand, represents the stock of assets at a point of time. Wealth comprises a mixture of physical assets (such as productive capital equipment and real estate) and financial assets (such as bank deposits, bonds, currency, shares and derivatives). These assets are ultimately more important in shaping inequalities because they can both generate current income and provide a basis for perpetuating the inequalities into future generations (especially in countries, like Australia, with no inheritance taxation). 'Who gets what' depends substantially on 'who owns what'. It is in this context that the contribution of Piketty's blockbuster book *Capital in the Twenty-first Century* (2014) is so important. It documents the extent of wealth inequalities in a range of countries and seeks to account for the factors that account for variations over time (see Sheil 2014/15 in this journal for a summary and assessment).

Piketty's analysis of wealth inequalities has been supplemented by other data relating to individual countries. The Australian case is interesting in this regard because of the widespread local belief (or wishful thinking) that the nation is somehow exceptional. The recent Evatt Foundation study of wealth distribution among Australian households suggests otherwise. Its analysis of the data shows that the top 10 per cent of households owns about half of the private wealth, while the other half of the wealth is shared, markedly unevenly, among the other 90 per cent of households (Sheil and Stilwell 2016). Two growing disparities are evident, one between the super-rich (the 'top one per cent') and the upper middle households, and the other between the middle and the poorest households. In these respects, Australia is right there 'in the mix', exhibiting and experiencing the anti-egalitarian processes, trends and effects that have been evident in the majority of both rich and poor countries in recent times.

Global inequality is the third and broadest spatial dimension of economic inequality. It can be thought of as the extent of inequality in the whole of the world's population, irrespective of the country or region in which the people live. Imagine that one was able to line up all the people (or households) in the world, ranging from the richest to the poorest. One could then use an index such as the Gini coefficient to summarise the extent of inequality among them. One such statistical calculation by researchers at the US National Bureau of Economic Research (Davies *et al.* 2009) estimated the world Gini coefficient for wealth distribution at 0.804. This is much closer to absolute inequality than to equality; and it is substantially higher than inequality in any single country (even South Africa). Even more striking is the result of comparing 'who's got what' at each end of the global distribution. A controversial study by Oxfam produced the remarkable finding that, worldwide, just 62 people have the same total wealth as the poorest 3.6 billion people (Oxfam 2016). Data from the same source suggest that almost half of the world's measured wealth is owned by just one per cent of the world's population.

An obvious supplementary question is whether global inequality is increasing or decreasing. The answer depends on the net effect of the interaction between inter-national and intra-national inequalities. During the last two decades, broadly speaking, two different processes have been occurring: [1] a narrowing of international economic inequalities because economic growth has surged in India, China and some other developing nations while, post-GFC, it has stayed weak in the richer countries; and

[2] rising internal inequality in almost all nations during the same time period, other than in South America where atypically egalitarian policy regimes have had the reverse effect (Gasparini and Lustig 2011; Tsounta and Osueke 2014). The net global inequality outcome is finely balanced because these two processes are pulling in opposite directions (United Nations 2013; Bourgignon 2015). Yet the pervasive tendency to increasing internal inequalities within both rich and poor nations is deeply troubling. The class consequences of such wealthy elites gaining ever larger shares of national wealth – and acting as an increasingly integrated global capitalist class – warrants sustained political economic attention (Robinson and Harris 2001; Murray 2012).

Economic Inequality: why does it persist?

While monitoring the patterns and trends of economic inequality is relatively straightforward, interpreting the causal factors is inherently contentious.

Some explanations emphasise ‘sins of omission and commission’, tending to blame economists and the institutions that they advise for giving low priority to concerns about inequality and its redress. Indeed, as already noted, mainstream economists, following Pigou, have generally focussed on the goal of getting faster rates of economic growth rather than on more equitably sharing its fruits. This inclination is evident in the literature of the economics profession, in the standard university economics curriculum and in public policy pronouncements. The self-referential character of mainstream economic journals makes their contents largely impervious to critique, although Piketty’s blockbuster book has provided a recent, minor jolt. The core economics curriculum for university students is also quite unyielding, remaining resolutely neoclassical, though electives in development economics commonly admit discussion of topics such as Amartya Sen’s ‘capabilities approach’ to development (Sen 1999; Bose 2013; Paton and Valiente-Riedl 2016) and the case for using HDI rather than GDP to measure progress.

In the broader public realm, the GDP growth priority also remains dominant, as is evident in the current Australian government’s ‘jobs and growth mantra and (implicitly) in Donald Trump’s rhetoric about ‘making America great again’. However, significant change seems to be afoot as eminent international figures have spoken out about the need for

more attention to be accorded to economic inequalities. Famously, the Pope, former US President Barack Obama and IMF Director Christine Lagarde are among those who have made this call. The key question is whether the recognition of the need to reduce economic inequality translates from rhetoric into action. The critical analysis undertaken by Nunn and White (2016, in this journal) suggests that, in the case of the IMF at least, it remains largely lip service.

A second, more materialist explanation of the persistence of inequality requires analysis of the roles that growth and inequality actually play in the current economic system. Systematic analysis of the political economy of capitalism is the *sine qua non* of any such investigation. Admittedly, not all economic activities are capitalist. In both rich and poor countries much useful work is done by households, cooperatives and communities, while exchange is not always monetised and focused on profit-seeking (Allon 2011/12). Such productive but non-capitalist economic activities may give rise to inequalities - to the extent that they are based on a racialized or gendered division of labour, for example. However, capitalism is the dominant mode of production, exchange and distribution worldwide at this stage of human history. So understanding inequality requires analysing capitalism. As an economic system driven by the pursuit of profits and the accumulation of capital, inequality is integral to its normal functioning, reproduction and growth. Much political economic analysis, particularly in the Marxian tradition, is concerned with this analysis of capitalism as a class-based system of economic production, distribution and exchange (Harvey 1982; Ruccio 2011; Burgmann 2016). Economic inequality is revealed as a systemic condition rather than a regrettable aberration.

A political economic perspective also focuses attention on the 'process of circular and cumulative causation' that tends to increase inequalities over time. This way of understanding socio-economic phenomena, pioneered by Gunnar Myrdal (1957), provides a bridge between Marxian and institutional economic analyses. It is particularly pertinent in studying economic inequalities because it shows how people with substantial wealth can use it to create a 'virtuous cycle' of yet more, while poor people find themselves trapped in a 'vicious cycle' of disadvantage. These anti-egalitarian processes, often differentiated by race, gender, and space as well as class, reproduce patterns of unequal opportunity (Stilwell and Jordan 2007; ch.6). Within each generation, the wealthiest individuals have the most options. Through running businesses, through

leasing their land, or simply through getting interest on their financial capital, they can expand their initial wealth. Meanwhile, the options for people without capital are usually restricted to waged employment (if jobs are on offer), informal work or whatever charity or welfare payments are available. Over generations, the gaps tend to widen as accumulated wealth is passed on in patterns that compound these socio-economic inequalities.

Down-to-earth observations like these are deeply uncomfortable to those with a direct stake in the economic *status quo* and/or an ideological commitment thereto. When confronted with the evidence on inequality, mainstream economists in the tradition of Gary Becker (1971) respond by claiming that markets have an egalitarian character. They say that, because the personal characteristics of buyers and sellers (race or gender, for example) are irrelevant to market transactions, only money matters. However, this claim flies in the face of the systemic connections between market power and gender, race and, most obviously, class (Darity, Hamilton and Stewart 2015). People from disadvantaged socioeconomic positions typically have few resources with which they can enter into market transactions. By contrast, the more economically advantaged groups have greater purchasing power, more impact on market supply and prices, and also the ability to set the rules of the game. Markets seldom operate according to the textbook principles of 'perfect competition' anyway: elements of monopoly, collusion and corruption commonly intrude. So, while mutually advantageous exchanges may occur, no reliably egalitarian forces shape market outcomes in practice.

Political economic analysis of class relations in capitalist economies is particularly potent in showing how the ownership (or non-ownership) of economic property shapes market positions and power. People popularly think of inequality in terms of individuals and their personal incomes, but the structure of class relations – between capitalists, landowners and workers – is more fundamental. The shares of profit, rent and wages reflect the relative rewards paid to the classes of people who own the capital, land or labour. These shares do not remain constant over time. The globalisation of capital in recent decades, for example, has increased the power of capitalists relative to workers, enabling them to maximise profits by relocating their investments around the globe. Workers, other than a mobile managerial elite, are more 'on the back foot' as their relative bargaining position has weakened. A 'race to the bottom' in wage rates is a predictable consequence, while a 'race to the top' takes the

remuneration packages of CEOs in the opposite direction (Stilwell 2015: 308; Burgmann 2016:7). Financialisation operates in conjunction with globalisation to exacerbate these inequalities: as Ruccio (2016:2) notes, 'episodes of capital account liberalisation are associated with a persistent increase in the share of incomes going to those at the top'.

Concurrently, the political economic power and rewards of wealthy landowners has tended to increase as land has become a scarcer factor, particularly in and around large cities. Population growth and urbanisation has pushed up market values of land, thereby enhancing the wealth, power and income of landed property owners. Increasing problems of housing affordability for the working class and marginalised social groups are among the predictable consequences of these processes (Stilwell 2016b).

Economic Inequality: why does it matter?

Is an assumption that economic inequality is necessarily a bad thing embedded in this reasoning? If so, it is not surprising that it can be a 'turn-off' or fall on deaf ears. As social surveys show, people commonly underestimate the actual extent of inequality and give only modest support for government policies to reduce it, even though they may think that it would be better, in principle, if the initial distribution were less inequitable (Saunders and Wong 2013). Some people even regard quite extreme inequalities as 'natural' and not a matter of deep concern. This may simply reflect their ideological preference for capitalism whatever it delivers. It may also reflect a deep-seated belief in the existence of a trade-off between equality and economic growth that would make attempts at egalitarian policies costly in terms of growth foregone. Or it may reflect the influence of the theory that all countries have to pass through a phase of widening inequalities *en route* to a higher stage of development when the fruits of affluence can be shared more equitably. Growth first, redistribution later. It is a view that has claimed some academic respectability ever since Kuznets (1955) and Williamson (1965) posited that economic inequality tends to widen during the early stages of a nation's economic development, then tends to narrow once a more fully developed state has been achieved. Although subject to sustained critique, this posited 'inverted U-shaped' relationship between inequality and development remains implicit in much policy practice.

Indeed, *if* economic development is to be driven by the expansion of capitalism, it follows that the fostering of a capitalist class – and the inequalities that inevitably creates – is necessary for capital accumulation and economic growth. By similar reasoning, however, it is hard to see why or how the process would be reversed once that class has become more established and wealthy. As political economists specialising in development studies have often emphasised, corporate globalisation entrenches the dominant class power, perpetuating and intensifying the inequalities (Nwoke 1987; Chossudovsky 1997; McMichael 2008; Ruccio 2011).

Challenging the conservative views supporting inequality is an egalitarian view that is of long lineage. Historically, it has been nurtured by liberal, social democratic and socialist political philosophies and aspirations. More recently, it has been given significant empirical support from a variety of social science research studies. As I interpret it, this research indicates six grounds for expecting that a more equitable economy would produce better social outcomes. Taken together, these six themes provide a comprehensive case for an egalitarian reorientation of analysis and policy throughout all economic discourse and policies.

The first theme concerns the connection between income distribution and *happiness*. It presumably comes as little surprise to hear that, in general, rich people tend to be happier with their lives than very poor people. Indeed, the proponents of economic growth have (often implicitly) claimed this connection as the primary justification for their single-mindedness, as if we could all be rich and happy. However, social surveys reveal surprisingly weak correlations between income and self-reported happiness (see, for example, Gittins, 2014: ch.4; Obeng-Odoom 2015; Wilkinson & Pickett, 2009: 5-13). Rising out of absolute poverty fairly reliably makes people happier but further income increments do not necessarily add to their satisfaction. This is not really so surprising, is it? After basic consumption needs have been met, additional income can be expected to yield diminishing personal benefits. Indeed, mainstream economists well schooled in neoclassical theory should recognise this as the most likely outcome if their cherished ‘principle of diminishing marginal utility’ applies to incomes and not just to purchases of individual goods. More income adds little to the well-being of a person who is already rich, whereas a similar income increment would add much more to the well-being of a poor person. Pigou (1928) famously

took this view. Indeed, one could hardly imagine a tidier utilitarian rationale for progressive redistribution of income and wealth.

In practice, all such generalisations about the diminishing pleasures of getting richer need to be treated with caution, because people vary so much in their responses to changed material conditions and because of cross-cultural differences in how personal well-being is perceived. The neoclassical economists themselves, since Pigou, have backed away from any welfare theorems that assume the possibility of interpersonal utility comparisons. What seems most damaging to the conventional wisdom, however, is the growing evidence that economic growth is not generally want-satisfying nor conducive to higher levels of material contentment (Hamilton 2003; Hamilton and Denniss 2005). Reported levels of happiness in different countries correlate more strongly with income equality than with average incomes (Wilkinson & Pickett 2009; ch.1). Egalitarian societies tend to be generally happier societies, whereas people in rich societies are often, on average, not significantly happier than those in much poorer nations. It appears that economists for the last two centuries have been basing their theories on the false (or outdated) assumption that higher *per capita* income creates happier people: beyond the elimination of absolute poverty, it appears that creating more equality would be a superior strategy.

A second argument for seeking greater equality arises from the growing body of social science research that shows more egalitarian societies tend to be healthier and more cohesive. International evidence indicates a positive correlation between income inequalities and the incidence of a wide array of *social problems*, including physical and mental illness, the incidence of violence, crime and prison incarceration, drug use, obesity and low educational attainment (Wilkinson and Pickett 2009; Bose 2013; Marmot 2016). This research shows that, for an array of nations, there is a positive statistical correlation between the intensity of social problems and the extent of income inequality. Among the developed nations, Japan and the Scandinavian nations are at the lesser social problems/egalitarian end of the spectrum, while the USA and Portugal are at the greater social problems/anti-egalitarian end (Wilkinson and Pickett 2009: 20). This higher incidence of social problems in the more unequal societies may help to explain the earlier finding that they also tend to be the generally unhappier societies.

A statistical correlation between inequality and the intensity of social problems cannot be the full story though. It is also necessary to identify causal connections. These can be expected to vary for each of the social problems being studied – and Wilkinson and Pickett present plausible hypotheses and evidence for each of those that they analyse. There are also more general reasons to expect causal links. Egalitarianism's ultimate justification is that it fosters a sense of collective purpose. Within any group of people, whether it be a household, a workplace or a sporting team, continued cooperation depends on the perception of fair shares in the fruits of that cooperation. Where such conditions do not prevail, a greater incidence of social problems and pathologies is not surprising. When there is an uneven incidence of winners and losers according to differences of gender and ethnicity the tensions are further accentuated.

A third consideration is the connection between economic equality and the capacity to respond to *environmental* challenges. Here again, trust and cooperation are essential. The willingness to work together to produce an ecologically sustainable future is almost inconceivable without an egalitarian perspective and redistributive policies (Parr 2013). This has become evident in international deliberations on how to reduce or mitigate the problem of climate change. Poorer countries cannot reasonably be expected to reduce their carbon emissions if doing so would effectively lock them into perpetual economic disadvantage. Meanwhile, within more affluent nations, getting public acceptance of policies like emission trading or carbon taxes requires concurrent redistributive policies to raise the incomes of poorer households, compensating them for the impact of the increased energy costs. Otherwise social and political resistance is inevitable. Bolder attempts to create transitions to sustainability, like moving to 100 percent renewable energy or reducing environmentally-damaging consumerism, require yet stronger emphasis on the egalitarian dimension of public policy (as discussed in Stilwell 2011/12).

A fourth issue relates to the relationship between inequality and *economic efficiency*. As previously noted, mainstream economists, following Okun (1975), have often talked of an 'efficiency-equity trade-off', implying that we can have more of one at the expense of the other but not more of both. Yet is that really so? The weight of evidence now suggests the contrary – that more egalitarian societies may have more efficient economies too. Three decades ago, Robert Kuttner (1984)

pointed out that public policies which perform well (or poorly) in terms of both equity and efficiency are just as likely as policies that perform well in one but at the expense of the other. So no general trade-off need apply. Research originating from no less a conservative authority than the International Monetary Fund (IMF) has more recently reinforced this view, showing that the more equal nations tend to have superior macroeconomic performance (Ostry, Bird & Tsangarides 2014). In a similar vein, the OECD has published a recent report arguing that, within individual nations, inequality tends to impede capacity for productivity improvements and, therefore, that international recognition of the nexus between higher productivity and greater equality should be a key policy focus (OECD 2016).

A fifth aspect of the case for equality concerns the relationship between economic structures and *political* institutions. This touches on the perennial question: are capitalist economies and democratic polities natural partners? Democracy is widely held to be the most desirable political arrangement – or, as a cynic might say, the ‘least worst’ arrangement. Although subject to diverse interpretations, democracy embodies an essentially egalitarian principle – that each person should be entitled to equal participation and influence in group decision-making processes. In its simplest electoral form, this means ‘one person, one vote’. Capitalist economies, on the other hand, operate on the quite different organising principle of ‘one dollar, one vote’. In the capitalist marketplace, those with the most money send the strongest market signals for what should be produced. Thus, the cherished mainstream economic principle of ‘consumer sovereignty’ has an anti-egalitarian character when applied in societies with markedly uneven distributions of income and wealth. Only if the distribution of income and wealth were made more equal would the tension between capitalism (as an economic system) and democracy (as a political system) be lessened.

There is a further practical reason why democracy requires greater economic equality. This relates to the tendency for extreme inequality to corrupt the institutions of the state. As Stiglitz (2013: ch.5) argues, the concentration of wealth that arises from economic inequality in modern capitalist societies has a corrosive effect on our political institutions. This effect operates through diverse channels. Donations from corporations or wealthy individuals to political parties, for example, can influence government policy agendas and priorities. Lobbyists continually ply their trade with similar intent. On those infrequent occasions when

governments actually do try to introduce policies that would go against powerful corporate or elite interests, they are almost invariably subjected to immense pressures to reverse those policies. A case-in-point was the ill-fated attempt to put a super-profits tax on mining companies during the last period of Labor government in Australia: a 'revolt of the billionaires' in the mining industry effectively scuppered the policy (Collins 2016).

Finally, there is the question of whether greater equality is conducive to *peace*. Of course, all reasonable people want a peaceful society. Yet the world is bedevilled by tensions that frequently spill over into violent confrontations, including terrorism and war. While it would be facile to characterise all such conflicts as products of socio-economic inequality, it is evidently a pervasive influence. Inequalities deriving from the effects of imperialism are a case in point. Anti-imperialist struggles, sometimes violent in nature, have challenged the political economic advantages gained by imperialist powers at the expense of the people in the poorer regions and countries that they dominate. Conflicts in post-colonial societies are also often concerned with the legacy of such inequalities, structured along lines of class, ethnicity and gender. The effects of inequality are also increasingly evident on a global scale as groups who perceive themselves to be exploited, oppressed or marginalised by wealthy nations and/or classes have recourse to terrorist violence. The recurrent hostility towards 'the west', the USA in particular, commonly involves resentment against structures of political economic power and their supporting ideologies that are insensitive to the local conditions and aspirations of people in other countries. It is hard to conceive of a peaceful world without some greater emphasis on dealing with these processes that have created unjustified and unacceptable global inequalities.

For all these reasons, an emphasis on analysis, strategies and policies aimed at reducing inequalities is warranted. If we want societies whose people are happier, less troubled by social problems, more productive and more capable of creating sustainable, democratic and peaceful arrangements, then we need to emphasise greater economic equality.

At each and every stage of the development process a broad egalitarian perspective, beyond 'mere' poverty alleviation, is therefore warranted.

Economic Inequality: what is to be done?

Making a case for greater economic equality and achieving it in practice are rather different processes. The latter involves direct engagement with *political economic power*. It also necessarily puts *the state* in the spotlight – as the focal point for either implementing or obstructing progressive changes. The modern state, whether in affluent or poorer nations, invariably has complex, interacting institutions that affect the political, legal and economic character of the society in myriad ways. It wields great power, having the official monopoly on legitimate violence and on processes of law-making and policing. It is a major economic player in its own right, because of its capacity to collect taxes and determine the official money supply. It also sets the rules of the economic ‘game’ within its own jurisdiction. Whether a society is egalitarian or anti-egalitarian is to a considerable extent determined by how the power of the state operates in that society. The point is important to emphasise because people commonly look to the state – to elected local, provincial and national governments and sometimes to supra-national institutions such as the World Bank and the UN – for distributive policies to reduce the class and market-driven inequalities.

Broadly speaking, we can distinguish between policies for *re-distribution* and strategies to change the *pre-distribution* of wealth and incomes. The former is the more familiar reformist political program, usually centred on the distributional incidence of governmental taxes and expenditures. These may embody an avowed ‘Robin Hood’ intention of taking from the rich and giving to the poor, although the actual practice and its stated rationale are seldom so bold or clear cut. Pre-distribution is more fundamental, however, because it involves the institutional processes that shape the initial distribution of wealth and incomes, *i.e.*, before any government taxes and transfers occur. A concern with pre-distribution puts more weight on the systemic underpinnings of exploitation, discrimination and imbalances of class power. It switches attention from the sphere of distribution into the sphere of production and the processes by which value and wealth are created and reproduced. Serious engagement with such matters shifts the political focus from piecemeal reform to more radical and revolutionary transformations.

Re-distribution can be an effective start in a program of economic reform, bringing about more egalitarian outcomes if there is the political will so to do. National governments are always engaged in re-distributive

policies of some sort, although sometimes only implicitly because the redistributive effects are masked by broader macroeconomic or social objectives. Neoliberal ‘trickle-down’ policies that seek to increase national economic growth by giving more opportunities to the already wealthy are a case in point. Such policies reliably widen inequalities. Other policies can and do have opposite effects, however, reducing the rich-poor gaps. Such progressively redistributive policies have made significant inroads, in developed countries at least, into economic inequalities during particular historical periods, such as the three decades following World War Two. Progressive taxation, with high marginal rates on the top incomes, generated revenues that financed substantial welfare state initiatives, helping to create a more equitable distribution of income post-tax and transfers (Piketty 2014: ch.14). Public policies can surely have egalitarian redistributive effects, given sufficient time and social support.

National governments have many policy instruments at their disposal for this purpose (as described by Stilwell and Jordan 2007: ch.11; Leigh 2013; Stiglitz 2015; and Atkinson 2015). Increasing the rate of tax on incomes from capital relative to incomes from labour would reliably produce more egalitarian distributional outcomes (which is important to stress because capital gains are often more lightly taxed than wage incomes, as is the case in Australia, for example). Land taxes can also be potent re-distributive policies because they capture some of the unearned economic surplus that currently accrues to wealthy landowners as a result of urbanisation and infrastructure improvements (Stilwell and Jordan, 2007: 207-9). The revenues generated through these progressive tax initiatives can then be used for additional public spending on job-creation programs, welfare programs or broader infrastructure improvements that enhance economic opportunities for poorer people.

Re-distribution of accumulated *wealth* is harder. Class interests are directly at stake and political resistance to progressive policy initiatives is therefore inevitable. A focus on wealth is necessary, however, because it is accumulated wealth that is at the root of cumulative inequalities (Sheil and Stilwell 2016). Progressive income taxes can stop the rich-poor gap from widening, but it is the ownership of assets that underlies long-term earnings capacity. Given the political will, however, much can be done to reduce the concentration of wealth and power. In developing countries, land reforms that create less concentrated ownership open up possibilities for more widely dispersed distributions of income too. In

some cases, this may require resistance to both market and state-centric models. As Anderson (2015) notes in the case of Papua-New Guinea, the modernist view of land as a commodity does not sit comfortably with Melanesian practices: policies for communal ownership and stewardship are more conducive to the fruits of land-use being more equitably shared.

In more developed nations, constraining the uses of concentrated wealth and reducing its inter-generational transmission are also key political economic concerns. Possibilities include introducing tax on inherited wealth or, where such tax already exists, raising the tax rate and/or lowering the threshold level of wealth to which the tax applies. Piketty (2014: ch.15) advocates the introduction of an international wealth tax, while expressing reservations about its likelihood of coming to fruition. Policies of this sort have a pre-distributive character too in that they tend to reduce the 'market' income disparities over time. By similar reasoning, if pre-distribution policies could reduce class exploitation, foster cooperatives or expand 'the commons' for collective economic purposes, that would undercut the capitalist, financial and landholding class powers that are at the root of economic inequality, both nationally and globally.

Other strategies with similar intentions focus more directly on changing the reward structures within private and public sector enterprises. If the gap between the payments to top executives and the lower-paid workers could be reduced, for example, then subsequent governmental revenue re-distribution through taxes and transfers would be less necessary. In reality, the remuneration structures in capitalist economies have become much more unequal in recent decades, so the trend has been all in the wrong direction in this respect (Piketty 2014: 333-335). Economies operated no less effectively when the gap between average payments to top managers and workers was much narrower. Evidently, the income relativities involve a matter of political and social choice and are not the product of a purely economic imperative. Governments could change 'the rules of the game', for example, by only allowing companies to claim payments of managerial salaries as untaxed business expenditures if they are within a specified multiple (say, 10:1 or even 20:1) of average workers' wages.

Pre-distribution requires attention to both 'ceilings' and 'floors'. Ceilings limit extremes of wealth accumulation, while floors eliminate poverty. Over time, inheritance tax, land tax and capital gains tax can reduce wealth concentration and thereby help to lower the ceiling. Concurrently,

improvements in legislated minimum wage rates can raise the income floor for employed persons. Another option that is increasingly widely discussed in developed nations is the introduction of a universal basic income. Paid to all people irrespective of their socio-economic position, the basic citizens' income would provide a more comprehensive floor. Other social policies focus more directly on increasing equality of *opportunity* (United Nations Research Institute for Social Development 2010). Educational policies that fund schools according to students' needs rather than perpetuating class privilege are an obvious example. Together with (and perhaps partly funded by) policies such as inheritance tax, they have a crucial role in limiting the inter-generational transmission of economic inequalities.

More generally, there is much to be said for insisting that *all* public policies be required to undergo an equity assessment before being implemented. Applying an equity audit process could be a means of identifying which public policies are currently most problematic in their distributional impacts and eventually ensuring that all major public policies have egalitarian effects, ameliorating rather than compounding existing class differences.

It must be conceded that the redress of *global* inequality is more problematic. As Wade (2002:59) says, 'it cannot be a direct objective of public policy, which has to focus on inequalities within nation states or (via trade rules, aid, etc.) inequalities among states'. Yet there are recurrent expressions of concern and intention. International agencies like the institutions of the World Bank have had long-standing commitments to overcome the impediments to development and to assist the poorer nations to 'catch up'. Their development assistance programs commonly have disappointing effects, however (Chossudovsky 1997; Engel 2010). So do foreign aid programs provided by individual nations, ostensibly for the purpose of fostering development. Their funding seldom achieves the modest international target of 0.7 per cent of GDP (Sachs 2005). To give just one example of a wealthy but mean nation, Australia's foreign aid contribution, following the Turnbull government's budget cuts in 2016, is now only a little over 0.2 per cent. Moreover, it is not just a matter of the volume of aid: as political economists have long argued, 'tied aid' tends to serve the interests of the donor countries more than recipient countries, while foreign aid can have the effect of reinforcing a post-colonial straightjacket that constrains domestic development policies (Hayter 1981; Anderson 2013). Arguments for

reparatory justice, such as making international reparations for past oppression and exploitation through slavery (Beckles 2013), build on concerns of this kind.

From a political economic perspective, one should hardly be surprised at the existence of severe constraints on policies for progressive distribution, whether intra-nationally or internationally. Nor should we underestimate the difficulty of overcoming class interests with a stake in defending the *status quo*. The institutions to which we look for remediation, though formally democratic in many cases, are themselves commonly captive to these dominant interests. As J.K. Galbraith recurrently argued, ‘emancipation of the state’ (Galbraith 1974) from the influence of powerful corporations and vested interests is a necessary accompaniment to all process of progressive economic and social reform.

Conclusions

Inequality is a major feature of the world economy and its constituent nations and regions. There are striking contrasts between the conditions in which rich and poor people live, both within individual countries and between countries. It is these glaring inequalities in how the fruits of economic growth are shared that compound contemporary economic, social and environmental problems. It is the benefits of having a more equal society that strengthen the case for a fundamental change to the prevailing economic system and the embrace of a more secure, stable and sustainable social order. This requires ‘closing the gap’ between ceilings and floors, while simultaneously striving to create more equality of opportunity in the intervening space.

Looking at the range and intensity of the current obstacles to these aspirations – within nations, between nations and globally – can be quite daunting. A political economic perspective can also be empowering. By drawing attention to the diversity of experiences, it can create awareness of possibilities for ‘making a difference’. Recognising that national and international differences in the extent of economic inequality are the product of human intention and collective efforts, rather than some inexorable or ‘God-given’ process, can indeed be empowering. Similarly, positive lessons can be drawn from looking at history. Because significant strides towards the redress of inequalities in many developed nations were made during the three decades following World War Two,

we know that at least a modest degree of egalitarianism is achievable through public policy processes. This recognition is an important step towards 'politics beyond pessimism' (Dow and Higgins 2015). So too is careful analysis of the challenges facing developing nations when seeking more balanced and equitable economic progress, as presented by other articles in this journal.

Such analyses can provide ammunition and reasons for hope when faced with conservative ideologies, inequitable uses of power and regressive policy practices. Political economic conditions continuously change, and the purpose of progressive politics is to redirect the processes of change along preferred paths. Tackling the drivers of inequality is necessarily part of this process. Yes, to echo Pigou, 'out of the darkness light'!

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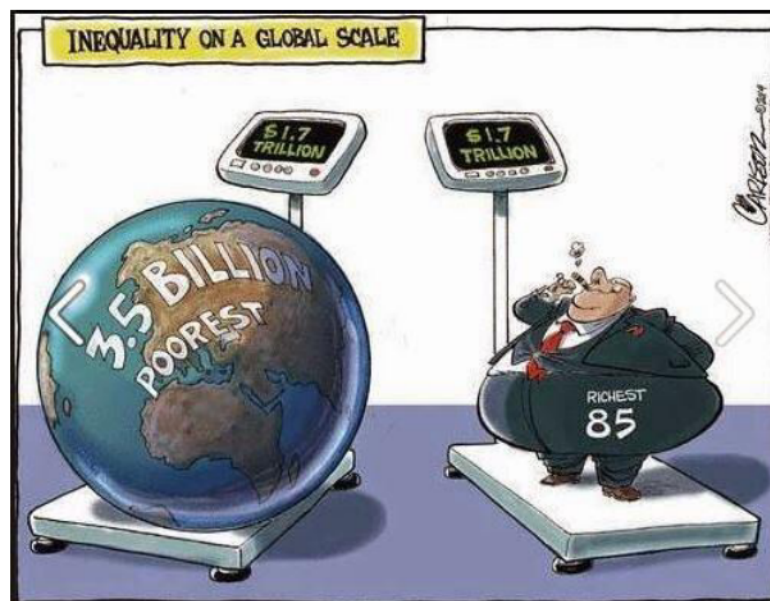
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IS CHINA REACHING THE LEWIS TURNING POINT? AGRICULTURAL PRICES, RURAL-URBAN MIGRATION AND THE LABOUR SHARE

Ricardo Molero-Simarro

The market transition process has resulted in a deep transformation of the pattern of income distribution in China. According to a recent review by Xie and Zhou (2014) 'Gini coefficient in China was around 0.30 in 1980, but by 2012 it had nearly doubled to 0.55, far surpassing the level of 0.45 in the United States' (Xie and Zhou 2014: 6930). Income distribution in China has many faces: it has taken the shape of a rural-urban divide, and of an interregional division; it has a very relevant social class component, and a gender one, too; and, although absolute poverty has been substantially reduced in rural areas, income inequality has caused new forms of urban poverty to emerge. All these phenomena are directly related to the Chinese economy becoming 'the world's factory'.

In particular, falling labour/wages share of GDP has turned into one of the most relevant features of the Chinese economy's recent development. After reaching its peak in 1982 (53.6 per cent of GDP), the labour share fell to 42.5 per cent in 2007.¹ This decline became a key factor of China's impressive GDP expansion during the 1978-2007 period (Molero-Simarro, 2015). However, the decreasing share of wages also caused a significant increase in the share of top incomes of urban households in available income (from 16.5 in 1985 to 25.5 per cent in

¹ Own calculations based on National Bureau of Statistics of China (various years (a) and 2007).

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2007 in the case of the top 10 per cent).² Thus, it decisively contributed to the severe worsening of both the urban-rural income gap, and the Gini inequality index (Molero-Simarro 2016).

Labour's share seems to have recovered after the onset of the current world crisis that started in 2008. It has risen to 46.5 per cent in 2014. Consequently, the share of the lowest income households in urban available income has slightly increased (from 7.4 in 2007 to 8.0 per cent in 2013 in the case of the bottom 20 per cent). Therefore, according to the latest data released by the National Bureau of Statistics of China (National Bureau of Statistics of China, 27th January 2016), the Gini index has fallen (from 48.4 in 2007 to 46.2 points in 2015). Nevertheless, independent measurements show an even higher index, above 50 points (see, for example, Xie and Zhou 2014).

Most analyses that have attempted to account for the deep decline of the labour share in China have explained it by means of the Kuznets Curve. They have characterised the evolution of the share with a U-shaped curve following the process of structural transformation of the economy. According to those views, this transformation is determined by the existence of an unlimited supply of rural labour which naturally flows to the urban area looking for higher incomes. As China will soon reach the so-called Lewis Turning Point, where the traditional transfer of workers, through internal migration, between the agricultural and industrial sectors is complete, the flow of rural-urban migration will be reduced and industrial wages will be pressed upwards. Thus, the labour share will recover and inequality will decline mechanically.

In this paper we try to establish an alternative explanation of the evolution of the labour share by analysing the reasons behind internal migration. As we will explain in the fourth section, the meagre improvement of agricultural prices since 1990s has driven the flow of rural migrants and restrained the growth of industrial wages well below productivity, so reducing labour share. This is not a natural phenomenon. Despite market transition, agricultural prices are still influenced by the Chinese government. In addition, the maintenance of the *hukou* system of household registration (which serves to control the distribution of population between rural and urban areas, or nowadays within each city) (see Chan n.d.: 2) keeps rural migrant workers worse-off than urban

² Own calculations based on National Bureau of Statistics of China (various years (b)).

formal workers. However, these are also negatively affected by the lack of rights for the so-called *nongmingong* (the rural migrant workers without urban *hukou*) (see Chan 2012: 188). Although ‘the urban development has been instrumental to economic development in China’, it ‘has gone along with a range of increasing disparities within and between cities that need to be addressed’ (Brakmana, Garretsen and Marrewijk 2016: 467).³

In our view, that particular mechanism is at the core of China’s political economy. As we will explain, the increasing gap between productivity and real wages in the Chinese industrial and services sectors cannot be understood without taking into consideration the key role played by China’s left-behind countryside during the second stage of China’s market transition. The Lewis Turning Point will not automatically, or, maybe, never be reached. In particular, given the labour demand and substitution elasticities, industrial workers will not significantly recover their share of primary distribution of income unless the mechanism limiting the growth of wages substantially below productivity is altered by raising agricultural prices, so reducing the rural-urban migration, and abolishing the *hukou* system, among other measures.

This is, indeed, needed to avoid the so-called ‘middle-income trap’ (Eichengreen, Park and Shin 2011; Zhu and Cai 2012), *i.e.* the inability to successfully complete the transition from a middle-income to a upper-middle-income country status. According to Eichengreen, Park and Shin (2011: 38), ‘slowdowns are more likely to occur at lower per capita incomes in countries that maintain undervalued exchange rates and have low consumption shares’. In the case of China this low share of consumption in GDP is the direct consequence of falling labour share. Thus, to find the particular reasons behind that phenomenon is not only relevant for confronting increasing inequalities in China, but also for rebalancing the economy in a way that would allow China to move into a new stage in its development process.

To support our approach, the next section starts by reviewing the debate on the Lewis Turning Point in China, as well as on one related issue: the reform of the *hukou* system. The main data sources available for agricultural prices, rural-urban migration, labour share, and other

³ See the special issue on ‘Urban Development in China’ of the *Cambridge Journal of Regions, Economy, and Society*, 2016, Vol. 9, No. 3.

variables analysed are discussed in the third section. In the fourth one, we show the principal relationships that have linked those variables during the 1978-2007 period. In the fifth section, the effects of recent distributional policies are analysed. The main conclusion contests the claim that China has reached the Lewis Turning Point, so ensuring a rising labour share. The paper ends by analysing policy alternatives to significantly increase the workers' share of income.

The Lewis Turning Point Debate in China

Many studies have characterised the evolution of labour share in China using a U-shaped Kuznets-type curve following the structural transformation of the economy (Li, Liu and Wang 2009; Luo and Zhang 2009; Bai and Qian, 2010). Moreover, they maintain that labour share will enter an upward trajectory. This claim is based on the widespread idea, originated by W. Arthur Lewis (1954), that the unlimited supply of rural labour plays a role in limiting the growth of industrial wages during the early stages of the development process. Thus, the inflection point will be reached after the traditional transfer of workers, through internal migration, between the agricultural and industrial sectors is complete, when China will reach the Lewis Turning Point.

Some authors argue that the so-called Lewis Turning Point has already been reached (Zhang, Yang and Wang 2011) and others that it will be in the coming decades (Das and N'Diaye, 2013). This would be reflected in the form of China's labour supply curve. According to Chi (2007: 113), it 'was flat or perfectly elastic', but 'has turned into a normal upward-sloping one'. This means that 'rising wages are needed to lure more supply of labour' (Chi 2007: 113). Most base their claims on demographic analyses that assert that peasants' income will automatically recover and rural-urban migration will cease. The consequences of demographic transition are wage increases and convergence between unskilled and skilled workers (Cai and Du 2011). Consequently, China's cheap labour will come to an end (Li, *et al.* 2012). All that will make possible a new pattern of 'growth with equity' (Garnaut 2010).

The starting point of the Lewis Model is the definition of the concept of unlimited supply of labour. According to Lewis himself, 'an unlimited supply of labour may be said to exist in those countries where population is so large relatively to capital and natural resources, that there are large

sectors of the economy where the marginal productivity of labour is negligible, zero, or even negative' (Lewis 1954: 141). In that situation, labour will be available at a constant real wage, or, at least, well below labour productivity in the industrial sector; the share of profits in national income will rise (while the labour share will, accordingly, fall); and, if a portion of those profits is reinvested, the share of capital formation of GDP will grow, too. However, according to Lewis (1954: 172), '[t]he process must stop when capital accumulation has caught up with population, so that there is no longer surplus labours'. At that moment, wages and/or the labour share will start to rise.

In China most of that process has already been accomplished since 1978 onwards. As we shall see in Section 4, real wages have been increasing at a rate well below labour productivity in both the secondary, and tertiary sectors. As a consequence, the labour share fell from 53.6 to 42.5 per cent of GDP between 1982 and 2007. Accordingly, the profit share increased from 34.8 to 43.3 during the same period⁴. The reinvestment of those profits has crucially contributed to the comparatively very high rates of investment of the Chinese economy. Gross capital formation of GDP reached an average of 37.5 per cent during the 1978-2007 period (39.5 during 1993-2007).⁵ Following the logic of Lewis' argument, capital accumulation in China should be catching up with population.

According to Das and N'Diaye (2013), 'China is on the eve of a demographic shift that will have profound consequences on its economic and social landscape. Within a few years the working age population will reach a historical peak, and will then begin a precipitous decline. The core of the working age population, those aged 20-39 years, has already begun to shrink. With this declining population, the vast supply of low-cost workers—a core engine of China's growth model—will dissipate, with potentially far-reaching implications domestically and externally' (Das and N'Diaye 2013: 17). According to these authors, China will cross the Lewis Turning Point 'between 2020 and 2025', when 'the reserve of unemployed and underemployed workers (which is currently in the range of 150 million)—will fall to about 30 million' (Das and N'Diaye 2013: 17).

⁴ Own calculations based on National Bureau of Statistics of China (various years (a)), Hsueh and Li (1999) and National Bureau of Statistics of China (2007).

⁵ Own calculations based on National Bureau of Statistics of China (various years (a)).

Nevertheless, a more detailed analysis shows that China is far from experiencing a demographic crisis. Although working age population seems to have reached that historical peak, it will be maintained at comparative very high levels during a long period of time. According to World Bank's data and projections, the percentage of working age population will be substantially higher in China than in the world, East Asia and Pacific countries, and upper middle income countries' averages during at least two more decades (Figure 1). Consequently, the age dependency ratio as a percentage of working population will be lower too.

Figure 1: Working Age Population (percentage of total), 1980-2050

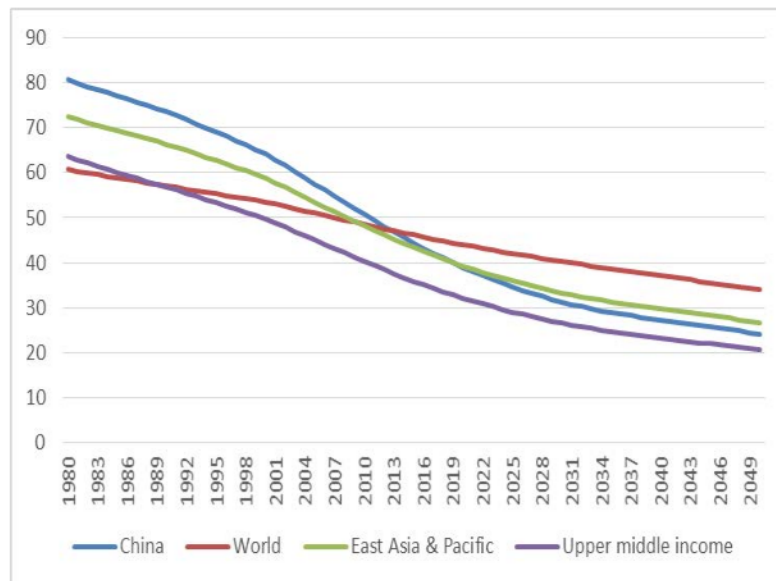


Source: World Bank, Health Nutrition and Population Statistics: Population estimates and projections.

In the case of rural population, its percentage of total population in China is already decreasing below world average. Nevertheless, it is and will be

still close to the East Asia and Pacific countries' average and higher than the upper middle income countries' average (Figure 2).

Figure 2: Rural Population (percentage of total population), 1980-2050



Source: World Bank, Health Nutrition and Population Statistics: Population estimates and projections.

In fact, as stated by Chan (2010: 521), the rural labour supply 'remains plentiful'. While there has been 'a reduction of about 28 million in the rural working-age population in the last decade, the rural sector remains grossly overstaffed today' (Chan 2010: 521). According to his calculations,

the rural working-age population still stands at close to 490 million, 60 percent of which falls into the age category 36–64. Even assuming a low labor force participation rate of 75 percent, this still means that about 368 million jobs are needed. Excluding roughly 80 million who work in non-farm jobs in nearby townships, the remaining 288 million on the farm is still far greater than can be absorbed by China's 120

million ha of arable land. Many estimates done before the financial crisis show that the minimum work force needed to sustain China's agriculture at the current level of technology was about 150 million ... While the rural working-age population may have decreased by 10–15 million over the past two to three years due to the decline in fertility earlier, there is still an immense rural labor surplus exceeding 100 million. Even if the stimulus projects in 2009 have lured away, say 20–30 million rural workers ... the surplus remains colossal, much higher than the figures used by some observers (Chan 2010: 521).

This situation is far from fitting Arthur Lewis' own contribution to our understanding of economic development. His seminal paper 'followed "classical" rather than "neoclassical" tradition in that it incorporated a two-sector framework, but did not seek to formally explain how earnings were determined in the traditional setting' (Becker and Craigie 2007: 196). On the contrary, he emphasised the role of institutional adjustments. Indeed, Lewis himself considered alternative possibilities to the reaching of the 'turning point'. According to his view, 'capitalists have a direct interest in holding down the productivity of the subsistence workers' (Lewis 1954: 149) in order to limit their earnings, so the unlimited supply of labour is sustained. Moreover,

the owners of plantations have no interest in seeing knowledge of new techniques or new seeds conveyed to the peasants, and if they are influential in the government, they will not be found using their influence to expand the facilities for agricultural extension. They will not support proposals for land settlement, and are often instead to be found engaged in turning the peasants off their lands (Lewis 1954: 149).

If that is not possible, 'the capitalists' next best move is to prevent the farmer from getting all his extra production' (Lewis 1954: 174). If the capitalists are able to do so, then it may be possible to avoid the exhaustion of the unlimited supply of rural labour. Thus, the inflection point may not be reached, ensuring that wages will still increase below productivity, regardless of population growth. As it will be explained in Section 4, this more holistic view may be the case of China, where not capitalists, but government policies (in fact, Lewis, who served as advisor to the first president of Ghana, Kwame Nkrumah, also considered both policy making, and politics as very relevant explanatory factors; see Kanbur 2016) have limited the improvement of peasants' incomes, thus avoiding the exhaustion of the supply of rural labour. This way the government has still supported the capital accumulation process

of the Chinese economy by maintaining the profit share in comparatively high levels.

Indeed, the usual explanations of China having reached the Lewis Turning Point face a 'paradox': the coexistence during the last years of a shortage of migrant labour supply in the Chinese cities and an excess of labour force in the rural areas. According to Chan (2010: 523), '[t]he coexistence of migrant labour shortages [in the urban sector] and large surpluses in the rural sector may be quite unique to China's industrialisation and urbanisation experience, because of the prolonged and continuing rural and urban social segmentation'.

This segmentation is directly related to the existence of the *hukou* system of internal migration control (see Golley and Men, 2011). The reforms implemented during the past three decades has transformed the operating logic of the economy, but the *hukou* has remained in place. The abolition of *nongzhuanfei* (the administrative procedure for transferring a rural to an urban *hukou*) in the early nineties caused the differences between the rural and the urban *hukou* to cease. However, the fact that the new regulation transferred to the local authorities the power to decide whether to grant *hukou* has provoked the restrictions to endure (Chan and Buckingham 2008). They crucially contribute to the existence of huge wage differentials between urban residents and rural migrant workers found by several studies (see, for example, Zhu 2016).

According to Cai (2011: 45), the alleged reaching of the Lewis Turning Point 'created incentives for both central and local governments to implement *hukou* system reform and created incentive compatibility between central and local governments, and between migrant workers and urban native residents. As a result, *hukou* system reform pushed ahead', though 'nationwide harmonisation' (Cai 2011: 46) is still needed. In the view of Young (2013: 258), however, '[c]rucial reform in the residency system requires the abolition of agricultural and non-agricultural *hukou* and the standardisation of rights and privileges tied to *hukou* status'.

In summary, the Lewis Turning Point narrative is based on the belief that capital accumulation is already catching up with China's population growth, thus absorbing the unlimited supply of rural labour. This would have had the effect of increasing real industrial wages above productivity, so reducing companies' profits to the level that investment starts to curb. As earlier discussed, however, China is far from

experiencing a demographic crisis: the percentage of working age population is still higher than the world average; while the share of rural population is higher than the upper middle income countries' average.

Contrary to the usual claims, the rural labour supply in China 'remains plentiful', as stated by Chan (2010: 521). The labour share has slightly increased since the onset of the current world crisis, mainly thanks to redistributive policies, as we shall see in Section 5. Nevertheless, the profit share maintains comparatively high levels, despite decreasing exports. Indeed, with the help of the government's 2009 stimulus programme, investment reached a peak of 48.3 per cent of GDP in 2011 and, since then, the investment rate has been kept above the already very high average levels of the pre-crisis period.

Lewis himself considered alternative options to the exhaustion of the supply of rural labour during the economic development process. In particular, he stated the possibility of preventing farmers from getting their extra production, through different mechanisms, so avoiding the reaching of the turning point, regardless of population growth. This seems to be the case of China. Most neoclassical urban economists such as Michael Todaro, however, overlook structural and institutional processes which shape rural-urban migration and influence both rural incomes and migration decisions in complex ways (Obeng-Odoom 2016: 40-7).

If internal migration process is to be explained, it is necessary to take into account China's particular regulation and the factors behind the unequal development process between rural and urban areas. Above all, it is especially important to bear in mind the role of both agricultural prices, and the *hukou* system. Thus, no automatic mechanism will ensure a long-term reversal of the downward trend followed by the labour share in China, unless all those factors are confronted.

In that sense, this paper tries to contribute to the understanding of that trend by focusing on the fluctuation of agricultural prices and its effect on internal migration, taking into account the existence of the *hukou* system. This will help us to evaluate whether China's labour share of GDP will automatically enter an upward trajectory as a consequence of the alleged Lewis Turning Point reaching; or, on the contrary, it may stagnate in current comparative low levels.

The relationship between those variables will be explained in the fourth section of this paper. Preceding that, in the next section we deal with the statistical series available for those key variables.

Statistical Series

To analyse the first of the variables, agricultural prices, the Producers' Price Index for Farm Products offered by the National Bureau of Statistics of China (various years (a)) in its statistical yearbooks has been utilised. On the reliability of agricultural statistics Gale (2002: 51) explains that '[i]n 1997, National Bureau of Statistics of China conducted China's first agricultural census, enumerating over 200 million rural households, as well as nonhousehold farm operations, administrative villages, towns, and townships' correcting the underreporting of some figures (like those of the cultivated land) and the overreporting of others (like those of the livestock estimates). According to this author, '[i]t is still uncertain whether planted area is measured accurately' (Gale 2002: 51). However, as long as agricultural products prices are presumably reported directly from markets, it seems less probably for them to be inaccurately measured.

In any event, some clarifications are due concerning the use agricultural products data in this paper. First, the general index has been chosen, instead of the indexes available for every agricultural products' categories. Since our analysis is fundamentally aggregated in character it does not seem necessary to make a detailed analysis by product. Not surprisingly, agricultural production specialisation of each of the Chinese provinces seems not to have been a determining factor in migration decisions. In addition, since 2000 the National Bureau of Statistics of China stopped offering the series of price index for several products, thereby reducing the number of products whose fluctuation throughout the period of study can be analysed. Secondly, data are presented in real terms. The data have been deflated using a GDP deflator.

For the second of the variables, rural-urban migration, the collection of statistical series it is more complicated due to various reasons. Although according to Banister (1984: 266), '[t]he wealth of good quality data now available on the demography of China provides much more reliable estimates of the country's population size and growth rate, its patterns of nuptiality, fertility, mortality, and urban-rural residence, and its labor

force characteristics than ever before', a number of shortcomings arise. First, there are several concepts for migration as a result of the particular system of control of internal movements of population, based on the *hukou* system of household registration that exists in China, (see Chan n.d.). In this paper, the available data on the number of the so-called *nongmingong* (people with rural residence who have migrated to urban areas without having obtained the *hukou* of the destination location) are analysed. The main reason for this choice is the fact that our work is focused on the analysis of the overall effect of the fluctuation of the prices of agricultural products on the rural-urban migration flow and the *nongmingong* data are those that best account for that flow. Other series include either a population that is only temporarily located in a different city, or that even if they are not temporary residents they not come from the rural areas, but from other cities.

Specifically, in this paper the collection of statistics on rural migrants in cities by Chan (n.d.: 9; Table 1, Column F) has been utilised for the period 1988-2007. As Chan explains it 'consists of two separate series (1988-98 and 2002-10), compiled from relatively authoritative sources with largely consistent definitions of migrants and geographical boundaries over time' (Chan n.d.: 4).⁶ In the case of the period 2007-2011, it is necessary to take into account that the figure for 2010 in Chan (n.d.: 9; Table 1, Column F) differs from the figure in Chan (2012: 190; Table 1, Column E).⁷ Thus, in Section 5, this last source has been employed for that last period 2007-2011. Data from that source on the net flow of migration between 1990 and 2010 has been also employed in the Table 1 in Section 4.

In addition, the 'floating population' data that the National Bureau of Statistics of China offers since 2013 in its statistical yearbooks has been utilised as a complementary source for the period 2010-2013. According to the statistical yearbooks' Explanatory Notes, the floating population 'refers to the population of residence registration inconsistency excluding

⁶ According to Chan (n.d.: 9; Table 1, Footnote F) the 'data for 1988-1995 are from Lu, Zhao and Bai (2002); 1998 is from Ministry of Agriculture. Those for 2002-2010 are National Bureau of Statistics of China data (2008 and 2009 figures are in National Bureau of Statistics of China 2010); earlier figures are compiled by Cai and Chan (2010: Table 1)'.

⁷ According to Chan (2012: 190; Table 1, Footnote E) 2009-2011 figures are from National Bureau of Statistics of China's Monitor Reports on Rural Migrant Labor for those years.

those intra-city ones'. These data are related to 'Rural-*Hukou* Population in Urban Areas' series offered by Chan (2012: 190; Table 1, Column F), which is the sum of 'rural migrant laborers and their dependents (non-working population)' (Chan 2012: 192).

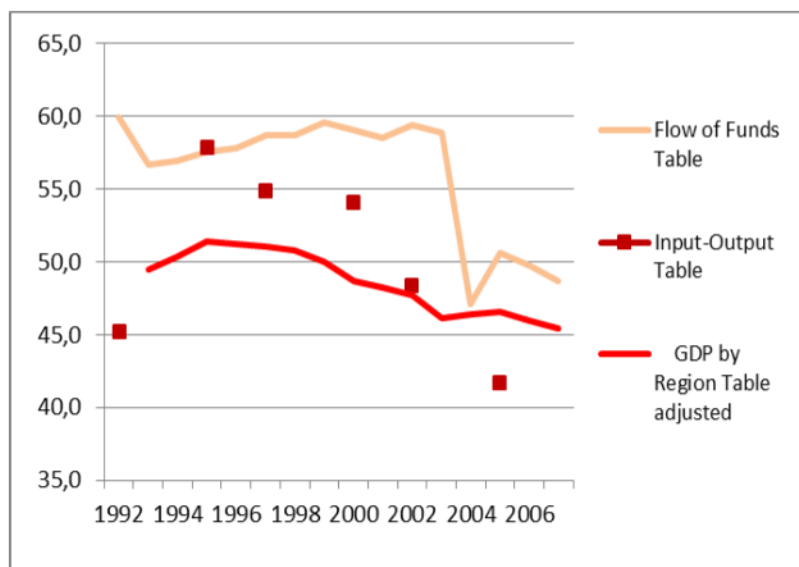
In any event, there are no available data previous to 1988, neither for the years 1990, 1991, 1992, 1996, 1997, nor for the period covering the years 1999-2001. Thus, it has been necessary to complete the series. To do so, the methodology used has consisted on dividing the remainder of the number of migrants between two non-consecutive years by the number of years passed between one and another and to assign that average figure for each of the years for which there are no data available. Finally, the annual variation rate of the total number of migrants has been calculated in order to analyse how the dynamics followed by agricultural prices has affected the annual migration flow.

For the third of the main variables, the labour share, it is necessary to review the available data sources for the labour income in China's. Prior to 1992, the only existing data are those of Hsueh and Li (1999), who collected 'Gross Domestic Product by Primary Distribution of Income' for the provinces of China during the 1978-95 period. From 1992 to 2007, the National Bureau of Statistics of China provides three different factor share series in its Statistical Yearbook: the 'Flow of Funds Accounts (Physical Transactions)', the 'Intermediate Use Part of Input-Output Table', and the 'Income Approach Components of Gross Regional Product' (National Bureau of Statistics of China, various years (a)). The first runs through the whole sub period; the second presents only 1992, 1995, 1997, 2000, 2002 and 2005 data; finally, the cited regional statistics must be completed with the data supplied by National Bureau of Statistics of China (2007) to obtain a third series that includes data through to the year 1993.

In that last case, it has been also necessary to re-calculate the data for the years 2004-07 in order to avoid the effects of the methodological change implemented by the National Bureau of Statistics of China in 2004 (Bai and Qian 2010). For this purpose, the method developed by Zhou, Xiao and Yao (2010) has been followed. These authors homogenised the series by including the income of self-employed in the compensation of employees. In despite of these re-calculations, it is noteworthy that the percentage share of wages in national income is substantially lower than the usually found in other economies, including developing ones.

Figure 3 compares the three series, although it should be noted that the first one does not take into account the variable depreciation of fixed assets, which largely explains the comparatively higher share. The last one is the usually used in the literature. Furthermore, thanks to the recalculation method developed by Zhou, Xiao and Yao (2010) the effects of the methodological change implemented by the National Bureau of Statistics of China are avoided, which is not the case for the Flow of Funds series. Thus, it will be the one used here. During the post-crisis period the National Bureau of Statistics of China did not provide data of the ‘Income Approach Components of Gross Regional Product’ for the years 2008 and 2013. Nevertheless, in the fifth section our analysis covers the 2007-2014 period, too.

Figure 3: Comparison of Labour Share Series (percentage of national income), 1992-2007



Sources: Own calculations based on data from National Bureau of Statistics of China (various years (a)): Tables ‘Flow of Funds Accounts (Physical Transactions)’, ‘Intermediate Use of Input-Output Table’ and ‘Income Approach Components of Gross Regional Product’; and National Bureau of Statistics of China (2007): Table ‘Components of GDP by Income Approach by Region’.

To conclude this collection of statistics, additional indicators on the rural-urban disparities, the conditions of rural migrant in cities in comparison with urban workers, and the overall evolution of both employment and wages have been also analysed. It is necessary to bear in mind that 'China's published statistics on employment and wages in manufacturing do not meet international standards. No source of frequently published, official data provides nationwide employment and labor compensation statistics on Chinese manufacturing' (Banister and Cook 2011: 40). Moreover, '[t]he published annual data on China's employment and wages in manufacturing are based on an annual reporting system from work units that originally reflected a planned Marxist economy and that emphasized urban data over rural data' (Banister and Cook 2011:40). For those reasons, the indicators on the *nongmingong*'s working conditions and earnings come from secondary sources (mainly the papers of Cai, Du and Wang n.d.; and ILO 2008).

For the indicators on progression of incomes and consumption in rural areas in comparison with urban ones we have to rely on data from National Bureau of Statistics of China (various years (a)), where most of the official information of other dimension-specific statistical yearbooks is compiled. That has been also the case for the indicators on rural and urban per capita incomes by region, employment structure by sector, the structure of manufacturing production, educational attainments by region, formal urban employment, and wages. When they are available, supplementary data from other researches have been quoted, too.

In the following section we present the mechanism that explains the continuous decline suffered by the labour share since at least the mid-nineties.

Agricultural Prices, Rural-Urban Migration and Falling Labour Share in China, 1978-2007

Our empirical analysis explores the reasons behind falling labour share of China's GDP. As explained in Section 2, previous analyses have argued that the supply of excess rural labour, which has pressed down the labour share, has been led by demographic trends. As long as the transfer of workers between the agricultural and industrial sectors is allegedly almost completed and the Lewis Turning Point will be soon reached, the labour share will recover. Lewis himself, however, considered the

possibility of preventing peasants from improving their incomes as a way of avoiding the exhaustion of the unlimited supply of labour, even if capital accumulation catches up with population. In that case, the labour share may stagnate.

This is the case of China. As we will explain below, it is not demographic trends that explain falling labour share but rather government's control of agricultural prices which has, intentionally or unintentionally, pushed the rural-urban migration flow, pressing down secondary and tertiary sectors' wages increases below productivity improvements. Although the Chinese working age population is reaching its peak, there still exist large surpluses of labour in the rural areas. Moreover, recent labour shortages in urban areas are just the result of the labour market segmentation caused by the *hukou* system of internal migration restriction. Unless those policies are reversed, the labour share may be kept at comparative low levels.

The Chinese government has intervened in grain markets, directly or indirectly, throughout the entire reform period. During the early years of the reform in the 1980s, household responsibility systems replaced the organisation of agricultural production by the rural communes. The consequent agricultural productivity improvements were accompanied by increasing prices for agricultural products purchased by the state and, in particular, by the Ministry of Grain, later on the Bureau of Grain. This rise in prices, which was concentrated during the 1980s, had two goals: to promote the improvement of the living conditions of peasants and to gain popular support for the reform, as Zhu and Kotz (2010: 15) state.

In addition, families were allowed to sell all production that exceeded the compulsory quotas sold to the state on the open market, with state-planned (*baojia*) and market prices (*shijia*) coexisting. The latter tended to remain above the former, so rural families began to increase their sales on the market. According to National Bureau of Statistics of China's (various years (a)) data, prices almost doubled between 1978 and 1987. At the same time, Township and Village Enterprises (TVE) also doubled their production (own calculations based on data from Bramall, 2009: 405; Table 12.2), generating plentiful job opportunities in rural areas. Farmers' living standards improved, reducing the urban-rural gap to a value of 1.86 in 1985 (own calculations based on National Bureau of Statistics of China, various years (a)), which was lower than during the Maoist era, and poverty fell substantially.

Nevertheless, the coexistence of quota and market prices started to generate contradictions. First of all, the *quandao*: “illicit” profiteering by state enterprises and officials, involving the diversion of scarce centrally allocated materials from planned use to the market sector for profit’ (Kueh 1990: 99). Second, ‘the drain on the state budget of financing state agricultural marketing activities grew to become a critical problem’ (Sicular 1988: 691) as a consequence of increasing production, the resulting falling market prices, and the government’s commitment to buying farmers above-quota production. According to Sicular (Sicular 1988: 704) ‘complementary increases in state retail prices would offset losses, but for political reasons the government’ was ‘reluctant to raise retail prices’. All that budgetary and political factors encouraged ‘the government to reduce farm procurement prices whenever possible, and increase procurement prices only when absolutely necessary’ (Sicular 1988: 704).

Grain market liberalisation measures spread during the 1990s. Mandatory contract deliveries and rationing were eliminated. However, local bureaus of grains became financially independent, so their policy prices could not deviate from market prices. In addition to these local agencies, other public actors also began to participate in the market. They included some state trading agencies, which became the dominant purchaser or seller in some of the markets, including cotton and grain; the state farms; or the state food processing companies.

Despite the policies of liberalisation of agricultural markets in the mid-nineties, these agencies still maintained ‘an aggregate market share of 30 per cent’, being even higher for ‘particular goods’ as in the case of cotton (90 per cent of total procurements from farmers made by the Supply and Marketing Co-op system), or grain, in which case ‘procurements by the Grain Bureau have remained fairly stable at 70 to 80 per cent of the total’ after the introduction of the contract system in 1985 (Sicular 1995: 1031). Consequently, their ability to influence the market remained high.

A ‘protection price was established in the late 1990s in order to provide a measure of security for grain farmers during periods of low prices’ (Colby, Diao and Tuan 2001: 13). However, ‘[g]rain-purchasing stations were not enthusiastic about buying additional grain without sufficient government funding to cover their storage costs (since the national grain surplus created an environment of low sales prices and limited demand)’ (Colby, Diao and Tuan 2001: 13). Given these circumstances, there were

'numerous reports of grain-purchasing stations circumventing the government's protection price policy' by 'downgrading the quality of the farmer's grain', or refusing 'to purchase all the grain the farmer wishes to sell at the protection price' (Colby, Diao and Tuan 2001: 13). Thus 'market prices were not pushed up by this policy initiative' (Colby, Diao and Tuan 2001: 13)

China's entry in the World Trade Organization (WTO) in 2001 reduced further the efficacy of grain price protection policies. In 1996, China's internal prices were still between 38 per cent and 45 per cent above world prices (Wang 2008: 109). Since it joined the WTO, the Chinese government 'acquires approximately 10 percent of total grain output with an objective of stabilising prices and managing a grain reserve' (Yang and Li 2008: 17). However, 'China has increasingly relied on foreign trade to adjust its domestic imbalances in grain supplies' (Yang and Li 2008: 18), ensuring a strong enough agricultural products supply to prevent prices from increasing.

In short, as a consequence of (i) direct reductions of procurement prices; (ii) the financial restriction imposed on grain-purchasing stations; and (iii) the use of imports to increase the supply of farm products in the internal market, government policies have contained and even reduced agricultural prices since the late 1980s. Far from being the result of market forces, the fluctuation of those prices has been negatively influenced by public policies. Accordingly, those policies have contributed to the increasing disparity between urban and rural households' incomes.

In addition, although total employment in TVEs continued to increase (see Bramall, 2009: 406; Table 12.3), the concentration of foreign direct investment (FDI) in coastal cities since the early 1990s meant that industrial development and job creation was increasingly located in those urban areas. The disappearance of rural communes at the beginning of the reform period had already led to the loss of access to basic services for rural households, and mainly to health and education. Taken together, these pull and push factors pressed rural dwellers out of the countryside.

At the end of the 1980s, the government was forced to implement policies in order to contain inflation, leading to cuts in procurement prices, which negatively affected peasants' incomes and increased the

urban-rural gap to 2.86 points in 1994.⁸ This, together with the increasing FDI inward flows (which augmented their share of gross fixed capital formation from 3.8 per cent in 1991 to 16.8 per cent in 1994),⁹ pushed the first big wave of migrants from the rural areas. In 1994, rural migrant workers in China's cities more than doubled the 1989 level. Agricultural prices recovered until 1997 but another inflationary process led to the substantial reduction of agricultural prices again. Despite the decreasing relevance of FDI inward flows in gross capital formation (decreasing its share on fixed investment to 6.1 per cent in 2007), a second big wave of *nongmingong* was generated. It did not stop until 2007.

At that moment, the urban-rural incomes gap had reached a level of 3.33,¹⁰ despite nominal increases in agricultural prices since 2003. In line with that, the disparity in per capita total consumption expenditure between urban and rural areas had increased from 2.72 points in 1998 to 3.10 in 2007.¹¹ In that last year, that difference ranged from 2.61 when comparing low income households' expenditure in urban versus rural areas; to 3.22 when comparing high income ones.¹² The disparities increased in the consumption of most of durable goods (refrigerators, air conditioners, or computers)¹³, too. In some cases, the differences decreased in relative terms, but they were still significant in absolute ones (that is the case for washing machines, motorcycles, or colour TVs).¹⁴ Consequently, living conditions disparities were increasingly perceived by rural dwellers, contributing to migration pull factors.

⁸ Own calculations based on National Bureau of Statistics of China (various years (a)).

⁹ Own calculations based on UNCTAD statistics.

¹⁰ Own calculations based on National Bureau of Statistics of China (various years (a)).

¹¹ Own calculations based on National Bureau of Statistics of China (various years (a)).

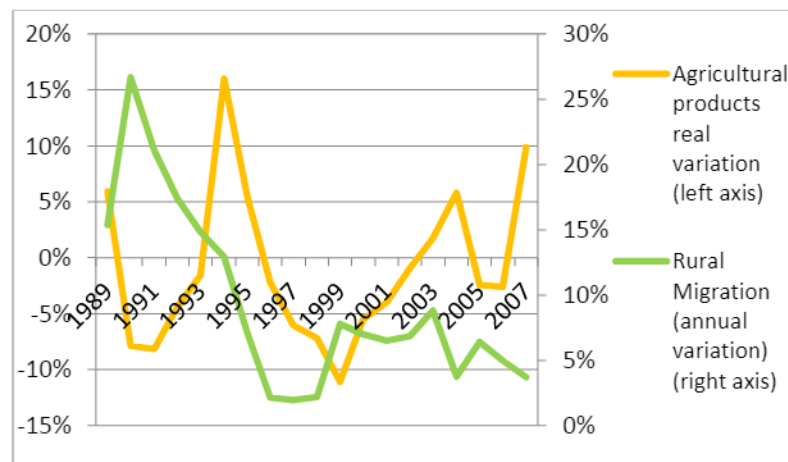
¹² Own calculations based on National Bureau of Statistics of China (various years (a)).

¹³ For example, in 1995 the number of refrigerators per 100 rural households was 5.2 in comparison with 69.2 per 100 urban ones. In 2007 those numbers increased to 26.1 and 95 per cent (data from National Bureau of Statistics of China (various years (a))), respectively, thus augmenting the relative disparity.

¹⁴ For example, in 1995 the number of washing machines per 100 rural households was 16.9 in comparison with 89 per 100 urban ones. In 2007 those numbers increased to 45.9 and 96.8 per cent (data from National Bureau of Statistics of China, various years (a)), respectively, thus reducing the relative disparity.

Thus, following the dynamics of agricultural prices, an intense flow of migration from rural to urban areas was created (Figure 4), turning the *nongmingong* (rural migrant workers) into the labour force that enabled the expansion of urban industry (Wen 2008). Contrary to the view that the supply of excess rural labour was led solely by demographic trends, as Das and N'Diaye (2013) among others claim, it can therefore be stated that 'China's unlimited supply of labour was more a consequence of policy than a natural precondition of its development' (Hung 2009: 21). In particular, Hung (2009: 12) argues that 'an unlimited supply of labour is not a natural phenomenon given by China's population structure, as is so often assumed. Rather, it is a consequence of the government's rural agricultural policies which, intentionally or unintentionally, bankrupt the countryside and generate a continuous rural exodus'.

Figure 4: Agricultural Prices and Rural Migration



Sources: Own calculations based on the National Bureau of Statistics of China (various years (a)) and Chan (n.d.: 9; Table 1, Column F).

This outflow of rural migration seems to have not been driven by the differences in the progression of rural households' incomes by provinces. In almost half of top emigration provinces (Henan, Jiangxi and Sichuan), according to Chan's (2012: 194; Table 2) data, the real per capita net

income of rural households increased above the national average during the 2000-2007 period (7.5, 7.2 and 6.9 per cent on yearly average, respectively, versus 6.7 per cent for the whole country); while in Anhui it increased at the same pace; and in the other four provinces it increased below (Hunan, 6.2 per cent; Hubei, 6.1 per cent; Guangxi, 5.8 per cent; and Guizhou, 5.8 per cent).¹⁵ In addition, if absolute levels of income of the rural households are compared, top emigration provinces appear in the middle positions, not in bottom ones, as it could be expected.

This notwithstanding, if the structure of employment by sector is analysed, a relevant pattern can be found which is likely to explain China's internal emigration and immigration patterns. In particular, net outflows of migration are associated with the higher relevance of the employment in the primary sector of the Chinese economy, while net inflows of migration are associated with the higher relevance of the secondary and/or tertiary sectors. In all but one (Hubei) of the eight provinces where net outflows of migration accounted for more than 10 per cent of their total population in 2010, the share of the employment in the primary sector was higher than the national average (36.7 per cent). On the contrary, in all the six provinces, with the only exception of Xinjiang, where net inflows of migration accounted for more than 10 per cent of their total population in 2010, the combined share of the employment in secondary and tertiary sectors were higher than the national average (Table 1).

This seems also to explain the path followed by educational attainment by province. Population with senior secondary school, and college and higher levels of education concentrated in top immigration provinces. While Shanghai, Beijing and Tianjin were already at the top of the rankings of population according to those levels of education, Guangdong and Zhejiang and Jiangsu moved from low positions to the top of the rankings. The percentage of population with senior secondary school in Guangdong increased from 1.5 per cent (28th position) in 2000 to 16.3 per cent (5th position) in 2007. Meanwhile, the percentage of population with college and higher levels of education in Zhejiang increased from 0.7 per cent (18th position) in 2000 to 8.6 per cent (6th position) in 2007. Even in the particular case of Xingjian, the percentage

¹⁵ Own calculations based on National Bureau of Statistics of China (various years (a)) data.

of population with college and higher levels of education increased from 0.7 to 9.0 per cent (5th position in 2007). On the contrary, top emigration provinces appear in very different positions in both primary, and higher levels of educational attainment, with, for example, Hubei in top positions in the latter, and Anhui in the former.

Table 1: Employment Structure and Internal Migration by Province, 2010

Province	Primary Industry (percentage of total employment)	Secondary Industry (percentage of total employment)	Tertiary Industry (percentage of total employment)	Net Flow of Migration (1990-2010) (percentage of total population)
Shanghai	3.9	37.6	58.5	42.6
Beijing	4.9	20.9	74.1	39.2
Guangdong	25.7	34.9	39.4	33.9
Zhejiang	15.9	48.0	36.1	23.1
Tianjin	14.6	41.0	44.4	20.4
Xinjiang	51.2	14.1	34.8	10.6
Fujian	29.2	37.4	33.4	9.1
Jiangsu	18.7	45.3	36.1	7.6
Liaoning	31.3	26.2	42.5	3.1
Hainan	49.8	12.0	38.2	3.0
Tibet	53.1	11.1	35.8	2.8
Ningxia	39.4	26.4	34.2	2.2
Inner Mongolia	48.2	17.4	34.4	0.8
Qinghai	41.9	22.6	35.5	-0.1
Yunnan	59.4	13.6	27.0	-0.3
Shanxi	38.3	26.4	35.2	-0.8

Province (cont.)	Primary Industry (percentage of total employment) (cont.)	Secondary Industry (percentage of total employment) (cont.)	Tertiary Industry (percentage of total employment) (cont.)	Net Flow of Migration (1990-2010) (percentage of total population) (cont.)
Shandong	35.4	32.5	32.0	-0.9
Hebei	38.8	33.3	28.0	-2.3
Shaanxi	43.9	25.0	31.2	-4.0
Jilin	42.0	21.3	36.6	-4.5
Gansu	51.1	15.1	33.8	-6.2
Heilongjiang	44.4	19.4	36.2	-7.3
Chongqing	33.1	29.1	37.8	-9.6
Henan	44.9	29.0	26.1	-11.2
Hubei	29.5	29.1	41.3	-11.9
Guizhou	49.6	11.9	38.5	-12.6
Guangxi	53.3	21.0	25.6	-12.9
Sichuan	42.9	23.1	34.1	-15.2
Hunan	46.7	21.5	31.8	-15.5
Jiangxi	37.6	29.7	32.7	-16.9
Anhui	40.0	29.4	30.6	-18.6

Sources: Own calculations based on National Bureau of Statistics of China (various years (a)) and Chan (2012).

Not only better educational attainments, but also higher real urban average incomes concentrated in top immigration provinces. Real urban incomes increased at different rates in these provinces. While in Zhejiang (10.2 per cent) they increased above the national average (10.1 per cent), in Beijing (9.6 per cent), Tianjin (8.7 per cent), and Shanghai (8.7 per cent) they did below the average. Nevertheless, five out of six of the top

immigration provinces (Shanghai, Beijing, Guangdong, Zhejiang, and Tianjin) stood as the top-ranked provinces according to average incomes in urban areas, both in 2000 and 2007. In the case of Guangdong, for example, although real urban households' average income increased by just 7.1 per cent during the period 2000-2007 (the lowest rate for all provinces), it stood in the third and fourth positions in urban households' average income rankings in 2000 and 2007, respectively.

In short, the progression of agricultural prices pushed out rural workers especially from provinces with high shares of primary sector employment in total employment. These rural migrants were attracted to provinces with high shares of secondary and tertiary employment. Population with greater educational attainments concentrated in immigration provinces. Comparatively higher average real urban incomes became a pull factor to these provinces. As we shall see below, however, the influx of migrants caused average wages in the manufacturing sector (where rural migrants concentrated) to grow below the national average.

To understand the implications of this massive migration flow on the urban labour market it is necessary to take into account a differential aspect of the regulation of the Chinese economy: the existence of a system of control of the internal population movements based on the *hukou*. The possibility of rural-urban migration is real, *i.e.* the existence of the *hukou* system does not actually impede internal migration. Indeed, according to He and Mao (2016: 546), 'economic development in China during the last decade has driven the growth of the non-*hukou* population rather than *hukou* population'. Moreover, authorities from rural local states and urban state units have encouraged rural-urban migration by means of 'labour export strategies' (Lei 2005). Nevertheless, the *hukou*, or household registration system, made it practically impossible for a rural migrant to obtain an urban residence permit, at least in the medium and large cities. This nowadays means that '[t]hey are not eligible for regular urban welfare benefits and social services (access to local schools, urban pension plans, public housing, etc.) and other rights that are available to people with urban *hukou*' (Chan 2012: 189), including legal protection.

Thus, labour conditions for 'undocumented' rural migrants (which, according to Cai, Du and Wang n.d.: 11, accounted for 46.5 per cent of urban employment in 2007) worsened during the reform period, with

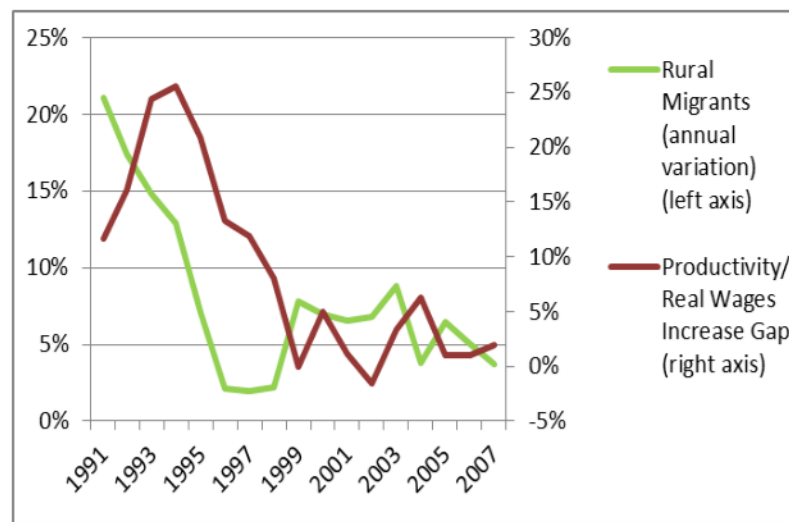
higher informality rates, longer working hours and lower salaries than other urban workers. In the early 2000s, over 90 per cent of migrants worked without a contract, although the figure was lowered to 79.3 per cent in 2004 (ILO 2008: 12). Furthermore, while in 2005 urban residents worked an average of 44 hours per week (53 for the employees in the informal sector), rural migrants did an average of 52 hours (up to 72 for the employees in the informal sector) (Cai, Du and Wang n.d.: 20, with data from the China Urban Labour Survey). This notwithstanding, the difference between poverty rates of migrant families and the local has not been greater due to lower dependency ratios and higher rates of activity of the former (Park and Wang 2010).

In any event, migrants' conditions have also had a negative effect on overall labour conditions in China's secondary and tertiary sectors. The privatisation process of State-Owned Enterprises in the late 1990s led to the gradual disappearance of the *danwei* (the name of the work unit to which most of social rights, including housing, were attached) system of employment protection. This has reduced workers bargaining power (see Piovani 2014: 346), and has allowed internal migration to directly impact on the labour market. Migrants have become the key to pressing down industrial wages. This has been true especially in manufacturing and construction, branches where migrants accounted for 35.2 and 31.8 per cent of employment in 2005 (ILO 2008: 11). The rate of informality of urban labour market rose from 9 per cent in 1995 to 36 per cent in 2007 (Cai, Du and Wang n.d.: 17), which had a direct impact on wages, not only of rural migrants, but also of local workers.

On the one hand, the difference in wages for local workers employed in the formal sector in comparison with those working in the informal grew to 2.66 yuan / hour (7.44 vs. 4.78, respectively) in 2005, compared to 1.51 yuan in 2001 (Cai, Du and Wang n.d.: 21). On the other hand, the hourly wage of migrant workers working in the informal sector stagnated at a level of 3.15 yuan between 2001 and 2005 (actually, 3.14 last year) (Cai, Du and Wang n.d.: 21). Finally, although real wages grew in both industry and services, they did so at rates well below the rate of increase in productivity. The former grew by a comparative very high rate of 5.5 per cent on average, but productivity increased 14.3 per cent annually between 1991 and 2007 (own calculations based on National Bureau of Statistics of China (various years (a) data). Thus, one of the main effects of the massive influx of migrants without rights to the factories of the coast has been the generation of a growing gap between productivity

gains and wages in the secondary and tertiary sectors (Figure 5) (see also Gong and Yang 2010: 69-70).

Figure 5: Rural-Urban Migration and Productivity-Wages Gap



Sources: Chan (n.d.) and own calculations based on National Bureau of Statistics of China (various years (a)).

Note: Productivity has been calculated as the ratio between the secondary and tertiary sectors' real value added and the people employed in those sectors, while real wages have been calculated as the ratio between the total wage bill and the people also employed in those two sectors, deflated by the consumer price index of China for those years.

Given that migration has moved in waves, its effect on industrial wages span during several years, which explains its delayed character, as it can be seen in Figure 5. In any event, the Chinese government's management of agricultural prices control system has contributed to maintain industrial wages at a lower rate of increase than productivity growth. This has been the key to generating a falling labour share. The tides of rural-urban migration have contributed to the enlargement of the urban industrial labour force, thus pressing down the wages expansion below productivity improvements by reducing the bargaining power of workers.

This has been especially true in the coastal areas where industrial activity and, so, internal migration flows have been concentrated. As it could be expected, top immigration provinces have seen their average wages grow below the national average. This has been the case in Guangdong and Zhejiang, the top-2 immigration provinces, which together accounted for 37.6 per cent of total net inter-provincial migration during the 2000-2005 period.¹⁶ Guangdong saw its average wage in the manufacturing sector decrease from a 146 per cent of national average in 1998, to just a 105 per cent in 2007. In the case of Zhejiang that percentage decreased from 118 to 99 per cent during the same years.

Meanwhile top emigration provinces have seen their manufacturing wages gain positions (in Anhui, Henan, Hunan, or Guangxi); remain stable (Jiangxi); or suffer small losses (Guizhou, Hubei and Sichuan) in comparison with national average wage in the manufacturing sector. In the cases of Anhui, for example, which accounts for 8.3 per cent of net exporting migration flows (Chan 2012: 194; Table 2), its average manufacturing wages increased its share of national average from 79 to 91.¹⁷ Thus, internal migration has contributed to a partial wages interprovincial convergence by limiting their increase in those provinces where industrial, export-oriented activity has been concentrated.

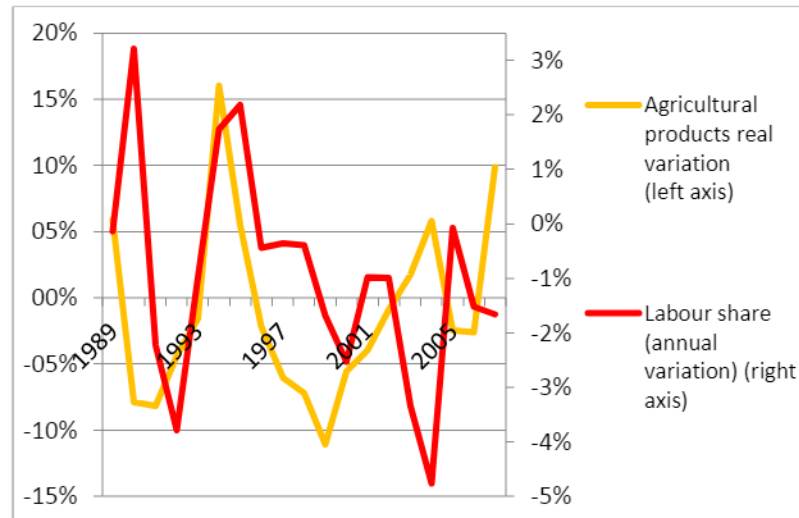
Exports expansion has created many job opportunities. In fact, employment in the secondary and tertiary sectors grew at an annual rate of 4.4 per cent throughout the period 1978 to 2007 (own calculations based on National Bureau of Statistics of China (various years (a) data), compared to a 0.4 per cent annual growth of employment in the primary sector. However, increasing capitalisation of the economy has led to job creation declining to 3.1 per cent annually since 1992. Since the mid-1990s, labour share of national income has therefore declined continuously, falling to 42.5 per cent in 2007.¹⁸ The government's intervention in grain markets, which boosted rural to urban migration to 137 million in 2007¹⁹, has enabled it to control that share, which have followed the path of agricultural prices (Figure 6).

¹⁶ Data from Chan (2012: 194; Table 2).

¹⁷ Own calculations based on National Bureau of Statistics of China (various years (a)).

¹⁸ Own calculations based on National Bureau of Statistics of China (various years (a)).

¹⁹ Data from Chan (2012: 190; Table 1).

Figure 6: Agricultural Prices and Labour Share

Sources: Own calculations based on National Bureau of Statistics of China (various years (a)), Hsueh and Li (1999) and National Bureau of Statistics of China (2007).

Note: Annual variation rates have been calculated for both the agricultural products price index and labour share of national income.

As in the previous case, it can be observed a delay in the effect of agricultural prices fluctuation on labour share. That delay supports the argument that are agricultural prices what impact on the labour share and not the other way around. In fact, the link between one variable and the other is mediated by the path followed by rural-urban migration. That is to say that agricultural prices do not impact directly to labour share, but through the effect they have on the internal migration flow which reduces the bargaining power of urban workers, thus contributing to the enlargement of the gap between productivity improvements and real wages increases.

In summary, the Chinese government has intervened in agricultural markets throughout the reform process by offering low purchasing prices for agricultural production. In addition, it has also used imports to offset

possible increases in food demand. Thus, it has been able to ensure a restrained increase of farm prices, exerting pressure that explains the increasing flow of rural-urban migration, mainly from provinces with high shares of primary sector employment to coastal areas. That flow reached at least 137 million of migrant workers in 2007 (163 million if rural migrants workers' dependents are taken into account).²⁰

In this sense, it could be stated that the Chinese government has maintained a policy of 'primitive socialist accumulation', promoting capital accumulation by restricting the improvement of incomes of peasants and rural households. According to Hart-Landsberg (2010):

... [f]rom the 1990s onwards, the deterioration of agricultural incomes and demise of collective rural industries ... forced most young laborers in the countryside to leave for the city, creating a vicious cycle which has precipitated a rural social crisis. China's agrarian sector was not only neglected, however, it was also exploited in support of urban growth. A recent study [Hung 2009] has found that there was a sustained and increasing net transfer of resources from the rural-agricultural to the urban-industrial sector between 1978 and 2000, both through fiscal policy (via taxation and governments spending) and the financial system.

This notwithstanding, the maintenance of the *hukou* associated restrictions to rural migrant workers in the cities has also reduced the bargaining power of urban labour, especially in the industrial exporting provinces. This has prevented industrial wages to grow at the pace of productivity, causing the intense drop of the labour share experienced by China since mid-1990s. In turn, the control of agricultural prices has become the main regulatory mechanism of the labour share. Ultimately, falling labour costs have enabled China to become the second export economy and the third largest producer of the World previous to the current crisis. Nevertheless, it did so at the expense of an increasing internal inequality, suffered not only by Chinese peasants, and rural migrant workers, but also by urban formal ones.

In the next section, the path followed by all the variables under study during the post-crisis period is analysed. Although some improvements have been made, the alleged Lewis Turning Points seems far to be reached. On the contrary, unless previous policies are considerably

²⁰ Data from Chan (2012:190; Table 1).

modified, wages may be kept substantially below productivity by maintaining a continuous flow of reserve labour from the rural areas.

Agricultural Prices, Rural-Urban Migration and Rising Labour Share in China, 2007-2014

Even before the onset of the world economic crisis, general world market trends and Chinese government's intervention in the national market caused grain prices to considerably increase every year between 2007 and 2011, except in 2009 (Table 2). In 2012 and 2013 inflation declined. However, with the unveiling of China's reform guidelines on income distribution during that last year, it was stated that the government will 'try to make farming more profitable by industrialising agricultural production and continuing to increase the minimum purchase prices of major grain products' (*China Daily*, 6th February 2013).

It was also announced that '[f]armers will be guaranteed proceeds from transferring their contracted land plots and collect higher revenues from gains in the land value' (*China Daily*, 6th February 2013). In 2006, the Chinese government had already abolished a 2,600 year-old agricultural tax. This meant that 'the per hectare grain production cost dropped by 570 yuan, or 10 percent - 20 percent from the figure of previous year' (*People's Daily*, 30th December 2005). As a consequence, rural incomes have been increasing relative to urban incomes, appreciably narrowing the urban-rural gap from 3.31 in 2007 to 2.97 points in 2014.²¹

The narrowing of the urban-rural gap, together with another measures, like the extension of the scope of health protection since the 2009 reform, and other programmes aimed to reduce poverty in rural areas (see Herd, 2010:10), contributed to the decrease of rural-urban migration flows. Compared to the 1988-2007 period annual cumulative growth rate of 9.1 per cent, rural migrant workers in the Chinese cities increased by just 3.7 per cent annually between 2007 and 2011.²² Meanwhile, overall floating population increased by 3.5 per cent between 2010 and 2013.

²¹ Own calculations based on National Bureau of Statistics of China (various years (a)).

²² Own calculations based on Chan (2012: 190; Table 1).

Table 2: Variables Fluctuation During the Post-Crisis Period

	2007	2008	2009	2010	2011	2012	2013	2014
Agricultural prices (annual real variation rate) (percentage)	9.9	5.8	-2.3	3.7	7.7	0.3	1.0	n.a.
Urban-Rural Gap (points)	3.33	3.31	3.33	3.23	3.13	3.10	3.03	2.97
Rural Migrant Workers (annual variation rate) (percentage)	3.7	2.5	3.5	5.6	3.4	n.a.	n.a.	n.a.
Floating Population (annual variation rate) (percentage)	n.a.	n.a.	n.a.	n.a.	4.1	2.6	3.8	n.a.
Labour share (percentage of GDP)	42.5	n.a.	46.6	45.0	44.9	45.6	n.a.	46.5

Sources: Own calculations based on National Bureau of Statistics of China (various years (a)) and Chan (2012).

Thus, the number of rural migrant workers increased up to 158.6 million in 2011, while the number of floating population reached 245 million in 2013, accounting for around one-third of *de facto* urban population (Chan, 2012: 190; Table 1, Column H). However, the reduction in the internal migration flow has caused businesses to complain of labour shortages, which have been reported in several works (see, for example, Zhao and Huang 2010). That has been the case especially after each of the Chinese New Years, when a number migrant workers have decided to

stay at their home villages due to improving living conditions in rural areas. Thus, according to the data of the National Bureau of Statistics of China, the average monthly salary for migrant workers ‘rose 21.2 percent in 2011’ (*People’s Daily*, 28th April 2012).

Accordingly, despite job losses as a consequence of decreasing exports, average real wages increased by 9.7 per cent annually between 2007 and 2013 (own calculations based on National Bureau of Statistics of China (various years (a)) data), above productivity improvements. The approval in 2008 of a new labour contract law (see Wang *et al.* 2009; Gallagher *et al.* 2009), more protective for workers, contributed to growing wages, too. Moreover, the Chinese government appealed to provinces to increase the minimum wages up to 40 per cent of the average wage during the XII Five-Year Plan period (2011-2015).

Finally, the number of labour strikes have been escalating since the onset of the World crisis (see Au and Bai, 2010, 2012). Many of those strikes have broken out in response to wage arrears conflicts, which have spread through the construction, extractive and manufacturing industry, especially before Chinese New Year. However, an increasing number of them have been also aimed at obtaining higher salaries, by demanding, at the same time, the development of collective bargaining mechanisms independent from the official trade union, the All-China Federation of Trade Unions. Moreover, recent reports show an even higher number of strikes between 2015 and 2016, as growth rates continue to slow down (*China Labour Bulletin*, 15th April 2016).

All that explain why labour share have risen during the post-crisis period. Between 2009 and 2011 it fell by 1.5 points, but it recovered again up to 46.5 per cent of GDP in 2014.²³ This notwithstanding, the transformations predicted by the Lewis Turning Point narrative China seems to not have been achieved. According to Chan (2010: 523):

[w]hile there is a ‘famine’ in the young ages, a vast ocean of unemployed or underemployed rural labor, mostly ages 35 and above, remains, the size of which is estimated at close to 100 million ... In other words, the depletion of young surplus rural labor is far from being the exhaustion of all surplus labor in the countryside. The situation is still very different from the full-employment scenario postulated in the Lewis model when the ‘turning point’ is reached.

²³ Own calculations based on National Bureau of Statistics of China (various years (a)).

In fact, despite the recent decreasing trend in the rural-urban migration flow, the cases of wage arrears affecting migrant workers have been increasing. They did so 'by 34 percent in the first three quarters of 2015' (*China Daily*, 23rd January 2016). Overall, industrial overcapacity, due to GDP growth reduction since 2012, has led businesses to reduce their demand for labour (*China Daily*, 28th April 2016). Moreover, some of the most important provincial governments have started to curb the increases in minimum wages (*Bloomberg*, 16th March 2016), probably in response to falling industrial profitability, as reported by the National Bureau of Statistics of China (27th January 2016). Furthermore, the government decided to abandon support for agricultural prices, letting 'domestic grain prices be decided by the market' (*Financial Times*, 26th January 2016). Consequently, the prospects for further labour share increase seem limited, as does the possibility for reversing its comparatively low levels.

Conclusions

Labour's falling share of national income in China is attracting increasing attention among researchers. It is usually being assumed that, after the reaching of the Lewis Turning Point by the Chinese economy, the flow of rural-urban migration will be reduced, industrial wages will be pressed above productivity, and, consequently, the labour share will automatically recover. In this paper we have established an alternative explanation of the evolution of the labour share by analysing the reasons behind the rural-urban migration flow. To support our approach we have examined the effect of the fluctuation of agricultural prices on the labour share, through the impact of prices on internal migration. The role of the *hukou* system has been highlighted. The paper's main findings have relevant implications for the possibility of both the rebalancing of the Chinese economy and the reduction of overall income inequality.

In summary, the Chinese government's intervention in agricultural markets has, intentionally or unintentionally, caused labour share to fall by contributing to the maintenance of rural-urban migration flows. The internal migration process from provinces with high primary sector employment, to coastal provinces where industrial, export-oriented activity has been concentrated, is the origin of the sharp decline in the relative wage. However, far from being a consequence of demographic conditions, as the Lewis Turning Point narrative claims, policies

undertaken by the government created the conditions to trigger the migration process, thus limiting real wage increases below productivity.

First, the lack of financial support to state and local agencies for purchasing agricultural products has prevented them to offer substantially higher prices to peasants. Second, since the entry into the WTO, and even earlier, each increase in demand has been offset by larger imports of agricultural products. Furthermore, during the two main migratory waves that China has experienced in recent decades (during early and late nineties) the prices offered by those agencies were reduced directly, in order to contain inflation. Moreover, as we have seen, local authorities have encouraged this process, especially since rural industrial enterprises began to lose market share and to reduce their ability to generate jobs.

Recently, agricultural prices have risen, thus contributing to the reduction of the rural-urban migration flow. Despite job losses caused by decreasing exports to the world market, the bargaining power of labour seems to have increased. In fact, real wages have substantially grown above productivity improvements. As a consequence, the labour share has partially recovered. Nevertheless, recent events point to an end of these improvements. Indeed, internal migration is still prominent, rural migrant workers are suffering wage arrears, while minimum wages are being curbed in response to falling profitability, so the labour share increase will probably cease in the near future.

Some authors claim that China has already reached the Lewis Turning Point (Zhang, Yang and Wang 2010), so internal rural-urban migration is coming to an end. Others, however, maintain that policy measures are necessary in order to reach the Lewis Turning Point (Zhu and Cai 2012). This debate has relevant implications for the progression of the labour share. As we saw in Section 2, some authors (Li, Liu and Wang 2009; Luo and Zhang 2009; Bai and Qian 2010) maintain that the relative wage will enter an upward trajectory following the structural transformation of the economy. This will allegedly occur after the transfer of workers between the agricultural and industrial sectors is complete, when China reaches the Lewis Turning Point.

However, Lewis himself considered the possibility of preventing peasants from improving their incomes as a way of avoiding the exhaustion of the supply of rural labour. This is the case of China, where government policies have prevented the reaching of that inflection point. According to this paper's analysis, the Lewis Turning Point may never be

reached, so the labour share could stagnate in its current comparative low levels, unless policies and institutions that currently limit the increase of wages below productivity, by maintaining a continuous flow of rural migrant workers that lack rights, are modified.

In particular, if the aim is to significantly increase the workers' share of income, and to avoid, at the same time, the middle income trap, it would be necessary to further the measures already taken by pushing up agricultural prices still further (against recent announcement on the abandon of the system of support), thus contributing to the limitation of the rural-urban migration, and using additional policy tools to increase real wages above productivity improvements.

Among others, the *hukou* system should be abolished; the scope of social protection should be further expanded, both in rural and urban areas; additional measures should be taken in order to ensure that the provisions of the new Labour Contract Law are not circumvented by firms; a collective bargaining system should be built up; and, above all, independent trade unionism should be permitted and legally recognised. All that would contribute to both rebalancing the Chinese economy's sources of growth and to reducing internal inequality, goals for which the labour share is a key variable.

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THE IMPACT OF THE 2008/9 CRISIS ON INEQUALITY AND POVERTY IN SOUTHERN EUROPE: THE CASE OF SPAIN

**Pedro José Gómez Serrano, Ricardo Molero-
Simarro and Luis Buendía¹**

The issue of global economic inequality has increasingly drawn the attention of scholars (Atkinson 2000; Lapavistas, 2012; Milanovic 2005; Piketty 2014; Sala i Martin 2006; Stiglitz 2012), NGOs (FOESSA 2014; OXFAM 2014, 2015), and international institutions (World Bank 2006; IMF 2007; UN 2005; OECD 2008, 2011, 2012, 2013, 2014b; UNDP 2005; UNICEF 2011). There is little doubt about the phenomenon of rising inequality, already noticeable from the later 1990s and worsening with the outbreak of the current financial crisis. Not surprisingly, the new Sustainable Development Goals, approved by the United Nations in September 2015, include as a priority the pursuit of equality (Goal 10).

The recession has had serious effects in most countries on inequality, poverty, and at-risk-of-social-exclusion figures. However, differing patterns have emerged. Within the EU-15, the Southern countries seem to have experienced a larger impact. Greece, Italy, Portugal, and Spain have suffered severe socio-economic deterioration that may be irreversible, even if growth-rate recovery consolidates. Indeed, as we show later, a detailed analysis of the economic conditions in Southern Europe reveals

¹Author names are given in random order, as all share equal responsibility for this manuscript.

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that no direct correlation exists between the magnitude of the recession and the social conditions in each country.

The determinants informing social exclusion and the lack of equality during the crisis in Southern Europe leads us to formulate two questions. First, to what extent have inequality and poverty patterns followed a different path in Southern Europe, compared with the core European countries? Second, what are the particularities of Spain within the European periphery?

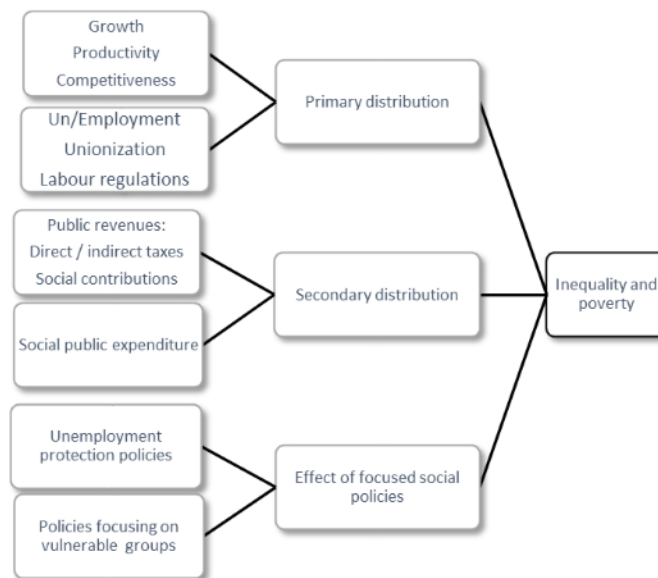
We have chosen to delimit our study to Greece, Italy, Portugal, and Spain, given both the importance of state redistribution in the final outcomes for inequality and poverty and the reasons provided hereafter. Greece, Portugal and Spain have traditionally been in a situation of economic backwardness compared to other EU members. After entering the EU, their GDP per capita was still 68 per cent of the EU average (European Commission 2001: 4). More recently, they have experienced an asymmetric impact of the crisis: according to the classification of countries by the impact of recession between 2007 and 2011, made by the European Commission (2013: 19), Greece and Spain are in the group of 'very high' impact, whereas Portugal and Italy are in the group of 'high' impact. Those three countries share also a common history of Fascist-military political dictatorships which did not end until the 1970s (although in Greece it was shorter than in the Iberian countries). Certainly, these historical reasons explain the underdevelopment of their welfare states (Navarro *et al.* 2007; Navarro 2011, 2014).

We also include Italy here because the Italian welfare state shares with these other countries some critical traits (*i.e.*, the role played by families – especially women – in providing social protection), which is why the literature included it in a so-called Mediterranean or Southern regime of welfare (Ferrera 1996; Navarro *et al.* 2007: 63). Following Del Pino and Rubio Lara (2015), this is characterised as a regime whose members experienced a late development of their welfare states and these would have been influenced by the significant role of families. In these welfare states, some universal services (such as healthcare or education) coexist with some contributory and means-tested benefits as well as the marketisation of other social services (Del Pino and Rubio Lara 2015). The result is a welfare state with a lower capacity to reduce poverty and inequality.

To make our comparison, we have chosen countries that represent other welfare regimes (Ferrera 1996; see Arts and Gelissen 2002 for other classifications) and/or that are key core European countries. Germany and France, in addition to be paradigmatic core countries, are attributed to the Continental-corporatist welfare regime, in which work is the base of social rights, being thereby mainly financed through social security contributions. To them we have added the Netherlands in order to increase the quality of the sample with a smaller Euro-area economy with high per capita income, which clearly is a core country. It is usually included in the same welfare regime, although with some specific characteristics. We have included the UK as the paradigm of the Anglo-Saxon-liberal regime, where less generous social benefits with high coverage are complemented with a broad system of means-tested and targeted benefits. Finally, Sweden represents the Nordic-social democratic regime, with social protection conceived as a social citizenship right, with universal and generous income benefits and broad services.

Inequality and poverty critically depend upon both primary (market) and secondary (state-driven) distribution of income. As shown in Figure 1, the initial sharing of the fruits of growth, which depend mainly upon capital-labour dynamics, determines primary distribution; while the state's redistributive action, through public incomes and social expenditure policies, determines secondary distribution. To put it differently, general economic dynamics generate an initial distribution of income (also called pre-distribution) that may or may not be altered by the state through redistributive policies. The result of both processes leads to a certain distribution of household disposable income.

As illustrated in Figure 1, there are multiple factors affecting both the primary and secondary distribution of income. Pre-distribution is influenced by: the functional distribution of income (the evolution of wage and profit shares of GDP), the labour force participation rate and unemployment levels, the incidence of temporary and part-time contracts, and wage dispersion. The state's redistributive action is the result of taxation and public expenditure policies. Public expenditures involve monetary transfers (generic or targeted) and the provision of public services (whose impact on inequality is unambiguous, but more difficult to assess; see OECD 2011).

Figure 1: Factors Explaining Inequality and Poverty

Source: Authors' own elaboration.

This paper draws from the literature that examines the effects of adjustment policies that have been applied in several European economies since the beginning of the crisis (ILO 2012). We consider that changes in the labour market account for a major part of the evolution in the primary distribution of income, while welfare state 'reforms' implemented during these same years explain the relatively poor outcomes in terms of secondary distribution of income.

Two hypotheses guide this work. First, worsening labour conditions are central to explaining the increasing inequality in Southern Europe. In particular, a falling labour share of GDP in most of the countries under study contrasts with the average (rising) trend in the EU-15. Lower labour incomes can be explained by both increased asymmetries in the balance of power between workers and employers, and structural weaknesses in Southern growth models. Second, despite recent increases

in social expenditures, Mediterranean welfare states have been unable to avoid the negative consequences of crisis on inequality and poverty.

This paper consists of five sections. In section two, the evolution of inequality since the start of the current century is briefly described, stating the main effects of the current financial crisis on selected EU countries. In section three, we analyse the evolution of the main determinants of the primary distribution in the countries of Southern Europe. The fourth section examines the redistributive role of the public sector during the crisis and the impact of welfare state retrenchment. In the fifth section, Spain's particularities are underlined.

Income Inequality at the Beginning of the 21st Century

Even before the crisis began, a moderate increase in inequality was observed in most national economies. Numerous studies attempt to account for the reasons behind these trends (OECD 2011, 2012, 2013). Such explanations have focused on:

- The effects of globalisation on less skilled jobs and on social benefits for workers from developed countries facing competition from the global South;
- The effects of capital-intensive technological change, biased in favour of skilled workers;
- The effects of recent labour policies in OECD countries that have tended to diminish the rights and safety of workers;
- The effects of financialisation and business mergers that led to an extraordinary concentration of income at the top of the distribution;
- The effects of tax evasion and neoliberal economic policies on the redistributive capacity of the state.

As shown in Table 1, inequality increased slightly on average in the EU-15 during 2000-2013, and the increase was greater in peripheral countries than in core countries. Since the onset of the crisis, the latter experienced a minor increase in 2008 and a decline later on, whereas in peripheral Europe the Gini declined first and then went up.² The trends since then

² Eurostat has amended statistics relating to the Gini index in recent years. This has moderated the increasing trend of the index observed since 2009. For the Spanish case, the

have not been uniform, rising in Spain, France and the UK, and decreasing in Portugal and Netherlands. The averages for each group have been stable during the crisis, with peripheral countries having almost a six-point higher Gini index than core countries (by 2000 the difference was four points).

Table 1: Gini Index of Income Inequality in Selected Countries, 2000-2013

	2000	2007	2008	2009	2010	2011	2012	2013
France	28	26.6	29.8	29.9	29.8	30.8	30.5	30.1
Germany	25	30.4	30.2	29.1	29.3	29	28.3	29.7
Netherlands	29	27.6	27.6	27.2	25.5	25.8	25.4	25.1
Sweden	-	23.4	24	24.8	24.1	24.4	24.8	24.9
UK	32	32.6	33.9	32.4	32.9	33	31.3	30.2
<i>Core-Average</i>	28.5	28.1	29.1	28.7	28.3	28.6	28.1	28.0
Greece	33	34.3	33.4	33.1	32.9	33.5	34.3	34.4
Italy	29	32.2	31	31.5	31.2	31.9	31.9	32.5
Portugal	36	36.8	35.8	35.4	33.7	34.2	34.5	34.2
Spain	32	31.9	31.9	32.9	33.5	34	34.2	33.7
<i>Periphery-Average</i>	32.5	33.8	33.0	33.2	32.8	33.4	33.7	33.7
EU-15	29	30.3	30.8	30.5	30.5	30.8	30.4	30.4

Source: Eurostat.

The 20/20 ratio (the ratio of the share of national income belonging to the richest 20 per cent of households to the share of the poorest 20 per cent) shows a similar trend (Table 2): a rise in Southern Europe (headed by

National Institute of Statistics (INE) changed its method of calculating this index in 2013 and has subsequently recalculated the time series, generating a substantial unjustified decrease in the value of the index.

Greece and Spain, and moderated by Portugal) and a stabilisation in the rest (with the exception of the increase in France and Sweden).

Table 2: Income 20/20 Ratio for Selected Countries, 2000-2013

	2000	2007	2008	2009	2010	2011	2012	2013
France	4.2	3.9	4.4	4.4	4.4	4.6	4.5	4.5
Germany	3.5	4.9	4.8	4.5	4.5	4.5	4.3	4.6
Netherlands	4.1	4	4	4	3.7	3.8	3.6	3.6
Sweden	3.4	3.3	3.5	3.7	3.5	3.6	3.7	3.7
UK	5.2	5.3	5.6	5.3	5.4	5.3	5	4.6
<i>Core-Average</i>	4.1	4.3	4.5	4.4	4.3	4.4	4.2	4.2
Greece	5.8	6	5.9	5.8	5.6	6	6.6	6.6
Italy	4.8	5.5	5.1	5.2	5.2	5.6	5.5	5.7
Portugal	6.4	6.5	6.1	6	5.6	5.7	5.8	6
Spain	5.4	5.5	5.7	5.9	6.2	6.3	6.5	6.3
<i>Periphery-Average</i>	5.6	5.9	5.7	5.7	5.7	5.9	6.1	6.2
EU-15	4.5	4.9	4.9	4.9	4.9	5	4.9	4.9

Source: Eurostat.

Contrary to expectations, no clear correlation exists between the economic downturn and a hypothetical increase in inequality in our two subsets. The diversity of national patterns suggests the relevance of particular factors, with Spain exhibiting the worst performance of the EU-15, and France and Sweden experiencing increasing inequality (albeit their starting point was much more egalitarian than that of Spain).

Concerning poverty, however, the crisis has had a severe social impact in the EU. On average, the population at risk of poverty or social exclusion (AROPE)³ rose by almost 10 per cent in 2013 in the overall EU-15

³ This indicator refers to the situation of people either at risk of poverty (those with an equivalent income below 60 per cent of the country median; also called monetary poverty),

(Table 3), and the percentage of population experiencing monetary poverty, anchored at the 2008 income level,⁴ increased by nearly 20 per cent (Table 4). In these indicators we can better appreciate the asymmetric shock of the crisis: the AROPE rate was 3.2 points higher in the European periphery than in the core countries in 2007, with the difference increasing to 4 points in 2013; the distance in the monetary poverty rate was 5.7 points in 2008 and 13.7 in 2013.

Table 3. Population at Risk of Poverty or Social Exclusion (AROPE) in Selected Countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	19	18.5	18.5	19.2	19.3	19.1	18.1
Germany	20.6	20.1	20	19.7	19.9	19.6	20.3
Netherlands	15.7	14.9	15.1	15.1	15.7	15	15.9
Sweden	13.9	14.9	15.9	15	16.1	15.6	16.4
UK	22.6	23.2	22	23.2	22.7	24.1	24.8
<i>Core-Average</i>	<i>18.4</i>	<i>18.3</i>	<i>18.3</i>	<i>18.4</i>	<i>18.7</i>	<i>18.7</i>	<i>19.1</i>
Greece	28.3	28.1	27.6	27.7	31	34.6	35.7
Italy	26	25.3	24.7	24.5	28.2	29.9	28.4
Portugal	25	26	24.9	25.3	24.4	25.3	27.5
Spain	23.3	24.5	24.7	26.1	26.7	27.2	27.3
<i>Periphery-Average</i>	<i>25.7</i>	<i>26.0</i>	<i>25.5</i>	<i>25.9</i>	<i>27.6</i>	<i>29.3</i>	<i>29.7</i>
EU-15	21.6	21.7	21.4	21.8	22.6	23.1	23.1

Source: Eurostat.

or severely materially deprived (unable to afford some items considered necessary or desirable to lead an adequate life) or living in a household with a very low work intensity (household's time employed under 20 per cent of available time) (Eurostat's Glossary).

⁴ This allows one to calculate how many people would be below the poverty threshold if this was maintained at the value corresponding to a reference year (here 2008, as the start of the crisis). This avoids that the threshold changes when the mean or median income do.

Table 4: Population at Risk of Monetary Poverty (anchored at 2008) in Selected Countries, 2008-2013

	2008	2009	2010	2011	2012	2013
France	12.5	12.5	12.3	13.7	13.8	13.3
Germany	15.2	16	15.8	15.9	16	16.8
Netherlands	10.5	10.6	10	11	10.7	11.8
Sweden	12.2	11.7	11.2	11.6	10.8	10.8
UK	18.7	20.4	21.4	21.9	20.7*	21.2
<i>Core-Average</i>	<i>13.8</i>	<i>14.2</i>	<i>14.1</i>	<i>14.8</i>	<i>14.4</i>	<i>14.8</i>
Greece	20.1	18.9	18	24.9	35.8	44.3
Italy	18.7	19.9	19.3	21.4	22.7	25
Portugal	18.5	18.1	16.1	17.9	19.4	22.3
Spain	20.8	15.6*	16.4	18.5	20.6	22.2
<i>Periphery-Average</i>	<i>19.5</i>	<i>18.1</i>	<i>17.5</i>	<i>20.7</i>	<i>24.6</i>	<i>28.5</i>
EU-15	16.4	16.3	16.3	17.5	18.2	19.2

*Indicates a break in the time series.

Source: Eurostat.

This greater deterioration of Southern countries affects all members of the group, but the most extreme case is Greece, where 37.5 per cent of the population was at risk of poverty or social exclusion in 2013, and monetary poverty more than doubled. Given that the Greek Gini index has barely increased, these data reflect the sharp declines in total and real per capita income.

Primary Income Distribution: determinants and effects

Multiple factors explain the increase of inequality and poverty in Southern European countries. In this section, we analyse the determinants of the primary distribution of income, *i.e.* income

distribution before social transfers. The so-called ‘market income distribution’ is determined by several factors. It has been generally claimed that the most relevant factor here is wage dispersion. However, this is not true for the countries under study. Contrary to wide belief, labour earnings dispersion has continuously decreased in Southern European economies, both in pre- and post-crisis periods. Rather, unemployment rates and the functional distribution of income have been the most significant factors in explaining the rising inequality observed in the distribution of household income before social transfers.

Table 5 presents the Gini coefficient before social transfers (pensions being included in social transfers). Between 2007 and 2013, inequality increased in all the countries considered, except the Netherlands. This increase was extraordinary in Greece, very high in Portugal and Spain, and lower in Italy. It was also very high in the UK and Sweden. Market income inequality rose only moderately in Germany and France.

Table 5: Gini Index before Social Transfers in Selected Countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	49.9	48.8	48.7	49.2	49.7	49.8	50.3
Germany	54.4	56	54.4	55.4	55.5	54.4	56.4
Netherlands	45.4	45.5	45.3	44.2	45.8	46.1	44.9
Sweden	44.3	52.2	51.6	52.7	54.8	52.4	53.4
UK	50.4	51.9	53	53.6	53.4	55.3	54.5
<i>Core-Average</i>	<i>48.9</i>	<i>50.9</i>	<i>50.6</i>	<i>51.0</i>	<i>51.8</i>	<i>51.6</i>	<i>51.9</i>
Greece	49.4	49.1	49.4	49.1	51.9	56.9	61.6
Italy	47.8	46.5	46.6	47	48	47.5	48.9
Portugal	51	50.2	50.7	50	50.3	55.9	55.9
Spain	45.4	45.4	44.5	46.8	48.8	48.7	49.3
<i>Periphery-Average</i>	<i>48.4</i>	<i>47.8</i>	<i>47.8</i>	<i>48.2</i>	<i>49.8</i>	<i>52.3</i>	<i>53.9</i>
EU-15	49.5	49.9	49.7	50.4	51.1	51.3	52.1

Source: Eurostat.

Turning now to at-risk-of-poverty rates before social transfers, we observe several differences (Table 6). Those rates increased substantially in Greece, Spain, and Portugal, whereas in Italy and the other countries considered (Germany, the Netherlands, Sweden and the UK) changes were slight. It decreased in France.

Table 6: At-Risk-of-Poverty Rate before Social Transfers in Selected Countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	45.8	42.7	43.2	44.5	44.2	43.7	44.7
Germany	43.2	43.5	43.5	43.9	44.6	43.3	43.7
Netherlands	35.4	35.1	35.9	36.9	36.9	36.7	37.2
Sweden	41.5	42.2	40.5	41.6	42.4	41.8	42.3
UK	41.7	40.7	43.2	44.1	43.4	44.5	45.2
<i>Core-Average</i>	<i>41.5</i>	<i>40.8</i>	<i>41.3</i>	<i>42.2</i>	<i>42.3</i>	<i>42.0</i>	<i>42.6</i>
Greece	41.9	41.5	42	42.8	44.9	49.8	53.4
Italy	43.4	42.9	42.7	43.5	44.9	44.5	45.2
Portugal	40	41.5	41.5	43.4	42.5	45.4	46.9
Spain	38.6	39	39.3	42.1	43.8	43.8	45.5
<i>Periphery-Average</i>	<i>41.0</i>	<i>41.2</i>	<i>41.4</i>	<i>43.0</i>	<i>44.0</i>	<i>45.9</i>	<i>47.8</i>
EU-15	45.2	41.6	42.1	43.2	43.8	43.7	44.6

Source: Eurostat.

Note: Pensions included in social transfers.

Table 7 shows the trends in the unemployment rate from the beginning of the crisis until 2014. The economic recession has hit European labour markets hard and the EU-15 unemployment rate is now 3.0 percentage points higher than in 2007. The behaviour of Greece and Spain stands out distinctly from the average. During the period considered, their levels of

unemployment tripled. Italy's rate was doubled, and Portugal had its unemployment rates increased by 'only' 5 percentage points. In the EU-15, only Ireland suffered an increase similar to that of Mediterranean Europe (nearly tripling its unemployment, although from a significantly lower starting point).

Table 7: Unemployment Rates in Selected Countries, 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
France	8	7.4	9.1	9.3	9.2	9.8	10.3	10.3
Germany	8.5	7.4	7.6	7	5.8	5.4	5.2	5
Netherlands	4.2	3.7	4.4	5	5	5.8	7.3	7.4
Sweden	6.1	6.2	8.3	8.6	7.8	8	8	7.9
UK	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1
<i>Core-Average</i>	<i>6.4</i>	<i>6.1</i>	<i>7.4</i>	<i>7.5</i>	<i>7.2</i>	<i>7.4</i>	<i>7.7</i>	<i>7.3</i>
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5
Portugal	9.1	8.8	10.7	12	12.9	15.8	16.4	14.1
<i>Periphery-Average</i>	<i>8.0</i>	<i>8.7</i>	<i>11.5</i>	<i>13.3</i>	<i>15.2</i>	<i>19.0</i>	<i>20.5</i>	<i>19.5</i>
EU-15	7.1	7.2	9.1	9.6	9.6	10.6	11	10.7

Source: Eurostat.

Two additional factors may have had a significant impact on the primary distribution of income: the share of part-time jobs, and the evolution of average wages. Between 2007 and 2014, the incidence of part-time jobs increased in the EU-15 from 20.3 per cent of total to 22.9 per cent (Eurostat). For Southern European countries, part-time recruitment has experienced a much steeper rise than average. In Greece part-time employment has risen from 5.5 per cent to 9.3 per cent, in Spain from 11.4 per cent to 15.8 per cent, and in Italy from 13.4 per cent to 18.1 per

cent. By contrast, Portugal has experienced a pace of growth in this area much more in line with the rest of the European Community (from 8.2 per cent to 10.1 per cent).

The increasing prevalence of part-time jobs is mainly due to the inability of workers to find full-time jobs. The percentage of part-time workers who would like to have a full-time job increased significantly in all cases between 2007 and 2014: from 33.3 per cent to 64 per cent in Spain, from 45.1 per cent to 71.2 per cent in Greece, from 39.3 per cent to 65.4 per cent in Italy, and from 38.6 per cent to 49.3 per cent in Portugal. In a context of increasing unemployment, workers have accepted fewer working hours than desired.

Regarding the evolution of wages, these have experienced a marked downward trend in Southern Europe as a consequence of both higher unemployment rates and tough labour 'reforms'. Comparing average real wages in Southern Europe between 2007 and 2013, an evident fall can be observed in Greece (75.8 per cent of the 2007 level), and a smaller but significant decline occurred in Italy (94.3 per cent) and Spain (96.8 per cent). Only Portugal was able to avoid such deterioration, as the average real wage in 2012 (latest available data) was at 103.4 per cent of its 2007 level (ILO 2015: 7).

In short, the expansion of unemployment and part-time employment, and the drop in the average real wage, led to a sharp deterioration in the living conditions of a significant fraction of the working population in Europe. The impact was harsher in Greece and Spain, but also relevant in Portugal and Italy.

However, in most Southern European countries, wage dispersion did not increase during the first five years of the current crisis (Table 8). There can be several explanations for this phenomenon. First, it may be a consequence of the massive destruction of lower-paid jobs. This reduction of low-wage occupations provokes the statistical impression that the payment range has been shortened. This has been the case in Spain, where unemployment is concentrated in the building sector (where low-qualification jobs dominate), as well as in the hotel sector, in restaurants and tourism, and in domestic services and personal care.

Table 8: Wage Dispersion Ratios, 2000-2012

	Ratio 5/1			Ratio 9/1			Ratio 9/5		
	2000	2007	2012	2000	2007	2012	2000	2007	2012
France	1.59	1.47	1.5	3.1	2.91	2.97	1.95	1.98	1.99
Germany	1.71	1.83	1.77	3.04	3.26	3.26	1.77	1.78	1.84
Netherlands	1.59	1.61	1.62	2.79	2.95	2.89	1.75	1.83	1.78
Sweden	1.39	1.4	1.38	2.35	2.34	2.27	1.7	1.67	1.65
UK	1.82	1.81	1.79	3.46	3.59	3.55	1.9	1.98	1.98
<i>Core-Average</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>	<i>2.9</i>	<i>3.0</i>	<i>3.0</i>	<i>1.8</i>	<i>1.8</i>	<i>1.8</i>
Greece	1.72	1.72	1.55	3.44	3.43	2.71	2	1.99	1.75
Italy	1.44	1.45	1.52	2.22	2.27	2.32	1.54	1.56	1.53
Portugal	-	1.65	1.49	-	4.31	3.81	-	2.61	2.57
Spain	1.69	1.68	1.64	3.55	3.47	3.07	2.1	2.06	1.88
<i>Periphery-Average</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>	<i>3.1</i>	<i>3.4</i>	<i>3.0</i>	<i>1.9</i>	<i>2.1</i>	<i>1.9</i>

Source: OECD.

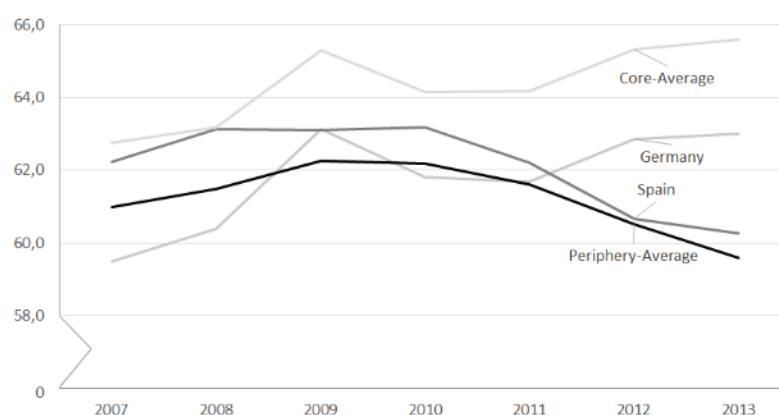
Note: For Spain and Greece, the first year of the period for which data are available is 2004; for the Netherlands is 2002; also, in the absence of data for Italy and the Netherlands for the year 2007, we have taken the 2008 and 2006 values, respectively.

Second, the data provided by the OECD are available only for 2012, and it was not until 2014 that a slight recovery of productive activity and job creation was registered in Southern Europe. The evidence suggests that, since 2012, the employment created has been of very poor quality, and newly created occupations have provided lower wages than those jobs that were previously destroyed. According to the European Commission, one out of three new jobs created in 2013 did not allow the worker to escape poverty. For the case of Spain, the figure was two-thirds of new workers.

A common pattern emerges when the evolution of the wage share of GDP is considered. Figure 2 shows the pattern followed by the wage

share of our two sub-samples and two representative cases of each of them.

Figure 2: Wage Share in the EU-15, 2007-2013



Source: Authors' own elaboration with data from AMECO.

Note: See Annex 1 for each country's data.

On average, the labour share increased in core countries (save for the UK, whose share remained steady at 67.5 per cent) whereas peripheral countries followed the opposite trend. Southern European countries experienced a significant fall in labour share from 2010: five percentage points in Greece, three points in Spain, and two and a half in Portugal. In Italy, the wage share was maintained during these years.

The main causes of this declining trend of the labour share of GDP in peripheral countries can be thus found in the hike of unemployment, the spread of (involuntary) part-time jobs and the decrease of average wages. Labour market 'reforms' approved in these countries as part of adjustment policies meant to address the crisis, reinforced those trends. In effect, the European Commission (joined in some cases by the IMF and the ECB, the so-called 'Troika'), recommended labour reforms in half the EU countries, those in the peripheral countries being the most intense (Álvarez *et al.*, 2013: 227 *ff.*). They have included the extension of opting-out clauses for employers (by-passing sectoral collective

agreements), the pre-eminence of company-level agreements over the rest, the decrease of firing costs or the freezing (or reduction) of public employees' wages. The result has been the decentralization of collective bargaining and the deregulation of labour markets, which along with the increase of unemployment, have damaged labour's power.

In sum, we observe the emergence of several patterns. In Southern European countries, substantially higher unemployment rates and a falling labour share, due to decreasing real wages, have caused both market inequality and poverty before transfers.⁵ Meanwhile, labour earnings dispersion improved. In the other countries considered, primary distribution worsened as a consequence of rising wage dispersion, although it did so smoothly. Indeed, average EU-15 poverty rates decreased. Finally, the recession has had a different impact on so-called 'pre-distribution': weaker productive structures and deteriorated labour markets have left Southern European countries behind.

Economic and Welfare State Crisis in Southern Europe

Having examined how the market distribution of income has evolved, we now turn to the question of state influence. The redistributive action of the state has historically been the most powerful in Western Europe, but the systems of social protection are not evenly configured throughout the continent. In this section, we examine how Southern-European states have reacted to the recession, also considering their different starting points in terms of redistributive capacity.

The ability of the state to reduce inequalities is known as its redistributive capacity. Comparing the data available in Tables 1 and 5, we can calculate the reduction in inequality caused by state amelioration. For the EU-15 in 2013, the states reduced inequality by 42 per cent (reducing the Gini index from 52.1 to 30.4). This reduction was, on average, 37 per cent for peripheral countries and 46 per cent for core countries. Greece, with a 44.2 per cent reduction, even exceeded the

⁵ Note that for several years, the GDP itself also shrank twice (2008-2010, 2011-2013), so that the effective decline in the working population income became pronounced, especially in countries where both recessions were felt more strongly: Italy, Spain, Portugal, and above all Greece experienced very strong negative growth rates, almost steadily, between 2008 and 2013 (as sharp as -7 per cent in some cases).

redistribution level of two core countries (France, 40.2 per cent reduction, and the Netherlands, 43.8 per cent). However, both France and the Netherlands had lower starting points (11.3 and 16.7 points lower, respectively). Given the social costs of the crisis have been very high in Southern Europe, they would have been catastrophic without the action of the state.

Other welfare regimes had a substantially greater redistributive capacity than those of the Southern European countries. Of course, this holds true for Sweden, the paradigm of the social-democratic regime. Despite being more unequal in 2013 than Italy or Spain in terms of market incomes, Sweden managed to reduce this imbalance by 53.4 per cent. The same applies to France, Germany and the Netherlands, members of the Continental regime, whose Gini indexes dropped by 40.2 per cent, 47.4 per cent and 43.8, respectively. Even the UK, which is attributed to the liberal regime, was able to reduce inequality by 44.6 per cent in that same year, 2013.

An additional aspect of the influence of welfare states on inequality deserves further consideration: public services. Some research suggests that, in developed countries, public services (such as education, health, transport, and housing) account for an additional 20 per cent in the reduction of inequality, on average (OECD 2011). The crisis has significantly adversely affected public services, particularly in those countries where the economic collapse has been more severe. Further, welfare state reforms already implemented before the crisis -- in some cases to ensure their long-term financial sustainability; in others, to expand the private sector's involvement -- might have encouraged this trend (Buendía and Gómez 2014). In general, welfare state reforms since the 1990s have not eliminated the systems of social protection, but they have tended to limit and distort some of its distinct features (*i.e.*, workers' protection) across the four welfare regimes (Del Pino and Rubio Lara 2015; Moreno 2013).

An alternative approach to the effects of welfare states on income distribution is the analysis of social spending and its main components. To obtain a more precise idea of its evolution, we will consider its weight in the GDP, its absolute amount, the paths followed by its various components, and real spending per capita.

Table 9 shows the weight of social protection expenditure in GDP before and during the crisis (until 2012). Focusing first on the EU-15 average, a

significant increase was evident during the crisis, while this variable had remained stagnant between 2000 and 2007. As regards particular countries, hardly any relevant change was registered before 2007, except for a notable increase in Portugal and a decline in Germany and the UK. However, between 2007 and 2009, the average increase in spending amounted to four percentage points; this figure was even greater for Southern Europe (especially Spain and Greece). After 2009, expenditures were stabilised at the new level.

Table 9: Social Protection Expenditure as a Percentage of GDP, 2000- 2012

	2000	2007	2008	2009	2010	2011	2012
France	27.7	29.3	29.7	31.5	31.7	31.6	31.2
Germany	28.7	26.6	26.9	30.2	29.4	28.3	28.3
Netherlands	24.7	26.7	26.9	29.7	30.3	30.5	31.4
Sweden	29.3	28.6	28.9	31.4	29.8	29.1	29.9
UK	25.2	23.8	24.6	27.5	27.1	27.6	28.4
<i>Core-Average</i>	27.7	27.1	27.5	30.2	29.5	29.2	29.5
Greece	22.7	24.1	25.4	27.4	28.2	28.9	30.0
Italy	23.7	25.4	26.4	28.5	28.6	28.4	29.0
Portugal	18.6	22.6	23.2	25.5	25.4	25.0	25.4
Spain	19.5	20.3	21.5	24.7	25.0	25.5	25.4
<i>Periphery-Average</i>	21.1	23.1	24.1	26.5	26.8	27.0	27.5
EU-15	25.7	25.6	26.3	29.0	28.9	28.7	29.2

Source: ESSPROS (European System of Integrated Social Protection Statistics); Eurostat 2015.

We should be cautious, however, in the interpretation of these data, given that several factors were instrumental in the final outcome. There is the decline in GDP, which occurred during two sub-periods and which was more intense in Southern countries, particularly Greece. Automatic

stabilisers, namely expenditures on unemployment benefits, rocketed as a consequence of employment destruction in these countries. Finally, the inertial effect due to trends such as the ageing of the population (putting pressure on public pension and healthcare expenditures) has to be also considered. The relative increase in spending on social protection in Greece and Spain was thus not the result of a political choice in favour of pursuing greater equality, but the result of a combination of these three factors.

If we consider the volume of resources devoted to social protection in the EU-15, they began to decline, even in nominal terms, after 2009 in Greece, from 2010 in Portugal, and after 2011 in Spain. This did not occur in the other 12 countries that form the EU-15 (Eurostat). This phenomenon resulted in a significant decline in real social spending per capita between 2009 and 2012 in Greece (14.9 per cent), Portugal (7.3 per cent), and Spain (6.5 per cent), and even in Italy (3.5 per cent).⁶ In the rest of the EU-15, where social conditions had worsened to a lesser extent, real social spending per capita remained stable, or even increased.

The analysis of the different areas of social expenditures as a percentage of GDP (detailed figures in Annex II) is better understood if it includes the influence of reforms introduced during the period of study. Although fiscal consolidation programmes have been applied in both core and peripheral countries, it is relevant that Southern European countries are the only ones that adopted all the measures considered by Álvarez *et al.* (2013). These measures include: freeze or reduction of public employees' wages, firing of public employees, old-age pension reforms, healthcare reforms, decrease of expenditures in social benefits and transfers, public investment cutbacks and increase in consumption taxes. This is in line with Beetsma *et al.* (2015), who observe that the most sizeable fiscal consolidation effort in the euro area has been made by Greece, Spain and Portugal (it was not so sizeable in Italy, but still over the euro area average). It was in these countries where the adjustment has been mostly expenditure-based. This is relevant inasmuch as the literature shows that 'spending-driven fiscal consolidation programmes are detrimental for the distribution of income' (Agnello *et al.* 2016: 5).

⁶ Everything suggests that this reduction continued in Southern countries in 2013 and quite possibly in 2014, but data are not yet available.

Starting with spending on unemployment, it has increased sharply in Spain (as expected). By contrast, although expenditures on unemployment doubled as a percentage of GDP in both Greece and Italy, those percentages remained low (surprising in the case of Greece, where unemployment had quadrupled). Since 2011, spending on unemployment tended to decrease in Spain and Greece due to the depletion of assurance for many insured, and for the long-term unemployed in particular (Eurostat). Thus, in Spain, as of January 2015, the coverage of unemployment benefits reached only 56.5 per cent of the unemployed, compared with 61.4 per cent a year earlier, while average spending per unemployed person had fallen by 4.1 per cent (INE).

Turning to social expenditures per capita, from 2010 onward, fiscal consolidation programmes led to a decline in spending on healthcare and education in Southern Europe, which subsequently intensified over time. In Spain, between 2009 and 2013, per capita spending on social policies decreased by 10.1 per cent (from 6,933 to 6,230 constant 2013 euros), the cutbacks in healthcare and education amounting to 20 per cent. These cutbacks were uneven in geographical terms, so that the poorest and neediest areas suffered greater losses (Pérez García *et al.* 2015).⁷ Furthermore, the Stability Programme 2014-2017 sets as a target a further reduction of the weight of these spending items vis-a-vis the GDP.

In the other Southern European countries, the evolution was similar: between 2011 and 2013, per capita spending on healthcare was reduced by 15.9 per cent in Greece, by 13.4 per cent in Portugal, and by 7.8 per cent in Italy (data from World DataBank). Similar reductions occurred in education (OECD 2014a); though available data do not go beyond 2011, the decline is undeniable. According to Eurostat (which does not provide

⁷ The crisis has had asymmetric consequences also inside countries. The less developed regions in Greece, Italy, Spain and Portugal have had worse economic results since the beginning of the crisis, which has led the European Commission to treat them apart in its current analysis of lagging regions (Cuadrado-Roura *et al.* 2016). Likewise, the social impact of the crisis has not been equal in urban and rural areas: at-risk-of-poverty rates increased more in cities than in other areas, yet the starting point was different as well: poverty is higher in rural areas than in cities in Spain, Portugal, Greece and, to a lesser extent, in Italy, being the opposite in France, Germany, the Netherlands or the UK, among others (European Commission 2014: 74). These trends form a complex and rich picture whose analysis is beyond the scope of this paper due to space limits.

data for Greece), spending per student in Spain and Italy dropped in 2008-2011 by 4.2 per cent and 9.2 per cent, respectively.

Finally, regarding the evolution of old-age pensions during this period, statutory retirement ages have been increased and longer contribution periods are being required. However, owing to their high degree of institutionalisation and the growing political influence of retirees in the EU-15, pensions have remained in general stagnant or experienced a slight reduction in purchasing power. This has led to the paradoxical result of a sharp decline in old-age poverty in those countries most affected by the crisis -- a phenomenon due not to a rise in their income, but to a reduction in the average national income and a decline in income among the poorest and/or the unemployed.

The Particular Case of Spain

In terms of inequality and poverty, Spain has experienced an overall worsening greater not merely than that of the EU-15 average, but, in aspects like inequality, also than the rest of Southern Europe. The cumulative decline of GDP between 2009 and 2013 was 7.5 per cent in Portugal, 8.5 per cent in Italy and 19 per cent in Greece, and 6.4 per cent in Spain. In aggregate terms, the recession in Spain was not as deep as in the rest of the periphery.

However, even taking into account the methodological change introduced by Spanish statistical authorities in 2013 to estimate the Gini index, which halved its perceived growth and prevented its absolute value from becoming the highest in the EU-15, the expansion of inequality in Spain compared to the other Southern economies is surprising. Between 2007 and 2013, whereas the Gini index increased by two points in Spain, it rose by just three decimals in Italy; meanwhile it remained stable in Greece, and in Portugal it was reduced by one and a half points. According to the 20/20 ratio, an increase in polarisation occurred in Spain, while Greece experienced a modest decline. The key to these phenomena lies in the fact that the crisis has hit Spain very unevenly across different sectors of the population (FOESSA 2014). Specifically, the 10 per cent of poorest households lost 13 per cent of their real annual revenue between 2007 and 2011, while the top 10 per cent experienced an annual loss of only 1.5 per cent of their earnings (OECD 2015). That trend continued through at least 2013.

When comparing AROPE and monetary poverty rates (Tables 3 and 4), the behaviour of the Spanish economy appears similar to that of the other Southern countries (although the recession had not been as deep). Greece suffered the greatest degradation in living conditions, in line with the magnitude of the recession. Population living below the poverty line (anchored at 2008) increased from 20.1 per cent to 44.3 per cent, as a result of the collapse of per capita income, which declined by 24.6 per cent between 2007 and 2014. In Spain, the number of people affected by monetary poverty increased by seven points, while the AROPE rate rose by four points, in line with what occurred in Italy. Nevertheless, Portugal was able to contain the social collapse to some extent – monetary poverty increased by less than four points, and the AROPE rate rose by just two and a half points.

What are the factors that explain the behaviour of the Spanish economy? Undoubtedly, the most remarkable factor resides in the labour market. Since 2000, many low-quality jobs (in terms of earnings, stability, training, and productivity) were created in Spain, highly concentrated into a few sectors linked at least in part to the housing bubble (construction, tourism, hotels, financial services, domestic services, and personal care). The crisis quickly destroyed many of these jobs. Thus the labour reforms of 2010 and 2012 were formally designed to ‘facilitate recruitment’ in a strongly recessive context. However, by lowering dismissal costs, cutting labour rights, and reducing real wages, they instead caused temporary and part-time jobs to increase and real wages to deteriorate, thus consolidating the status of the working poor. Spain’s unemployment rate remains thus similar to that of Greece, despite the decline in Greek GDP has been more than double that of the Spanish economy. Although Italy and Portugal experienced a crash similar to that of Spain, their unemployment rates are half that of Spain.

Moreover, Spain is distinguished as the one country in the EU least able to reduce inequality through state amelioration. The difference in the Gini index in 2013 before and after transfers was 15.6 points in Spain, compared to 16.4 in Italy, 21.7 in Portugal, and 27.4 in Greece (not to mention the 28.5-point difference in Sweden). This is not merely due to Spain’s lower share of social protection expenditures in terms of GDP (the lowest in the EU-15, excluding Luxembourg), or to its weaker political commitment to the goal of inclusion, but also to the effect of recent tax reforms (OECD 2015). Spanish governments have raised tax rates on consumption and fees for certain public services, while reducing

income taxes for individuals and companies, and on property and inheritance. Moreover, the cutback policies mentioned in the previous section have further reduced the redistributive and protective capacity of the public sector. The welfare state in Spain has become even more financially vulnerable, due to the collapse of public revenue (from 40.9 per cent of GDP in 2007 to 34.8 per cent in 2009).

In sum, the development pattern of the Spanish economy tends to consolidate inequality along with monetary poverty. The state has not been able to ensure social cohesion and there is a risk that this situation will continue to consolidate if current policies are not reversed.

Conclusions

Analysis of available data implies that, overall, inequality and poverty have more dramatically affected Southern Europe than the rest of the EU-15. Undoubtedly, the severity of the contraction in productive activity was much higher in the four Southern countries here considered. However, inequality in Greece, Spain, Portugal, and Italy has followed markedly different paths in recent years, in comparison with other European countries. Although the Southern countries have a varied experience, there do exist common factors explaining those general trends.

The collapse of Greece surpassed that of the other three economies, but inequality has remained remarkably stable throughout the period. This notwithstanding, the population at risk of poverty or exclusion has increased further. Meanwhile, Portugal has experienced the smallest increase in overall poverty, and the country has been able to reduce inequality despite a very difficult economic context (including an intervention from Brussels demanding a programme of profound public spending cuts). Italy maintained its average levels of inequality seen before the crisis and, despite an increase in absolute poverty, it has not suffered a similar increase in its AROPE rate (perhaps because Italy's unemployment levels have not grown so much). Finally, Spain is the country that has experienced the greatest increase in inequality and poverty in comparison to the size of its recession. This experience reflects a model of development characterised by its instability.

Contemplating separately the impact of the factors that generate inequality, Southern Europe's distinct behaviour in terms of

unemployment, part-time work, and average wages has exerted significant influence on overall inequality. In particular, unemployment and labour reforms are the key explanatory elements of this evolution. Until 2011, no increase in wage dispersion was observed in these countries. Moreover, Southern European economies have suffered a drastic reduction in the wage share of GDP. This appears to be a relevant factor in explaining the substantially worse indicators on inequality and poverty prior to social transfers in Greece, Portugal, and Spain.

Regarding the redistributive role of the state, it has played a crucial role in cushioning the worst effects of the crisis (even in Southern Europe), although its influence has not been sufficient to avoid a worsening of living conditions for broad layers of the population. However, the redistributive capacity of Southern welfare states is substantially lower than in other parts of Europe. Indeed, many core European countries are more unequal before transfers, but their redistributive instruments led them to greater ultimate equality in household disposable income. Moreover, it is likely that differences in inequality between the Southern region and the rest of Europe are being undervalued. Cuts in public spending aimed at reducing budget deficits are affecting many public services, but their effects on household's welfare will persist over time (for example, in the case of the reduction in funding for public education or health). Regarding the debate around the sustainability of welfare states, it is significant that, measured as a share in GDP, they have expanded across the EU-15 during the crisis. Nevertheless, real spending per capita, or per beneficiary, has tended to fall in Southern Europe, except in terms of old-age pensions which have remained fairly stable to date.

The recovery in economic activity since 2014 raises further questions. We still lack the data that would allow us to assess whether this implies also a new trend in social issues, but two facts pose a threat to any optimistic expectation: the fact that this recovery is far from guaranteed (with growth data still 'provisional' for the countries under study) and the fact that during the expansive phase, peripheral countries were unable to catch up with core countries, which points to the influence of historical political economic considerations.

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Annex I: Labour Share of GDP in selected countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	63.6	63.8	65.8	65.5	65.9	66.4	66.8
Germany	59.5	60.4	63.1	61.8	61.7	62.9	63.0
Netherlands	63.5	63.9	66.1	64.7	65.0	66.5	67.3
Sweden	59.7	61.1	63.2	60.6	61.2	63.2	63.3
UK	67.5	66.8	68.2	68.1	67.1	67.6	67.5
<i>Core-Average</i>	<i>62.8</i>	<i>63.2</i>	<i>65.3</i>	<i>64.1</i>	<i>64.2</i>	<i>65.3</i>	<i>65.6</i>
Greece	57.5	57.7	59.7	60.1	59.8	57.7	55.1
Italy	59.8	60.2	61.4	61.6	61.2	62.1	61.7
Portugal	64.4	64.9	64.8	63.9	63.2	61.5	61.3
Spain	62.2	63.1	63.1	63.2	62.2	60.7	60.3
<i>Periphery-Average</i>	<i>61.0</i>	<i>61.5</i>	<i>62.3</i>	<i>62.2</i>	<i>61.6</i>	<i>60.5</i>	<i>59.6</i>
EU-15	62.6	62.9	64.6	64.0	63.7	64.4	64.4

Source: Eurostat.

Annex II: Social Expenditures by Function as a % of GDP in the EU-15, 2007-2012

	Old age		Healthcare		Unemployment		Family and childhood		Total SEEPROS		Education*		Total with education	
	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012	2007	2011	2007	2012
France	11.2	12.9	8.6	9.2	1.9	1.9	2.6	2.5	29.3	31.2	5.6	6.1	34.9	37.3
Germany	9.3	9.4	8	9.6	1.6	1.2	2.8	3.2	26.6	28.3	3.9	4.4	30.5	32.7
Netherlands	9.6	11.3	8.6	11.3	1.1	1.8	1.6	1.1	26.7	31.4	5.3	5.8	32.0	37.2
Sweden	11.1	12.4	7.5	7.6	1.1	1.2	2.9	3.2	28.6	29.9	6.7	6.8	35.3	36.7
UK	10.5	12.7	7.7	9.3	0.5	0.7	1.7	1.9	23.8	28.4	6.1	6.4	29.9	34.8
Core-4:	10.5	11.9	8.0	8.9	1.3	1.3	2.5	2.7	27.1	29.5	5.6	5.9	32.7	35.4
Greece	10.5	15.4	6.8	6.4	1.1	1.9	1.5	1.6	24.1	30	3.9	4.1	28	34.1
Italy	13.1	15.3	6.6	7.6	0.5	0.9	1.3	1.4	25.4	29	4.6	4.2	30	33.2
Portugal	9.7	12	6.4	6.4	1.1	1.7	1.2	1.2	22.6	25.4	6.2	6.6	28.8	32
Spain	6.7	9.2	6.4	6.7	2.1	3.6	1.3	1.4	20.3	25.4	4.4	4.8	24.7	30.2
Periphery-4:	10.0	13.0	6.6	6.8	1.2	2.0	1.3	1.4	23.1	27.5	4.8	4.9	27.9	32.4
EU-15	10.2	11.8	7.5	8.7	1.4	1.8	2.1	2.3	25.6	29.2	4.8	5.3	30.4	34.5

Note: Expenditure on education is usually left aside from such analyses. However, because education serves as an opportunity equaliser, facilitates participation in social life, and allows individuals to better defend their own rights, it seems reasonable to include education spending in assessing the effort made by society toward reducing inequalities.

Source: ESSPROS; Eurostat 2015. * OECD for education figures.

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VIOLENCE, INEQUALITY AND DEVELOPMENT

David Barkin

Inequality is the watchword associated with development these days. Throughout the Global South the burgeoning literature on growing inequality is testimony to the profound social impacts that 'development' is having on people's lives and their environments. A great deal of the material on inequality comes from the North, in part stimulated by Piketty's book (2014) and on-going work by Milanovic (2015). In general, however, the literature and its critics do not take into account the structural conditions of the global economy that increased inequality among and within countries (Barkin 2015).

Present development strategies are not only exacerbating inequality but also directly provoking violence in our countries. Rather than repeat the well-documented processes for the advance of inequality (*e.g.*, Stilwell 1993; Stilwell and Jordan 2007; Obeng-Odoom 2014), in this short article I examine the relationship between growth promotion policies and the intensification of violence within countries in Latin America. The focus is on extractive industries because these are at the centre of development policy in the region. The conflicts are aggravated by a series of complementary approaches being implemented in line with international commitments to achieve the 'Sustainable Development Goals' agreed upon within the United Nations framework and to reduce greenhouse gas emissions in accord with the Kyoto Protocol of 1997 culminating in the Paris meeting of 2015.

From Industrialisation to Extractivist Policies

During past decades, Latin America moved from an industrialisation and finance-based development strategy to the modernisation approach

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reminiscent of its colonial and 19th century history: a ‘deepening’ of primary sector production, fuelled by the sharp rise in international commodity prices and the growth of external demand. This shift is producing significant structural changes in the region’s economy with important effects on the social structure and well-being of the population (Nadal 2011). The shift marks a sharp turn from the state-led initiatives adopted in the post-World War II period based on the controversial ‘inward-oriented’ import substitution policies promoted by the Economic Commission for Latin America, grounded on the innovative ‘Singer-Prebisch thesis’ of the historical tendency of ‘declining terms of trade’ (Prebisch 1950; Singer 1950).

This radical turn in development policy was especially evident in Mexico. The impetus created by incipient industrialization during World War II was extended by encouraging and protecting new industries and stimulating agriculture with a two-prong thrust to encourage peasant production for internal markets and to promote agroexports in its new irrigation districts that were to be the spearhead of a new decentralized regional development strategy. This approach incorporated large numbers of peoples into a new industrial labor force, generating a dynamic that created a ‘middle class’, complemented by public policies to support rising wages, improved living conditions for broad segments of the population, the extension of public education and the creation of infrastructure that would support future development (Barkin, 1990; Morton, 2011).

The profound changes imposed on the region during the last decades of the 20th century reflected an important realignment of political forces and economic power in the global economy. This transformation was achieved by the implementation of structural adjustment policies; later dubbed the ‘Washington Consensus’ (Williamson 1990, 2000). The neoliberal programme facilitated access of transnational capital to the most productive activities, the opening up of the economies to international competition, the deregulation of markets, the liberalisation of capital flows, the restructuring of fiscal policy to shift burdens from the rich to the middle sectors and consumers, and the renewed emphasis on monetary policy to control inflation through exchange controls and tight limits on wage increases.

The reordering of institutional arrangements set the stage for the wholesale opening up of the region’s economies to a new wave of

investment oriented towards natural resources and other activities with low value-added like assembly operations employing unskilled workers. As a result, the continent is now embroiled in a seemingly unending series of problems with unforeseeable consequences for its future evolution (Veltmeyer and Petras 2014; Gudynas 2016).

It is significant, however, that in most countries the advance of capitalist projects is not going unopposed; there are innumerable examples of peoples and regions joining forces to create alternatives that offer examples of the diverse ways in which others might transcend the seemingly overwhelming power of the present stage of capitalist development.

The reorientation of economies in Latin America is a dramatic story. Without going into the details and the data, which are readily available, it is accurate to say that the region has undergone a 'simplification' of its economic structure over the past twenty years in marked contrast to what has been happening in other parts of the world (*e.g.*, Altomonte and Sanchez 2016: 63ss). Because of important changes in the sectoral composition of production and trade, there has been a reduction in the diversity of the economic structures in the region. The analysis continues with an explanation linking this transformation to the production of inequality.

Reprimarisation¹

During the present century, there has been an important increase in foreign investment in natural resource exploitation as a result of two inter-related factors: 1) the lack of dynamism in industry, and 2) the buoyancy of commodity prices for regional raw materials. This increase in natural resources production was not accompanied by the expected increase in the complexity of the economy, that is, denser interindustry linkages and feed-back mechanisms to generate demand for skilled labor. Foreign investments in agriculture, electronics, consumer products and extractive industries became enclaves with little integration to the rest of the economy (*e.g.*, Gallagher and Zarsky 2007). While this development

¹ After writing this paper, I was referred to an article with a similar title highlighting this phenomena in the southern cone of South America (Cooney 2016).

led to different sectoral specialisations among countries, the increase in production of minerals in the Andean countries (Chile, Bolivia, Peru, and Ecuador) and Mexico, petroleum output in Ecuador and Venezuela, forestry and mining in Uruguay, soybeans in Argentina and Brazil (along with forestry and mining) all had predictably similar impacts: as in the past, they generated sizable rents for the foreign investors and left considerable environmental damage (or liabilities) in their wake.² While this development did stimulate economic growth, it did not lead to the generation of employment on a scale required to meet the needs of the country. On the contrary, as we shall see below, they are forcing the displacement of many communities and provoking serious social and political conflicts virtually everywhere they locate.

This expansion of the extractive industries is now affecting many more dimensions of social life than was the case with the mining projects of yore. For this reason, in Latin America, analysts (*e.g.*, Alberto Acosta, Eduardo Gudynas, Maristella Svampa) have begun speaking of 'neo-extractivism' to refer to this much more intense process involving faster depletion of the soil, greater use of chemicals in agriculture and mineral processing, export orientation, and little local value added (*cf.* Gudynas 2013; Lang 2013; Svampa 2015). With our greater knowledge about the dynamics of the mining industries and their environmental impacts, we can examine with certainty its effects on biodiversity and trace the ways in which control of lands is uprooting communities from their territories. The 'neo' aspect of this process is being extended to the new resource economy's impacts on the agro-food chain, by channeling of fertile lands to biofuels and soy, mentioned above; unlike the changes in land usage in the past, this new pattern involves profound changes in social relations, territorial management, and resource degradation on a much greater scale than ever before (Dietz and Burchardt 2014; Veltmeyer and Petras 2014).

² An important discussion has been raised about the rents generated in some Latin American countries from the imposition of sizable taxes on these incomes; in some cases, this surplus has been captured by joint (public-private) enterprises. In Bolivia, the government is using this income to finance social and physical infrastructure throughout the country, while in Argentina it was important for strengthening social welfare programs until the change in administration in 2016; in Ecuador, it was expected to finance industrialization programs that were never implemented. In Venezuela and Mexico, rents from state-owned petroleum enterprises were used to finance the government budget, creating the basis for the 'Bolivarian Revolution' of Hugo Chavez in one case and the transition to a hardening of neo-liberal policies in the other (Katz 2016).

There are other aspects of the structural transformations that drive the relationship between promoting development and inequality. One of the most important is the commitment to large-scale investments in infrastructures, either to 'service' the needs of the primary sector producers and/or to create the basis for future industrialisation. These construction projects are being implemented on a grandiose scale; the Integrated South American Regional Infrastructure Initiative (IIRSA) for a transcontinental highway system starting in Brazil and extending across the Amazon into Peru and Ecuador is one of the most ambitious (Barkin 2009).³ Another important group of projects involves the construction of large hydroelectric projects that flood large areas to retain the waters needed for full-scale operation of the turbines; one of the most notable of these is the Dam at Belo Monte on the Xingu River in Para State, Brazil (Fearnside 2006, 2014; Klein 2015). Built with the stated aim of promoting welfare by generating electricity needed for processing minerals, they involve large-scale displacements of indigenous groups, destroying the cultural and material heritages that these governments had pledged to protect.

Like the primary production projects, almost all of the infrastructure projects are seriously disrupting the social structures of the affected regions. They often involve the displacement of communities and the transformation of their lives. One of the most extreme examples of this transformation is the project to establish 'Sustainable Rural Cities' (SRC) in the jungle areas of Mexico; officially proposed to provide safer conditions for peoples affected by 'natural disasters', the displaced communities were expected to move to new settlements where no consideration was given for traditional living patterns or forms of social organisation. Fashioned after the failed 'strategic hamlet' programme created in 1961 in Vietnam (Gravel 1972, Vol. 2: 128-59), the SRCs are undisguised programmes to move peoples from their traditional lands, regional production and supply systems, and dispersed living patterns in order to bring these areas under control of 'modern' forms of extractive or market-oriented production, to be managed by large Mexican (or

³ In a previous version (El Pantanal), the international development community proposed a different link from Rio de Janeiro on the Atlantic, crossing Argentina and Chile to the Pacific, via inland waterways in southern Brazil and Uruguay (Gottgens *et al.* 2001).

foreign enterprises) (Wilson 2014; Rodríguez Wallenius 2016).⁴ These resettlement schemes also violate commitments to conserve and protect indigenous peoples and their heritage; similar programmes, have been implemented in Argentina, Brazil, Colombia, and many other parts of the world (Grajales 2011; Feldman and Geisler 2012; Clements *et al.* 2013; Costantino 2016).

Neo-Extractivism and the Concentration of Rent and Wealth

The transition from structural change to growth-first policies led to a massive concentration of wealth. It promoted an avalanche of new investments in natural resource ventures pursuing the extraordinary profits anticipated by the companies and the vulnerability of the governments negotiating these concessions. However, they provoked a plethora of legal disputes in the wake of these foreign investments between the companies and the impacted peoples living in the impacted regions, leading to complex legal proceedings. An analysis of the corporate claims against 'host' countries prosecuted before the secretive International Centre for Settlement of Investment Disputes, part of the World Bank group offers some appreciation of the scope of this new phase of international expansion of capital. Most of the countries in the western hemisphere, including the US and Canada, are currently facing multimillion dollar demands for 'foregone profits'.⁵ These conflicts continue to arise as a result of official attempts to enforce environmental regulations and other public interest legislation, including the protection of access to water and respect for the territorial and cultural integrity of indigenous peoples, as provided in the ILO Convention 69 and UN

⁴ This strong condemnation of the SRC program is based on field work by students of the author in several regions where the program was expected to be implemented. For an analysis from the official point of view, see García Medina, *et al.* (2012) and the transcribed interviews in the otherwise critical undergraduate thesis by Elias Vigil (2012).

⁵ Data on conflicts brought before the ICSID are available on its web site (<https://icsid.worldbank.org/apps/ICSIDWEB/resources/Pages/ICSID-Caseload-Statistics.aspx>). For a discussion of this information and an evaluation of the conflict resolution process see Trakman (2013).

Declaration on the Rights of Indigenous Peoples that these governments have ratified.⁶

A particularly egregious award by the Centre is the almost one billion dollar claim against Ecuador in 2006 for cancelling the operating permit of Occidental Petroleum Corp; Chevron was also awarded 700 million dollars. In both cases, the claims were that the suspensions involved an unacceptable application of existing environmental regulations, regardless of the admitted fact that there has been large-scale spills that destroyed important areas of biodiversity and threatened the health and very existence of the indigenous peoples living in the region (Matelski 2015; Sankey 2016). Similar proceedings are currently in process regarding investments by Canadian, Swiss, and United States firms in three Central American and five South American countries, in addition to Mexico and Canada.

The processes described in this section involve important transfers of wealth (rents) from poorer nations to powerful national and transnational capitalists. The judicial processes themselves offer a vivid picture of the stakes involved. In most cases, the benefits accrue to the private interests with little or no consideration for the peoples living in the regions, many of whom have historical rights to these territories. The documented negative human and environmental impacts of these enterprises can only be imagined by those examining the situation from afar; it is now being enriched with a virtual explosion of literature on land and water grabbing that is affecting literally hundreds of millions of people on every continent as Obeng-Odoom describes (2014) (see also, Borras *et al.* 2012).

Inequality and Violence

In many parts of the world, growing inequality and ‘accumulation by dispossession’ (Harvey 2005), as many of the processes described above have been characterised, do not proceed unnoticed or unopposed.

⁶ The ILO Convention on Indigenous and Tribal Peoples guarantees their right to prior, informed consent on matters affecting their territories (<http://www.ilo.org/indigenous/Conventions/no169>). Once ratified, it adopts the status of a constitutional mandate. Similar rights are recognised in the United Nations Declaration: <http://undesadspd.org/indigenouspeoples/declarationontherightsofindigenouspeoples.aspx>.

Resistance movements are growing and becoming increasingly militant as the dispossessed realise that peaceful protests and resort to peaceful processes are ineffective. The proliferation of conflict organised by local and regional has become so significant as to merit a serious global effort to document the individual events and analyse the overall process (*e.g.*, Walter and Martinez Alier 2010); the European Commission awarded a research contract to a global consortium of twenty-three universities and environmental justice organisations to undertake this process and provided support for communities seeking to resist the process.

The Environmental Justice Organisations, Liabilities and Trade project (EJOLT) is undertaking to document

the impacts of pollution [that] are distributed unequally among populations. Those most heavily impacted are marginalised sectors of the population including poor people, women, minorities and particularly indigenous peoples, who depend most directly on natural resources for their livelihood. [The project brought together materials from] civil society organisations involved in conflicts over resource extraction or waste disposal, focusing on the link between the need for environmental security and the defense of basic human rights with the aim to redress inequitable environmental burdens (project description from Web site: <http://www.ejolt.org/project/> accessed 15 may 2016).

It created a database and, emblematically, an interactive map where researchers, citizens and activists are able to insert information and develop analyses that will help make their reactions to the spread of investment more systematic and effective.

The breadth and depth of resistance being documented is significant. But, unlike many other research efforts, this one proposed to actually increase the ability of environmental justice organisations to directly become involved in their regions and even contribute to negotiating with project operators to improve conditions for people in the impacted communities.

As one outside reviewer phrased it, the

societal impacts of research processes and outputs are...evident, highlighting the unique nature of the project...[T]he project has had outstanding outreach for raising broader awareness...there is evidence that the project is contributing more broadly to social mobilisation around ecological justice issues, including the strengthening of environmental justice organisations [and awareness among policy makers] (Clapp 2014).

Unfortunately, not all resistance activities are successful in developing constructive solutions to conflict. Throughout the world, reports of violent repression against local protests involving major infrastructure and productive investments are all too common. In Latin America these involve mining (Yanacocha in Peru), hydroelectric (Belo Monte in Brazil), wind power (Tehuantepec in Mexico), petroleum (Yasuni in Ecuador), fracking (Pemex in Mexico), plantations (African Palm in Colombia), and fish farms (shrimping in Ecuador), to name but a few of the targets that are provoking the ire of communities whose resources, life styles and very existence is threatened.⁷ There is also a very sizable human toll, in terms of people being assassinated or harshly beaten and the dismembering of communities and cultures, often tracing their origins back hundreds if not thousands of years.⁸

Searching for Alternatives

A growing segment of professionals, especially in the Global South, is involved in efforts to support peoples attempting to avoid their insertion into global markets on disadvantageous terms.⁹ Many people are suffering or being defrauded as workers in local or regional markets. This integration centered on the pursuit of growth is also pushing peoples from their traditional territories, separating them from their communities, and disarticulating their societies and cultural networks. Our evolving analysis obliges us to combine theoretical concerns of integrating analysis with empirical studies of the dynamics of capitalist expansion to improve their abilities to forge alternatives.

⁷ All of these examples can be explored on the EJOLT web site mentioned above.

⁸ In addition to the many faces of violence unleashed by powerful corporate interests referred to in the text, there are the serious effects from the production and trafficking of drugs for national markets and most notably for consumers in the United States (Paley, 2015).

⁹ Evidence for this collaboration with professionals is the wealth of literature that circulates within their communities and also within international academic circles describing their cosmologies and theories while exploring means for implementing their proposals for building alternative societies throughout the world – for example, in New Zealand (Smith 2012); in Colombia (Escobar 2008); in India (Shrivastava and Kothari 2012); and in Africa (Branch and Mampilly 2015).

Of course, as Karl Polanyi explained decades ago (2001), the aggressive intromission of international capital into the interstices of societies around the world does not go unchallenged. Local struggles and international alliances like those mentioned in this section are part of a double movement that is continually springing up to attempt to stem its spread. More recently, however, these resistance movements are transforming themselves into creative and powerful initiatives to design alternative strategies for social and productive organisation consistent with assuring ecosystem conservation and balance. This is where radical analysis and theory is making a particularly important contribution, collaborating to understand the environmental processes and participate in developing new productive activities (Barkin 2016). There are numerous examples of these activities. In this final section we offer examples of communities involved in such changes, individually and in collaboration with others (Barkin and Lemus 2016).

Throughout the Third World resistance is transforming itself into a positive move towards building new societies. Peoples are moving beyond the confines of their existing relations with the capitalist societies. In many parts of the world dispossessed and marginalized communities are realising that they can be better off by devising ways to avoid workplaces organised along proletarian lines and life styles that contribute to their alienation and ill health. In order to advance, they generally must seek control over their territories and regroup collectively to assure the satisfaction of their needs and the conservation of their environments. This capacity for autonomous self-government, guided by communal principles of direct democracy, is crucial for consolidating alternative ways of living. Generally, implementing this approach is not possible without an underlying set of common beliefs to guide the community in its search for its own process for local advance.¹⁰

A unique feature of the approach in many of these societies is an explicit recognition of the centrality of gaining control over the surplus generated as they implement their strategies, a surplus that often increased by mobilising social resources of a non-monetary form, such as voluntary

¹⁰ These struggles for recognition (and the efforts to negotiate their rights under existing international law), reinforced by belief systems or cosmologies, strengthen their resolve to consolidate their ability to implement productive, social and environmental strategies that contribute to their well-being.

labor and social organisation.¹¹ By focusing on the control of the various sources of surplus, they can effectively distribute it for individual and collective purposes while avoiding the concentration of income and power characteristic of the societies that have long tried to control them, and from which they are trying to distance themselves. This offers an important lesson, highlighted by Paul Baran many years ago (1957): eliminating capitalist market tethers, societies can identify important reserves of untapped reserves of material and social resources that can be made available for collective benefit. It is remarkable that many communities are implementing mechanisms to generate and control surplus by replacing capitalist productive (social) relations with communitarian relationships and collective management of their communal resources and ecosystems (Barkin and Lemus 2016).¹²

The Via Campesina (VC) is the largest social organisation proposing an alternative organisation of production around the principle of Food Sovereignty. It brings together affiliates in more than 80 countries with more than 200 million members, creating local systems for sustainable food production. Since its founding in 1996, it has moved to generate new ways of disseminating information and strengthening its commitment to peasant based production focusing on supplying local markets, using agroecological farming systems suitably adapted to local environmental conditions. The VC also sponsors a network of peasant-to-peasant schools where people exchange information and teach about different farming techniques, while also trading seeds and information about markets, credit systems, and outside assistance (Martínez-Torres and Rosset 2008; Desmarais *et al.* 2014). A similar organisation developed in China, the New Rural Reconstruction Movement, about which much less is known (Wen 2012).

¹¹ This use of the concept of surplus draws its inspiration from the seminal work of Paul Baran (1957). It differs from 'rent' as it derives from deliberate and organized collective decisions to undertake activities that generate resources available for strengthening community institutions, improving well-being, and assuring environmental conservation.

¹² In Mexico, there are perhaps 15 million people living in communities engaged in forging societies deliberately involved in overcoming the terror that colonial and capitalist organizations imposed on them for generations. Details are provided in the references included in the text. In other parts of Latin America, there are more than one hundred million others involved in similar processes.

Communities living in forest areas are also creating new ways of managing their resources to assure the long term health of their ecosystems, while also generating employment and income to sustain themselves. There are numerous accounts of successful examples in which communities have organised to recuperate and then protect degraded or overcut systems while creating productive activities (Borrini *et al.* 2007; Barkin and Fuente 2013). Community control of coastal wetlands, small-scale fishing organisations and water resources also contribute to local well-being, generating new productive activities and sources of income (Laird *et al.* 2010).

These specific examples can only offer an introduction to the contributions to political economy that communities are making while escaping from the strait jackets of mainstream analysis. It is significant, however, that this work now involves us in understanding and participating in the dynamic efforts to build new forms of society. These include the important example of the Zapatistas in southern Mexico, who are consolidating an experience of almost a quarter-century, consolidating their unique approach to economic and ecosystem management that has improved the material well-being of the more than one-half million people living in its territory, while assuring privileged opportunities for women and schooling for all (Vergara 2014). In other parts of Latin America, communities are also moving from 'resistance' to 'r-existence', as some have recently described this transformation (Escobar 2008; Porto-Goncalves and Leff 2015).¹³

Focusing on these movements of transformation is extraordinarily important. Too many still insist on simply reforming existing institutions. Even as I finish this essay, we are witnessing an important new development in Colombia, where the government and the FARC guerilla movement have agreed to a peace agreement following more than one-half century of hostilities; throughout the world, people hope that this will create new opportunities for communities to build new institutions and create new opportunities. Similarly, other movements throughout the world are proposing to restructure the relations between society,

¹³ The use of the expression 'r-existence' explicitly obliges the reader to reconsider its meaning, a thought process that might not occur if the word 're-existence' were used. Escobar explained this elegantly in his 2013 keynote address (in English) to the 2nd Workshop on 'Scales of Governance: The UN and Indigenous Peoples', <http://www.sogip.ehess.fr/spip.php?article603&lang=fr>.

economy and nature. Exciting work is being done by those who are informed by the most imaginative and generous contributions to its burgeoning literatures (e.g., Martinez-Alier 2002; Healy *et al.* 2012). This stimulating work –together with this paper– demonstrates that growth-centred mainstream economics and economic policy only generate inequality and violence – the very opposite of development.

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HIDING NEOLIBERAL COAL BEHIND THE INDIAN POOR

Ruchira Talukdar

The opening up of extensive coal reserves in Central Queensland's Galilee Basin for mining and export has been strongly criticised for environmental and social reasons that will be felt for generations to come. If the proposed mines go ahead, it can lead to a blowout of Australia's carbon emissions, deplete groundwater, destroy native vegetation and endangered species, affect the traditional rights of the Wangan and Jagalingou people, and physically harm the Great Barrier Reef and its associated coastal wetlands through port expansion and increased coal traffic (Environmental Law Australia 2016). Environmental and social costs aside, financial assessments have cautioned that new Australian mines risk becoming stranded assets due to a slump in coal prices, increasing affordability of solar technology, and international momentum to reduce greenhouse emissions (Buckley and Sanzillo 2013; Dennis 2015).

Of the six Galilee Basin coal mines in an advanced stage of development, the largest two, the Carmichael and the Alpha, are owned by Indian energy corporations Adani Enterprises and GVK (the Alpha coal mine is owned in partnership with Hancock, Australia) (Rosewarne 2016). The Carmichael coal mine, which would become Australia's largest, has become the strategic and symbolic focus of a multi-pronged resistance comprising scientists and conservation groups (Elliott 2016), grassroots networks of farmers and environmentalists (Lock the Gate 2014), transnational networks advocating divestment from coal projects (350.org Australia 2015) and traditional owners opposed to coal mining on their traditional lands (Australian Broadcasting Corporation 2015).

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At the core of Indian industrialist Gautam Adani's \$16.5 billion Australian venture lies a proposal to dig six open cut and five underground mines spanning 28,000 hectares, roughly seven times the size of Sydney Harbour. A new railway line will be built to connect these coal pits to the coast (Queensland Government 2016) as well as a new coal terminal at Abbot Point port (Queensland Government 2015) to ship Adani's coal to Gujarat in India. The mine is expected to yield coal for ninety years and the company estimates it will ship 60 million tonnes of coal per year (Rolfe 2014). Most of the mined coal is intended for the Adani Enterprise's thermal plants in coastal Gujarat. To its opponents, the sheer scale of the combined impacts from the Carmichael mine, rail and port project and calculated emissions from burning its coal (Amos and Swann 2015) means it 'should never have been approved' (Waters 2015: para. 9).

Successive state and federal governments have, however, not been dissuaded from approving the Carmichael coal mine project. As claims for economic benefits loose ground and the massive environmental impact of the Carmichael mine become apparent, Australian governments have advanced the moral claim of helping India alleviate poverty through increased electricity generation to justify their actions. Former Prime Minister Tony Abbott declared that 'coal is good for humanity' (Massola *et al.* 2014: para. 5), disregarding its exacerbating impacts in Australia, and former Federal Resources Minister Josh Frydenberg asserted Australia's moral imperative to 'help lift hundreds of millions of people out of energy poverty' (Kelly 2015: para. 5). Such claims that make a moral case for continuing Australia's coal exports assume that private coal mining by Indian corporations will help lift millions of Indian poor out of poverty.

India, the world's fastest growing major economy, primarily depends on coal, which supplies nearly 60 per cent of its electricity (International Energy Agency [IEA] 2015). It is also dogged by energy shortages and inequality both in income and electricity distribution, with 240 million poor currently still without access to electricity (IEA 2015). India has set itself an ambitious target to double coal production by 2020 to boost electricity generation and address energy shortage (Das 2015). This demand is likely to be met through an increase both in domestic coal production and imported Australian coal mined by private Indian corporations (Rosewarne 2016).

The human, economic and political priority of providing electricity to the literally powerless millions, mostly in remote rural locations, cannot be denied. The notion of electricity use is strongly linked to overall development and the improvement of specific indicators such as child mortality, female life expectancy, and avoiding undernourishment, in the Human Development Index (Ghosh 2016). However, the claim that Adani's coal, privately mined in Australia for private electricity generation in India, will ameliorate the energy deprivation of the poor, needs to be critically examined.

The challenge of providing electricity to remote locations in India through the coal-powered central electricity grid on account of vast distances and the inability of rural populations to meet the utility's cost of extending the grid is well regarded. Electricity distribution through the central grid is largely concentrated in India's urban and industrial regions (IEA 2015). This renders the coal dependent growth scenario unlikely to lift millions of rural poor out of darkness as quickly as needed. An estimated 60 million Indians are likely to remain without electricity into 2030 under coal dominant growth scenarios (IEA 2015).

India's increasing solar capacity and the Indian energy minister's articulations about reducing coal import dependency (Press Trust of India [PTI] 2016) has prompted some critics of the Carmichael project to challenge the Australian government's moral claim on the grounds of India's decreasing coal import needs (Buckley 2016). However, when viewed in light of the Indian government's contradictory positions on coal, this challenge appears weak. The Indian Government, on the one hand, speaks of reducing import dependency, and on the other, expanding its energy production through an increase in domestic and imported coal production. The most fundamental assumption of the moral claim – that India's private-coalmining-dependent model of current economic growth benefits its poor and vulnerable communities – remains uninvestigated.

Successive Indian governments have themselves claimed this same moral ground by defining climate justice in terms of India needing the carbon space to develop as a postcolonial nation (Goodman 2016). The export of large quantities of Australian coal by private Indian companies presents a pertinent transnational context to undertake three much needed interconnected analyses.

Firstly, to investigate who benefits and who misses out from India's increasing coal usage and linked rapid economic growth, bearing in mind

the pervasive nature of economic and social inequalities in Indian society. Secondly, to determine the relevance of coal in the lives of some of India's poorest communities, in order to understand the true costs and benefits of privately mining and transporting unprecedented quantities of Australian coal to India, at a time of exacerbating climate change. And thirdly, to consider the range of civil society concerns over the resource intensive nature of India's current economic growth.

In this paper, I undertake such an analyses to argue that the pro-poor claim for coal is losing ground. The introduction of neoliberal economic policies and privatisation of coal mining and electricity production under existent social and economic inequalities in India has meant that many vulnerable, poor groups have continued to face displacement and pollution from these activities, while corporations have profited. There is no clear beneficiary for privately mined Indian coal. I offer a series of counter-claims emerging from India that may delegitimise the moral case for Australian coal.

The first section defines the problem of the neoliberal growth model adopted by India since the mid-1990s from the perspective of poor vulnerable communities most susceptible to loss of land and livelihoods from industrial projects including that of coal mining and electricity generation. It puts the ethical dilemma of the current growth model in perspective by underlining its difference from the first forty years of India's post-independence economic growth. It introduces two concepts, 'neoliberal coal' and 'hiding behind the poor', that together explain the conflict between coal and public interest in India's post-economic-liberalisation growth since the mid-1990s, at a time of exacerbating climate change impacts.

The second section presents two case studies that expose the contradictions in the Indian government's rhetoric and policy actions around coal mining. The first case study of private coal mining in Mahan forests in the central Indian state of Madhya Pradesh illustrates the conflict at the heart of the Indian state, between protecting vulnerable communities and furthering private profit through resource extraction. The case study demonstrates oppositional claims to state-private exploitation of natural resources by grassroots and civil society groups and state responses to such opposition. A second related national level case study draws attention to a fundamental clash of objectives between

defining national interest as private extraction dependent growth, and preserving socio-ecological balance and democratic rights of Indians.

The discussion in the third section draws on the highlights of the case study and its resonance at the national level to elaborate on the increasingly sophisticated challenging of the neoliberal growth paradigm in Indian civil society. The coming together of local communities empowered by legal instruments, and national and transnational organisations, is pushing local livelihood and justice claims to the broader national agenda and creating opportunities for a scrutiny of whether India's national interest is served through neoliberal coal mining, energy production and economic growth. The conclusion draws on themes emerging from a civil society scrutiny of the impacts of neoliberal growth on the Indian poor to suggest counter-claims to delegitimise the moral argument for Australian coal.

The problem: who benefits and who bears the costs of coal usage under India's current growth model?

Inequality, public interest and private profit: the changing character of India's economic growth

As a postcolonial state, sovereign in its right to self-determination, India continues to assert its right to grow on the international stage. However, as a highly unequal and diverse society, both the social and ecological impacts of development, as well as its benefits, are not equally distributed amongst all sections. From its earliest post-independence economic era in the 1950s, state led large industrialisation projects such as mining and dams have displaced mostly rural, Adivasis (meaning original inhabitants; the term broadly refers to India's indigenous people) and peasant populations, many with generational associations to their lands (for example, see Padel 2016).

It is estimated that at least 60 million people have been displaced by development projects since independence (Fernandez 2008). A large majority of those displaced have not been properly rehabilitated or reabsorbed into the restructured economic geography (Sharma and Singh 2009). Another estimate (quoted in Kothari 1996: 1476-85) based on a through assessment of the dimensions of human impacts of 110 projects

found that almost 50 per cent of the 1.694 million people displaced were Adivasis.

Even though civil society movements have questioned the lack of distributive justice in the decades following Indian's sovereignty, industrial development has largely been accepted as serving the greater common good. This is best captured in the first Prime Minister Jawaharlal Nehru's regard for dams as the 'temples of modern India' (Khilnani 1998: 61) and his counselling villagers displaced by the Hirakud Dam 'if you are to suffer, you should suffer in the interest of the country' (Roy 1999: para. 1).

Coal is found abundantly in India compared to the other major fuel sources of oil and natural gas (Martin 2015). It served as the resource backbone of India's post independence development, primarily to build and strengthen public sector industries (Ghosh 2016). The role of coal, both as a symbol of national development by virtue of its ability to provide cheap access to electricity, and as the primary driver of India's growth engine, has remained uncontested by successive governments. Recently, a Supreme Court judge summed up the significance of coal to India's future:

Coal is king and paramount Lord of industry is an old saying in the industrial world. Industrial greatness has been built upon coal by many countries. In India, coal is the most important indigenous energy resource and remains the dominant fuel for power generation and many industrial applications (Supreme Court 2014: para. 2).

The state's role in promoting coal-led industrial development that benefits the urban elite, and middle classes, has forced large-scale displacement and restructured the lives of subsistence populations. The state has excused this tension, arguing that the lack of economic and distributive justice from coal powered energy production is a necessary sacrifice to the national interest. However, India's rapid growth in the last two decades fails even this selective definition of public interest.

Through structural reforms to the economy over a period of time starting in the early 1990s, the Indian state allied itself with transnational and domestic private capital to make its policies conducive to greater economic growth. This, in effect, redefined the role of the Indian state through the dismantling of much of the industrial licensing system and allowing private companies to operate in industries previously controlled by state run enterprises (Nielsen 2010). More and more activities,

including the acquisition of land by governments for profit making private companies (Reddy and Reddy 2007) and the setting up of special economic zones, have been brought under the purview of India's neoliberal development.

Therefore, in post economic-liberalisation India, the state started acquiring a growing proportion of land from peasants or native dwellers for private industrial uses including coal mining and energy generation. The policy changes in the early 1990s were followed by the setting up of super-sized power generation projects, often with foreign companies as primary promoters or major collaborators (Ahmed 2010). In an already industrialised and coal-rich region such as Singrauli in Madhya Pradesh (further discussed as a separate case study under the third section), these policy changes implied the possibility of a third wave of development-related-displacements from land acquisitions for private coal mining and power generation projects (Dokuzovic 2012). The five new designated super-projects in the Singrauli district require an estimated 10,000 acres of land (Sharma and Singh 2009: 65).

When the state facilitates land acquisition for the expansion of private mining operations, acting as a 'land broker', it exposes its bias towards large corporations (Levien 2011: 71) as opposed to affected communities, raising fundamental questions of social justice. Civil society groups have questioned the 'public purpose' of many developmental projects proposed and executed by the private sector, or even by the state where the benefits clearly go to private corporations. The sanctioned special economic zones around the country, regions where national laws are suspended to apparently allow full play to the free market, have become the core target of activists' criticism of governments failing to actually deliver for the public interest (Sharma and Singh 2009).

Discrepancies between the expectations and results from India's neoliberal policies became evident within a decade of economic reform. Nowhere did this gap emerge more clearly than in the western state of Gujarat. Gujarat's growth story under Chief Minister Narendra Modi (who later went on to become India's Prime Minister) has been hailed as the poster child of neoliberal economic development in India, albeit at a significant social cost (Rajagopal 2010; Roy 2016: 82). Gujarat clocked the highest GDP of all Indian states by concentrating large investments in resource extraction and thereby generating short-term profits. This pattern of concentrated investment, largely in resource extraction by big

corporations, neglected vital sectors such as agriculture. It also failed to improve social and developmental indicators (Jaffrelot 2015).

India's high rate of economic growth has been found not to lead to a corresponding reduction of poverty (Harriss *et al.* 2010: 38-60). Precariously balanced on a narrow alliance of economic and political elites (Kohli 2007: 113), India's version of economic reforms has essentially reoriented the state's behaviour in favour particularly of domestic private corporations interested in minerals exploitation (Oskarsson 2015). The privileges made available to Adani Enterprises under the Narendra Modi government in Gujarat (Nayar, Mukherjee and Arora 2014) is a glaring example of this nexus between India's economic and political elites. The company acquired land cheaply from the government for its port at Mundra and special economic zone; it later sold significant portions of this land to other companies at hundreds of times the cost value (Nayar, Mukherjee and Arora 2014).

Critics of India's neoliberal development argue that the necessary collusion between state and big capital has resulted in new forms of accumulation by dispossession of subaltern groups that are inherent to neoliberal developments (Da Costa 2007; Nielsen 2010; Barnes 2014). The nature of this growth dilutes the 'public interest' claim over India's development in the absence of a clear public beneficiary and the presence of a significant private beneficiary.

From public interest to neoliberal; the changing character of India's coal and coal-powered electricity production

Till the end of the 1970s coal mining in India was solely a state preserve, driven through the state controlled Coal India Limited (CIL) that was synonymous with 'public interest' (Lahiri-Dutt *et al.* 2012). Coal India limited has seven wholly owned coal producing subsidiaries and is the world's largest coal producer (Ghosh 2016). In 2003 the Indian government announced its mission of 'Power to all by 2012' (Shahi 2003), and this ostensibly necessitated the ramping up of India's coal production.

In 2004, the Ministry of Coal broke with the tradition of keeping coal mining as a state preserve by inviting private companies to tender for the allocation of coalblocks around the country (Rosewarne 2016). Coal dependence for India's high economic growth has driven policy changes

to allow both private corporations to enter coal mining as well as to import coal to meet India's growing demands. Coal India Chairman and Managing Director, S Narsingh Rao has indicated that both domestic areas under mining and imports are likely to increase to meet India's growing electricity demands (Saikia 2012).

India's electricity sector has undergone a parallel process of opening up to the private sector in a bid to boost power generation. The bulk of electricity in India is still produced by state owned enterprises, with most thermal power capacity being controlled by the National Thermal Power Corporation (NTPC) (Rosewarne 2016). However, the privatisation of this sector in line with the overall restructuring of India's economic policies will see Indian corporate giants, most notably Adani, Reliance Power and Tata Power, produce a greater proportion of electricity (Rosewarne 2016).

When coal mining and electricity production is undertaken privately, the concerns of the poor are sacrificed for the interests of private capital. In this system, captive collieries, owned and operated by corporations, yield coal for electricity generation in private thermal power plants, which is then sold to meet India's energy demand. Private companies stand to profit from the constantly rising demand for thermal energy in India, producing what can be called 'neoliberal coal' (Lahiri-Dutt 2016: 205).

Coal from the Carmichael mine in Queensland, to be mined and transported to India largely for usage at Adani Enterprises' captive thermal plants in Gujarat, will produce electricity that will be sold in the market. The rural poor in India who are mostly unconnected to the electricity grid, are least likely to benefit from this 'neoliberal coal'.

However, under India's neoliberal economic policies, government rhetoric equating coal, the primary source of electricity, to national development, effectively defines private coal mining and energy production as indispensable to India's economic security and national interest (Lahiri-Dutt 2016). Owing to the long-established centrality of coal in India's developmental discourse, private corporations such as Adani Enterprises now enjoy the status of serving India's national interest through coal mining and the generation of coal-fired electricity, ostensibly for the purposes of lifting millions out of poverty.

Hiding the emissions of the Indian rich behind the Indian poor

An innovative survey by Greenpeace India (2007) joined the dots between the pervasive distributive inequality across India's various economic classes and its implications for their respective carbon footprints. The survey found that the average carbon emissions of India's richest consumer class was 4.5 times that of the poorest class, and three times that of average household emissions. Demonstrating that the significantly larger carbon emissions of a relatively small wealthy class (1 per cent of the population) lies hidden behind the minuscule emissions of the 823 million poor (figures as of 2007), keeping India's per capita emissions to one of the world's lowest (Indian Network for Climate Change Assessment 2010:48; Government of India [GOI] 2012), the report argued for the application of the 'common but differentiated responsibility' (CBDR) principle for carbon emissions reduction within India, by finding ways for the upper 150 million to reduce their emissions (Ananthapadmanabhan *et al.* 2007).

Demonstrating the linkage between distributive injustice and climate injustice, the report argued that the Indian poor, who are forced to settle in marginal or vulnerable areas, and lack the resources to adapt to rising temperatures, increasing natural disasters and increasing tropical diseases, are most vulnerable to climate change which they have played no role in creating (Ananthapadmanabhan *et al.* 2007). Published in the lead up to the 2007 United Nations Climate Summit in Bali, the report was designed to generate public and policy debates about India formally adopting emissions reduction targets and decarbonising its growth.

India's climate policy, subsequently articulated in the 'Climate Action Plan' in the lead up to the UN Climate Summit in Copenhagen, prioritised maintaining national growth rates at 8 per cent per annum with protecting the poor and vulnerable sections of society through an inclusive and substantial development strategy, sensitive to 'climate change' as the chief principle on which this growth will be founded (GOI 2008:2). From the perspective of the widening inequality between the Indian rich and poor since India's neoliberal, coal-intensive economic growth, it is evident that successive Indian governments have hidden the carbon intensity of its high-consumption classes behind its rhetoric of inclusive development for the Indian poor.

Coal mining and resistance in the Mahan forests, Singrauli, Madhya Pradesh, India: a case study

Also known as the energy capital of India, the Singrauli region in the central India state of Madhya Pradesh supplies 10 per cent of the country's coal. Two waves of large scale industrial development – first for the Gobind Reservoir and Rihand Dam in the 1960s, and then the super thermal power projects in the 1980s – led to the loss of sustenance and lands for close to 14,000 families, with only 4,523 out of them getting regular jobs from the industrial projects (Sharma and Singh 2009). The rich coal reserves in the region invited the possibility of a third wave of displacement after 2006, with proposed private coal mining and thermal power generation projects estimated to affect the future of over 4,000 families (Sharma and Singh 2009).

In 2006 the Ministry of Coal allocated the captive Mahan coal-block in the Singrauli district of Madhya Pradesh to a private corporation, the Mahan Coal Ltd, a joint venture between Essar and Hindalco listed in the London Stock Exchange (Kohli 2012; Kohli *et al.* 2012). The Mahan coal block is located in deep forests that fall within the catchment of the Mahan river, support the livelihoods of several forest communities, and are considered one of the oldest Sal tree forests of Asia (Kohli 2013). Estimated to provide coal for only 14 years, the 1000 hectares open cut coal mine in Mahan would have cleared over 500,000 trees, destabilised the watershed of the Rihand reservoir, exacerbated the ecological degradation of the region, and jeopardised the livelihoods of 54 forest dependent villages (Padel 2016).

Grassroots opposition to proposed coal mining and state violation of people's rights

The affected communities started coming together to express their concerns at the potential threat to their predominantly forest-based lives and livelihoods. One such account from Ramadhar Saket (village Amelia, District Singrauli), said:

Every year during the Mahua¹ season I shut down my house in Amelia village and come and stay in the Mahan forests for about a month to collect Mahua, which I sell for Rs. 17-20 / kilo. We also collect other forest produce like tendu leaves, chironji, harra, bamboo, mushroom etc, but we are now hearing that these forests will be given to the company for mining coal. If the government gives away these forests we have no other means to live and we will not even get any compensation because we have no rights over these forests (Kohli *et al.* 2012: 4).

They asserted their historical and legal rights to the Mahan forests through the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, (hereafter referred to as FRA) 2006. Enacted by the Indian Parliament in response to a sustained, national mobilisation by forest dwelling communities (Kumar and Kerr 2012), the FRA sought to redress the historical injustice of state-owned forests over native forest-dependent communities by recognising their individual and community-based rights over forestlands (GOI 2006). The preamble to this landmark legislation acknowledged that the rights of India's native, forest-dwelling, indigenous communities and other traditional forest dwellers 'were not adequately recognised in the consolidation of state forests during the colonial period as well as in independent India resulting in historical injustice'. The preamble to the Act went even further in stating that such communities were 'integral to the survival and sustainability of the forest ecosystem'.

Affected villagers in Singrauli argued that clearances should not be granted until the process of recognising their 'Individual Forest Rights' (IFRs) and 'Community Forest Rights' (CFRs) under the FRA had been completed (Kohli *et al.* 2012). The residents of eleven affected villages came together to form the grassroots resistance movement called the Mahan Sangharsh Samiti (MSS), and with support from other local groups and the transnational group Greenpeace, the resistance campaign eventually extended to the state capital of Bhopal and the national capital of New Delhi. The interactions of the affected communities with the state

¹ The Mahua tree is considered sacred amongst several Adivasi communities and found abundantly in the central, forested parts of India that coincides with a large Adivasi population. The yellow Mahua flowers serve as a source of food. Collecting and selling Mahua flowers in the late Spring period of March-April constitutes a significant off-season income source for a large number of subsistence farming Adivasi households (Sareen 2016).

were however dogged by intimidation that exposed the state's corporate bias (*Indian Express* 2014). The communities were also tricked by the state government into a denial of choice to decide for or against mining through village council referendums as stipulated in the FRA.

Gram Sabhas or village assemblies mandated under this landmark legislation are the only officially recognised spaces for Adivasi and forest dwelling people to participate in state-decision-making around mining on their lands (Chowdhury 2016). As per Ministry of Environment and Forests (MOEF) circular (2009) issued to all state governments, Gram Sabha consent is a must before forest lands are diverted for non-forest use (such as coal mining); such diversion also cannot take place unless both individual and community claims have been finalised.

These provisions can prove to be a double-edged sword. Under obligation to abide by the FRA's provisions, state governments have often been found to forge village council resolutions to clear the path for lucrative mining (Chowdhury 2016). In the case of the Mahan coal block, the state government of Madhya Pradesh came in for criticism from the centre when it was found to have conducted a referendum without the knowledge of the entire community in which most signatures were found to have been forged (Ghatwai 2015).

Indian government's approval process: exposing corporate bias in national interest

While the full extent of state-corporate nexus in responding to coal mining opposition in the Mahan forests was becoming obvious, an even bigger clash of priorities over the Mahan (and adjoining Chhatrasal) coalblocks between the coal and environment ministries of the Manmohan Singh led United Progressive Alliance (UPA) central government started to make news headlines.

The Mahan forest mining block was first designated a 'no-go' zone for coal mining in 2009 as per joint criterion developed by the Ministry of Environment and Forests (MoEF) and Ministry of Coal (MoC) (Kohli 2011; Kohli *et al.* 2012). The environment minister Jairam Ramesh confessed to constant pressure from the ministry of coal for approvals to be granted at Mahan since Essar and Hindalco had already invested in the setting up of the thermal power plants for the 'captive mines'. He indicated that the MoEF's Forest Advisory Committee (FAC) had

advised against the approval of coal mining in Mahan to protect its rich forests and the rights of forest dwelling and Adivasi communities (MoEF 2011).

In 2011, a high level Empowered Group of Ministers (EGoM) was set up with a mandate of suggesting solutions for regulatory hurdles to mining and industrial projects. The Mahan mining matter had to be finally handed to the EGoM for a decision, which approved coal mining in Mahan and Chhatrasal on the basis of 36 conditions in October 2012 (Kohli 2013). The overturning of the MoEF's decision by the EGoM proved that the national government was willing to sacrifice the socio-environmental objectives of one of its critical ministries (MoEF) for the pursuit of rapid coal extraction, even after a decision had been made (Kohli 2013).

The Mahan coal mining conflict however took a fortunate turn for the community in early 2014, when the Supreme Court of India, in its judgement on the UPA government's coal block allocation scam, cancelled 214 (out of 218) coal mining sites including Mahan that had been 'illegally' and 'arbitrarily' allocated to private companies since 1993 without following due process of competitive auctioning (Rajagopal 2014). The Narendra Modi-led Bharatiya Janata Party that came to power nationally with an overwhelming majority in 2014 subsequently dropped the Mahan coal block from the auction list, citing the environment ministry's recommendations to keep it off limits (Times News Network 2015), bringing the immediate threat of mining in one of the oldest and continuous stretches of Sal tree forests in Asia to a halt.

The Modi government ended a four-year dispute over the fate of one of the oldest Sal forests and the communities it supported. However it inadvertently triggered a strong public debate over the definition of national interest and the rights of dissenting voices (to coal mining) when it cracked down on the transnational group Greenpeace, closely involved with the community resistance to coal mining in the Mahan forests. This is covered in the second case study.

Defining and policing national interest under Narendra Modi's Indian government

Based on recommendations of an allegedly leaked report by the Intelligence Bureau (2014), a newly elected Narendra Modi government,

taking its first step to fast-track development (Ranjan 2014), cancelled the registration of as many as 9000 non governmental organisations (NGOs) that received funding from sources outside India on the basis that they did not comply with the Indian tax codes (Kaushal 2015). Greenpeace India was singled out on the grounds that it posed a 'risk to India's national economic security' on account of its anti-coal-mining campaigning activities in the Mahan forests (Rowlatt 2015). The crackdown included freezing its international funding, revoking its licence to operate in India (Associated Press 2015) and preventing activist Priya Pillai, involved with the Mahan resistance, from travelling to London to appear before a British cross-Parliamentary enquiry on violation of indigenous rights and access to land in Singrauli (Mathur 2015).

These incidents occurred in the first year of the Narendra Modi government and put the spotlight on the state of India's democracy in light of its growth model and its constant demands for more coal. The Supreme Court ruled that the right of free speech and expression 'necessarily includes the right to criticise and dissent' (Justice Shikdher quoted in Mathur 2015: para. 2). Public commentary questioned the 'breakneck industrialisation' by private corporations at the heart of India's ambitious growth and its deleterious effects on communities, ecology and climate change (Jose 2015).

In the midst of a growing scrutiny of the impacts of India's two decades of high economic growth, the Modi government also sought to weaken existing environmental protections (Nayar 2016) and reduce environmental clearance timeframes for mining projects to a record low of 100 days (PTI 2016b). To put this timeframe into perspective, between 1982 and 1999, the environment ministry used to take an average of five years to give full clearance to a proposal for coal mining; between 2000 and 2004 under the BJP, the time taken fell to three years; under the UPA again (2004 to 2009) it first fell to 17 months and then (2009 to 2014) to 11 months (Rajshekhar 2012). The Modi government publicised the 'unlocking' of Rs 10 trillion worth of investments through the clearance of 2000 projects in two years as an achievement (PTI 2016a) but failed to substantiate the claim of 'one million new jobs' being created from these clearances (Dutt 2016: para. 4).

Such baseless scaling down of timeframes indicates an intensification of the Indian state's corporate-biased approach in dealing with communities

likely to be affected by mining. These moves also pose the possibility of significant conflicts with the objectives of the landmark FRA, which is helping to generate democratic forces of dissent against coal mining on the ground. The Forest Rights Act (2006) transformed forest governance in response to strong and sustained grassroots calls for democratic management (Kumar and Kerr 2012). Hundred-days-short clearance windows do not provide the necessary time for following due processes regarding community claims and village assembly decisions, and push state governments further in the direction of sabotaging transparent decision making for the sake of mining revenues from corporations. They also open up possibilities of increasing conflicts between the state-corporate interests on the one hand, and grassroots movements, human rights and environmental groups on the other.

The case of coal extraction in the Mahan forests of Singrauli district, Madhya Pradesh, therefore, through a range of related events, reveals the depths of favouritism towards private capital in coal mining in the neoliberal Indian state. The linked issue of crackdown on the right to dissent coal mining demonstrates the effectiveness of an interconnected web of counter-claims, from the ground up to the national level, which is challenging the idea of coal-intensive rapid economic growth at the expense of India's vulnerable communities. The next section considers the factors underpinning the increasing questioning of rampant private coal mining in India and its relevance to the Australian civil society resistance to the Carmichael coal mine in Queensland.

Hiding neoliberal coal behind the poor? An emerging conversation in India

After nearly two decades of neoliberal growth, some of the direct and indirect costs of India's current development model started surfacing, triggering debates about corporate bias and the erosion of public interest in the pursuit of a coal-fuelled high rate of economic growth.

The Comptroller and Auditor General (CAG) of India (2012) estimated the official loss to the Indian exchequer from the coal block allocation scam, popularly known as 'Coalgate', to be Rs 1,860 billion (Mehdudia 2012) or approximately 37 billion in Australian Dollars. In the meantime, costs of ecological degradation caused by two decades of concentrated industrialisation emerged; it was found that the cost of ecological and

social damage from degraded environments is as high as India's current annual growth (Kothari 2013). In the meantime, the Gujarat model of growth (discussed in the first section) lost its sheen in the face of emerging evidence of skewed development across sectors, and a failure to meet social and developmental indicators.

Meanwhile, the landmark Forest Rights Act (FRA) 2006 created the opportunity for long marginalised communities to assert their historic rights over forestlands in a democratic manner, making the stories of their resistance to private mining corporations the centre of global attention. Using the village assembly provisions of the FRA, the Dongria Kondh Adivasis in eastern Odisha vetoed (in 2013) bauxite mining on their sacred mountain by Vedanta Resources Limited (for example, see Tatpati, Kothari and Mishra 2016). This was hailed as the most powerful example of democracy in action since the Act's implementation (Kothari 2016). The success of the Dongria Kondh created a positive ripple effect amongst forest dependent communities. Several other resistances to mining including that at Mahan have since then used the FRA to agitate against mining encroachments and assert their forest rights.

As a weapon for on-the-ground democracy (Kothari 2016), the FRA conflicts with the revenue seeking interests of the state that 'brokers' land acquisition for mining by private corporations, often causing state governments to violate legal provisions. In the case of the remote Dongria Kondhs, the Odisha government has sought to annul the 2013 village council resolutions against bauxite mining (Chowdhury 2016a), and in the case of the community near the Mahan forests, as discussed earlier, the state resorted to forgery to enable mining.

The Intelligence Bureau (2014) report, prepared during the UPA government's time, but allegedly leaked and acted upon by the Modi government, warned 'NGOs are stalling new mines, power plants, genetically modified food and mega industrial projects'. It also claimed that collectively such NGOs drag down India's GDP growth by 2-3 per cent annually but failed to substantiate how it arrived at the figures (Subramanian 2015). It was debated and criticised in Indian civil society for 'hindering the democratic process' and failing to 'serve the public interest' (Sarma 2014).

The report and the Modi government's actions make it evident why Greenpeace became a primary target, and what national interest in India stands for under neoliberal economic policies. First, equating coal

burning to climate injustice for the Indian poor through ‘Hiding behind the Poor’ (Ananthapadmanabhan *et al.* 2007) and consequently helping poor communities near the Mahan coal block to organise themselves to resist coal mining (Niyogy 2015), they have challenged the moral argument for India’s coal-led national growth (see discussion of India’s Climate Action Plan in the first section) and demonstrated it to be discriminatory towards rather than inclusive of the Indian poor.

The discriminatory nature of India’s current economic growth is evident through a deepening urban and rural divide and finally, across rich and poor zones in the Indian geography, with India’s coal mining areas statistically still the country’s poorest, falling deficient on standard development indicators of availability of food and clean drinking water, employment and human rights (for example, see Padel 2012, Centre for Science and Environment 2008). Activist Priya Pillai involved with the Mahan resistance stated Greenpeace’s objective as ‘bringing out the true cost of coal, which is not just economic, but also environmental, social and spiritual’ (Niyogy 2015). It is in the interest of India’s high economic growth rate to not only disregard the environmental, social and spiritual costs of coal, but to justify such costs on account of the very communities that are worst affected: the Indian poor.

It has been argued that in context of the deepening climate crisis, what is considered impossible today may swiftly become a priority on the political agenda tomorrow (Goodman 2016). China’s drop in coal usage looms large on the Indian horizon as a policy approach that must be embraced sooner rather than later. The public scrutiny of coal-dependent growth impacts on the Indian poor, and legal-democratic resistances to coal mining in forestlands can help to keep the agenda of decarbonising India’s growth alive till the issue gathers critical mass and translates into rapid policy action.

Going far beyond the economic rationale against coal mining in the Galilee Basin, the multi-pronged Indian civil society arguments against coal mining for private profit, that uphold the concerns of India’s vulnerable communities, provide fresh bases for countering the obsolete moral claims of the Australian government.

They help in avoiding the trap of ‘national versus per capita emissions’ debates that can paralyse climate change dialogue between developed and developing countries, especially two countries as distinctly different as Australia and India. Australia’s per capita coal consumption is the

world's highest, and consequently its per capita emissions one of the world's largest. With far less economic inequality than India, these statistics point glaringly to the high consumptive lifestyles of average Australians as well as the nation's extreme coal dependency for electricity.

On the other hand, even though India is the world's third highest emitter, it has one of the world's lowest per capita emissions, in which the growing emissions of its higher economic classes remain buried under the deprived millions who live without electricity. Calling out on government positions that hide the emissions of the affluent, and the environmental and social costs of coal behind the Indian poor, these claims provide humane and inclusive perspectives for transnational policy and public debates on coal and climate change.

Conclusion

Since independence, India has asserted its right to grow by putting its millions of poor in the foreground. At the 1972 United Nations Conference on Human Environment (UNCHE) in Stockholm, Prime Minister Indira Gandhi famously argued, 'Are not poverty and need the greatest polluters?' (Gandhi 1975: 193). Coal, as a cheap source of electricity, has enjoyed a position of unquestioned significance in India's industrial development through the decades. However, with the opening up of India's economy to private and foreign investment, and the entry of private corporations into coal mining and power generation, the public interest in India's economic growth became questionable. Poor communities, and more specifically Adivasi and native forest-dwelling populations, have historically been the most vulnerable to loss (of land and livelihoods) and derived the least benefits from coal mining and related developments. Their losses have been amplified in the last 25 years of India's ambitious growth journey. This period in the history of India's economic growth has been characterised by new forms of dispossession and exploitation, as well as new forms of resistance (Barnes 2014: 4).

India's continuing neoliberal growth will involve expanded coal extraction from forested indigenous environments within India and the private exploitation of extensive offshore coal reserves such as in Australia. The strengthening of economic relations between India and

Australia over the last few years is aimed at extending Indian energy security through imported private coal (Rosewarne 2016). The close relationship is reflected in federal and state government support for the Carmichael coal mine despite concerted civil society opposition and native title claims by traditional owners. The shared economic interest is also reflected in the pro-poor argument for coal; the Indian government's tried and tested argument for growth in order to lift millions out of poverty has now been articulated by an Australian Prime Minister and Queensland Premiere, as well as the right-wing think tank the Institute of Public Affairs.

However, as the emerging public debate in India indicates, the pro-poor argument for coal mining is losing its moral basis due to the changed nature of economic growth, increased community resistance with the help of legal instruments, and a deepening awareness of the impacts of coal mining and climate change on vulnerable communities. This presents an opportunity for the civil society debates across India and Australia to converge and call on governments to stop hiding private profits, carbon emissions and ecological degradation behind the Indian poor.

A converged Australian-Indian public scrutiny of the rhetoric of the coal industry and governments can argue that the Indian poor are the most vulnerable to immediate (loss of land and livelihoods and pollution) and long-term (climate change) impacts of coal-powered electricity generation. Neoliberal coal-led rapid economic growth in India has proven not to be in their best interest. Building the argument further, such a scrutiny can claim that climate change impacts on the land-based livelihoods of the Indian poor and the country's primary drinking water supplies from the Himalayan glaciers, along with impacts on Australian icons such as the Great Barrier Reef, pose a moral challenge for Australians and higher income Indians, whose consumptive lifestyles directly benefit from coal-intensive neoliberal growth. Finally, a genuine energy security dialogue between India and Australia that keeps the interests of both future generations and the Indian poor at heart, must put affordable, decentralised and decarbonised energy sources front and centre.

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TO BE FREE AND FAIR? DEBATING FAIR TRADE'S SHIFTING RESPONSE TO GLOBAL INEQUALITY

Elisabeth Valiente-Riedl

Fair trade, a concept that was pioneered by alternative trade activists and organisations *opposed* to the workings of the conventional trading system, has moved from the margins to active exchange in, and indeed reliance on, the mainstream market. With its origins in the early informal activities of missionaries and Non-Governmental Organisations (NGOs), Fair Trade in its infancy quickly formalised as an applied opposition to the dominance of free market principles in global markets. This was achieved through the creation of Alternative Trade Organisations (ATOs), today called Fair Trade Organisations (FTOs), as businesses actively trading with marginalised producers on the basis of a typically non-profit and socially oriented bottom line. In the 1990s, a new 'Fairtrade' labelling model emerged.¹ This model sought to propel fair trade activity from the sidelines into the mainstream by inviting conventional profit-oriented businesses to participate. It differentiates from the more deeply transformative and process-oriented features of ATO trade through its emphasis on product differentiation as a mechanism for harnessing the conventional market to mainstream fair trade activity. While it preferences ethical business structures and values at the sites of production, it does so without making concomitant requirements of business structures in consumer markets, only of the terms under which they buy their fair trade product lines.

Unsurprisingly, accusations of 'fairwashing' abound (see Jaffee and Howard (2015) for a discussion of this concept). Yet, this adaptation of

¹ 'Fairtrade' written as one word is a trade mark of the international association for Fairtrade labelling, Fairtrade International.

Valiente-Riedl, E. (2016)
**'To Be Free And Fair? Debating Fair Trade's Shifting Response To Global
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alternative trade principles into mainstream distribution channels, leading to the phenomenal growth of fair trade markets, has led to Fairtrade labelling's remarkable success in mainstreaming the concept of fair trade itself and thereby reaching a wider production and consumption base.

Despite, or perhaps because of this success, fair trade took a third turn in its evolution when in late 2011 Fair Trade USA (here after FTUSA), representing a leading Fairtrade Labelling market, split from the international Fairtrade Labelling association. Building on labelling's mainstreaming success, FTUSA aims to push the mainstreaming model further under the motto 'Fair Trade For All' (FTUSA 2012). But just as Fairtrade Labelling inched closer to the conventional market model, piggybacking on the existing market presence of some of its biggest corporate participants like Starbucks, Walmart and McDonald's to name a few, FTUSA arguably moves even closer still. It does this by reconceiving the fair trade production base through extending its certification system to corporatised and large-scale labour mobilisation, moving away from Fairtrade International's ongoing preference to work with smallholder (typically cooperative) production where possible. It conceives of fair trade as a model that 'helps "free trade" work for the poor' (FTUSA 2016), and in this vein, arguably seeks to operationalise 'pro-poor growth'. Not surprisingly, this duality in the fair trade sector today, whereby fair trade rejects a conventional business model on the one hand (through promotion of an ethical business model), yet also depends on conventional businesses through the Fairtrade labelling and FTUSA models, presents the movement with clear challenges. Despite its success, the slippery slope of mainstreaming fair trade appears to have compromised traditional opposition to free market principles, and in so doing creates increasing ambiguity about the meaning of *fair trade*.

This article poses the question: To what extent do 'fair trade' markets, including the recent evolution of a FTUSA model, challenge conventional market responses to global inequality? While the market opposing credentials of fair trade have been conceptualised before (for example, see Fridell 2006, 2007; Jaffee 2007; and Reynolds and Long 2007), there is a dearth of literature that carefully examines this question in the context of the new FTUSA model (an exception, for example, is Hudson, Hudson and Fridell, 2013, which includes a discussion but does not feature a separate conceptualisation of the FTUSA model). The FTUSA model represents a significant re-articulation of the fair trade strategy and its applied critique of markets, and as such, it is significant

to examine how a market response to global inequality is constructed in the FTUSA approach. Indeed, this article contributes to broader literature that seeks to critically analyse fair trade as a market-based development project. It specifically fills the gap created by still limited literature on the new FTUSA model, through undertaking an inclusive conceptual analysis of how fair trade strategies work to address global inequality relative to existing free market mechanisms.

This analysis begins by examining debates over fairness in global markets; specifically, debates over growth, trade and inequality within which the founding mandate of fair trade and its key critiques of the orthodoxy can be understood. Applying a value chain framework for the purpose of mapping the values, actors and distribution channels that characterise individual fair trade models relative to conventional markets (to be differentiated from its use for supply chain impact analyses), the article then provides a historical account of the evolution of fair trade. The argument is put forward in this article that three key strands of fair trade activity can be identified, vis-à-vis conventional market activity, in line with increasing expansionary aims and corporate engagement in the sector. Notably, the ‘market contesting’ value chains of alternative trade organisations is distinct from contemporary models. This in contrast to a fair trade mainstreaming strategy, differentiating between ‘market harnessing’ and ‘market affirming’ value chains, which are evident in the respective standards of the international and US fair trade labelling schemes. Herein, the line between ‘free’ and ‘fair’ trade as a response to global inequality is examined. Broadly, the thesis is put forward that – for better or worse – the movement’s opposition to free markets is weakening, noting that, as a development critique, fair trade is fundamentally wedded to an export-led growth strategy within free markets.

Fairness in Global Markets: debating trade, growth and inequality

Debate over ‘fairness’ in global markets has co-evolved with the intensification of trade liberalisation and commensurate (albeit uneven) reduction in government protections over the course of the last century. Herein, an export-led growth-oriented development strategy has been contested in the face of persisting global inequality. Accordingly, the

conventional or so-called *free* market – understood as featuring minimal government regulation and optimised by specialisation in production and exchange – is conceived as the flip side of fairness in numerous ways. Free markets have extended across industries and countries, largely driven by the creation of international trade treaties under the auspices of the World Trade Organisation (WTO), as well as the increasing proliferation of bilateral and regional trade agreements (for a comprehensive discussion of trade agreements in the Asia Pacific region, see Ranald 2011). Notably, a late push into agricultural markets through the WTO's *Agreement on Agriculture* was significant for developing countries which typically specialise in agricultural production. Yet, the failure of the market mechanism to internalise and promote social, political and environmental values has alarmed many (for a conceptual discussion of fair trade arguments, see Anderson and Riedl, 2006, and also; Valiente-Riedl, 2013: chapter 2). This points to fundamental questions about the construct of the 'market' and how it interconnects with political and social processes and goals. In *'Thinking Socially' About Markets*, Cahill and Paton (2013) critique economic orthodoxy which conceives of markets as self-regulating. Drawing on heterodox economics and economic sociology, they reconceive the market as 'socially constituted' where 'people, acting through states and other institutions, are able to shape the nature of markets, and indeed of production and distribution more broadly' (Cahill and Paton 2013: 23). This section engages this broader critique of markets by examining the contestation of free markets in the face of persisting global inequality; a problematic that underpins the logic for creating 'fair' markets today.

Growth, Trade and Persisting Global Inequality

Since Arthur Lewis first tied a fledgling development economics to aspirations of economic growth in the 1950s (see Esteva 1992: 12), and Walt Rostow (1960) proposed that developing economies seek to emulate the growth of developed economies in the 1960s, a growth-oriented development paradigm has been heavily contested. The growth thesis broadly builds on a Smithian truism, typically referred to as the *trickle-down effect*. However, this assumption that '[A] general plenty diffuses itself through all the different ranks of society' (Adam Smith 1776: 11) remains contested. In a landmark publication 'Growth is Good for the Poor', Dollar and Kraay (2002: 198) strongly assert a positive correlation

between growth and poverty alleviation. Yet, they also recognised that existing studies, including their own, could not answer ‘what mix of growth-oriented policies might especially benefit the poorest in society’ (Dollar and Kraay 2002: 198). In the interim, the data on inequality itself is increasingly contested. For example, inter-country inequality analysis can vary depending on how data for large economies like China and India are articulated in the statistical analysis (Dunn 2015: 100 and also chapter 8 for a detailed discussion of data relating to inequality within countries). Indeed, Dollar and Kraay’s (2002) growth optimism has now been challenged and built on by many, notably featuring a direct response by Gore in 2007. He sought to operationalise a concept of ‘pro-poor growth’ by asking the question ‘[W]hich growth theory is good for the poor?’ (Gore 2007: 31). In Gore’s (2007: 44) work ‘the importance of structure, agency and demand’ were emphasised, sweeping away assumptions that ‘pro-poor’ growth was not contingent on enabling redistributive features. Herein, debates about trade (de)regulation are usefully explored, in particular relating to assumptions about export-led growth.

Approaches to growth vary across the spectrum of classical and neoclassical economics (see Elahi and Stilwell 2013 and Obeng-Odoom, 2016: 119). For example, Lewis himself took a classical economic position on the growth thesis, which strongly contrasts to neoclassical prescriptions by positing that structural change is necessary for growth to occur (Obeng-Odoom 2016: 119). In contrast, a neoclassical position conceives of an internal self-regulating and self-optimising logic in the operation and performance of free markets, conducive to growth. Most famously associated with Adam Smith’s conception of the ‘invisible hand of the market’ (see Dunn 2015: 33 and broader discussion in chapter 3), free trade is popularly positioned as the primary vehicle for growth. This position is predicated on a dual doctrine that a) trade is ‘mutually beneficial’ for all countries (Smith in Cannan 1904: IV.3.32), and b) that the benefits of trade are maximised by countries specialising in the production of goods for which they hold a ‘comparative advantage’ (Ricardo 1821). Comparative advantage according to the logic of free markets, however, is signaled by performance in competitive markets and not by the determinations of interventionist states (see Dunn 2015: chapter 3, for a critical discussion of this concept). Historically, this logic served as a central feature of the ‘Washington Consensus’, which saw a rollout of neoliberal policies favouring privatisation and

deregulation (see Williamson, 1990). In a joint statement, the IMF, World Bank and WTO (2003) claim:

Trade is vital not only for the direct benefits it brings, but also for increasing the flows of financial and real investment resources to developing countries which generate the income growth and job opportunities that help raise people out of poverty and make economies resilient to shocks.

Yet, the links between trade and growth and between free trade and the removal of barriers are contested. Dunn (2015) provides a comprehensive critique. Reproducing a range of econometric tests, he finds that the links between trade and growth and trade and 'openness' are indeed contentious (Dunn, 2015:98). Importantly, he adopts Weiss' (1999 in Dunn 2015: 101) characterisation of trade 'openness' being 'managed'. Accordingly, it is not surprising that debates over the link between trade, growth and poverty alleviation largely concern debates over *managing trade*.

With rising concerns about the distribution of wealth globally, the question of what – if any – forms of regulation should be employed in the management of markets becomes increasingly divisive. Indeed, concerns with gains from growth through trade have been central in the negotiations over the global trading architecture. Before the advent of trade liberalisation, trade – and the spoils of trade – for the commodities in which developing countries specialised, were 'managed', with varying success, through International Commodity agreements. In the case of coffee, a global producer/consumer cartel – represented by the International Coffee Organisation – achieved supply and price management for almost thirty years. The collapse of the International Coffee Agreement was followed by a deep period of crisis, which saw coffee elevated as the poster commodity for unequal exchange (see Bates 1999, for a comprehensive discussion of the history of coffee regulation and crisis, as well as Fridell 2007; Jaffee 2007; and Valiente-Riedl 2013 on fair trade in coffee). Across the board, tension over rising inequality has grown. In 2002, Oxfam released a damning report by Kevin Watkins and Penny Fowler (2002: 22): *Rigged Rules and Double Standards: trade, globalisation, and the fight against poverty* which claimed:

The unprecedented opulence associated with it [trade] is not being shared on an equitable basis. Wealth is trickling down to many developing countries far too slowly; income differences between rich

and poor countries, already obscene, are widening, and undermining the potential for poverty reduction.

For some, continuing problems with the implementation of free trade practices, point to the need for 'commitment to freer trade' (Bhagwati 1995: 745). Others point to more fundamental problems with the free trade thesis itself, including an enduring critique from dependency theorists, starting with André Gunder Frank (1966) who argued that trade was a vehicle for the exploitation of 'third world' economies by 'first world' economies. These concerns with unequal exchange can be usefully explored applying a 'value chain' lens – a framework which further underpins the logic of fair trade's efforts to re-articulate value chains in global markets.

Locating Global Markets in a Value Chain Framework

Fair trade is concerned with the articulation of global exchange networks and with the governance structures that support systems of production and patterns of distribution. The objective is to develop strategies for value redistribution, whereby relationships of production and exchange are restructured to ensure that marginalised producers have improved access and opportunities in the global trading system. While a large portion of fair trade literature applies a capabilities expansion methodology (Fridell 2007: 11) and while the case study methodology proliferates (Hudson, Hudson and Fridell 2013: 71), for this paper, locating global markets and fair trade strategies within a value chain framework is illuminating (note, the application of a value chain methodology in fair trade research also has precedent, including in a comprehensive study of coffee markets by Daviron and Ponte (2005). While this article does not provide a deep value chain analysis of fair trade – which would require micro analyses of individual commodity and/or consumer markets – it does draw on the broader deconstruction of trade as a 'value chain', comprising individual nodes of activity and governance systems that effect relationships and patterns of production and distribution – to broadly locate differences in fair trade networks, including the actors which participate in individual networks and the standards they subscribe to. This section examines the concept of the 'value chain' before turning to an examination of individual fair trade models in subsequent sections.

'Chain' analysis comprises a tradition of diverse and interdisciplinary terms and conceptualisations. Raynolds (2002: 405) observes that literatures exist in 'sociology, geography, anthropology, economics and political science' and that these have produced 'somewhat varied, conceptualisations of commodity chains, commodity systems, filières, and value chains'. Nestled amongst this wide variety of approaches, is the concept of the Global Commodity Chain (GCC) developed by Hopkins and Wallerstein (1986) as an analytical tool for political economy research subscribing to the dependency thesis. Hopkins and Wallerstein (1986: 159) first defined a GCC as, 'a network of labour and production processes whose end result is a finished commodity'. Effectively, they developed a methodological tool which can trace industry inter-linkages across borders, and that examines how these inter-linkages transform over time. In their use of this approach, Hopkins and Wallerstein set out to investigate key issues defined by World-Systems Theory. They were interested in the nature of the global division of labour and patterns of global interdependence, '...to examine claims regarding the transnational interdependence of productive activities' (Hopkins and Wallerstein 1986: 160). Thus, the GCC was originally developed as a tool to understand and explain north-south dynamics and relations through trade, and specifically, to explain patterns and causes of global inequality.

The language of the GCC has since been abandoned by many prominent academics who continue to build upon this tradition of research first conceived by Hopkins and Wallerstein just over twenty years ago. The concept 'value chain' captures advances in the methodology but also attempts to standardise the terminology used in research employing these types of methods (see Gereffi *et al.* 2001: 2). A value chain analysis not only captures patterns of value distribution in an industry, but also 'the power and governance relations which explain these distributional outcomes' (Fitter and Kaplinsky 2001: 4). In addition, by 'problematis[ing] the question of governance: how chains are organised and managed' a value chain lens 'ask questions about the winners and losers in the globalisation process, how and why the gains from globalisation are spread, and how the number of gainers can be increased' (Gereffi *et al.* 2001: 2). Thus, while it attempts to discern the governance structure of a value chain it simultaneously evaluates the prospect for developing countries 'to "upgrade" by actively changing the way they are linked to global value chains' (Gereffi *et al.* 2001: 2). An

assessment of barriers and opportunities to upgrade is best understood by examining how governance is conceptualised in value chains.

While ‘too broad to capture the full complexity of the GVC [Global Value Chain] governance structures’, power within GVCs is broadly demarcated as either ‘producer-driven’ or ‘buyer-driven’ (Gereffi 2014: 13). Within the former, ‘power is held by final-product manufacturers and is characteristic of capital-, technology- or skill-intensive industries’, whereas in the latter, power is understood to rest with end-product retailers and marketers ‘through their ability to shape mass consumption via dominant market shares and strong brand names’ (Gereffi 2014: 13). This understanding is crucial to a deeper understanding of ‘economic upgrading’, which refers to a process where actors in value chains, either workers or firms, shift to undertaking higher-value activities (Gereffi, 2014: 18). It is perhaps not surprising, that Gereffi (2014) has found key international donors and peak organisations – including the World Bank, the WTO and the ILO – increasingly adopt a GVC framework.

Certainly, fair trade has taken up this concern with value distribution through its applied opposition to perceived ‘unequal exchange’ in the ‘free’ market. Yet, the extent to which fair trade maintains any level of contestation of free market principles is heavily debated. For example, Fridell (2006) in a review of fair trade literature differentiated between that which conceived of ‘fair trade networks’ as seeking to deliver ‘shaped advantage’ (for producers participating in free markets), compared to those that saw either an ‘alternative globalisation’ or ‘decommodification’ agenda. Jaffee (2007: 26) notes that participants in fair trade networks conceive of the sector as ‘... a “market-breaking” force, a “market-reform” device, or a “market-access” mechanism’. More recently, Hudson, Hudson and Fridell (2013: 115-24) examined a sample of media statements about fair trade and identified ‘neoliberal’, ‘warm glow’, ‘fair exchange’, ‘decommodification’ and ‘anti-capitalist’ articulations of fair trade. In this article, consideration of how differentiated fair trade models have sought to re-articulate global value chains permits insight into whether fair trade models significantly shift the structure of conventional trading chains.

Alternative Trade and the Creation of Parallel Markets

Fair trade hails back to the creation of an *alternative trade market*, whereby trade was re-crafted in line with the values and activities promoted by pioneering NGOs and their alternative trade offspring (ATOs). While the language of 'alternative trade' has long been abandoned in practice, contemporary fair trade campaigns and markets can trace their origins to this earlier push for an alternative system of exchange. The first phase of alternative trade activity is typically traced to the activities of NGOs importing from marginalised producers in the South; first observed in the US in the 1940s (Redfern and Snedker 2002: 5) and in Europe in the 1950s (Giovannucci and Koekoek 2003: 38). This strategy of engagement became more organised through the creation of a new and dedicated business model – the ATO – when Oxfam UK founded the first ATO in 1964 (IFAT, 2006) as its '... trading subsidiary' (Redfern and Snedker 2002: 5). Moving beyond an early focus on 'political solidarity' to a concern with 'unequal exchange', NGOs quickly refocussed the mandate of alternative trade, emphasising trade reform as an engine for development under the motto 'Trade, not Aid' (Renard 2003: 89). This section explores the ways in which this model of fair trade re-articulates global value chains, by examining the core principles and standards of this model which arguably produce 'market contesting' networks of exchange which employ mechanisms of redistribution across the chain.

Market Contesting Value Chain

In contrast to the emphasis on principles of 'freedom' in conventional trade, the alternative trade model wedded itself to concerns with fairness through redistribution. In *principle*, ATOs and the lead NGOs that created and supported them (for example Oxfam, which created the first ATO), challenged the logic that competition should determine prices with concern that prices should reflect basic needs and support sustainable livelihoods. ATOs saw this as best facilitated through the creation of parallel markets or alternative value chains. This was clearly articulated by the then 'International Federation for Alternative Trade' (IFAT) (today known as the World Fair Trade Organisation, WFTO):

Alternative trade operates under a different set of values and objectives than traditional trade, putting people and their well-being and preservation of the natural environment before the pursuit of profit. Alternative trade... tends to distribute the products through alternative distribution channels (IFAT in Renard 2003: 89).

For key proponents like Oxfam, re-articulated value chains have the potential to address global inequality. For its own 'Make Trade Fair' campaign, which was launched in April 2002 (Oxfam 2006), it saw the potential for reform of 'trade rules that are rigged by powerful multinational companies and rich countries in their favour' to effectively 'lift millions out of poverty' (Oxfam, 2006a). Indeed, from the outset, alternative trade positioned itself as opposed to both the principles and practices that characterise exchange between North and South. In this regard, a drive for global regulatory reform was embraced (and remains a concern for many ATO's today). At a minimum, however, the operation of global markets is contested through an applied opposition of 'business models' that operate in the conventional trade.

Today, 'ATOs' are typically known as 'FTOs' (Fair Trade Organisations) (for example, see Krier 2005: 22). They continue to offer a markedly different model of exchange to that which typifies Fairtrade labelling networks. The ATO business model bridges the divide between a socially motivated or 'development' organisation and an economic or 'commercial business' entity. They are organisations that sell only fair trade products (Raynolds and Bennett 2015: 26) and 'continue[s] to pursue an integrated alternative network approach' (Raynolds and Long, 2007:20). The differentiation of this sector of activity is also evidenced in the strong participation of non-profits. Non-profits often participate directly in trade (for example, in 2002 twenty-eight per cent of the ATO membership of the Fair Trade Federation (FTF) – the north-American regional association for ATOs – were non-profits, which in turn accounted for over half of FTF member sales (FTF 2003: 11). They also often participate in partnership with ATOs (for example, it is very common for non-profits to hold 'guardian shares' in alternative 'for-profit' businesses (see Nicholls and Opal 2005: 96 and for a broader discussion of 'ATO/NGO composite arrangements, Valiente-Riedl 2013: 54-63). More broadly however, the point of difference relates to organisation's adoption of a social mandate in line with the 'World Fair Trade Organisations' (s) standards for its members.

The WFTO comprises a broad membership and its responsibilities and authority as an international association are extensive. At the end of 2014, WFTO membership spanned seventy-nine countries and comprised 359 members (with 308 Fair Trade Trading Organisations) and forty-six individual associations (WFTO 2015: 5). Importantly, it approves use of the 'WFTO logo' by 'organisations who demonstrate a 100% commitment to fair trade in all their business activities' (WFTO 2010). The WFTO Fair Trade Standard forms a central pillar of the 'WFTO Guarantee System' (see WFTO 2014). This system enables the WFTO to vouch for the compliance of member FTOs to minimum requirements, while also requiring and enabling FTOs to work toward and demonstrate ongoing improvements in their practices (WFTO 2014: 1). Compliance is assessed through three devices: 'Self Assessment', 'Peer visit' and 'Monitoring Audit' (WFTO 2014: 1).

Table 1 outlines the WFTO Fair Trade Standard which members – comprising producer, marketing and non-trading organisations (WFTO 2014: 1-2) – are assessed against. Broadly, the WFTO Fair Trade standards require a deep re-articulation of the value chain members participate in, largely by requiring members to work to a socio-economic 'bottom line' over traditional profit imperatives. For example, the standards require organisations to demonstrate good working conditions [within their own organisations as well as within the value chain] (Standard 7), practices that supports gender equity (Standard 6), payment of a fair price (Standard 4) and working with marginalised producers (Standard 1). Importantly, Standard 1 requires members to demonstrate commitment to 'poverty reduction through trade'; specifically working with 'marginalised producers, whether these are independent family businesses, or grouped in associations or cooperatives' (WFTO 2014: 5). Indeed, the cooperative model serves as an important feature in alternative trade networks (see Develtre and Pollet, 2005), especially in the preference of ATOs to work with cooperative producer organisations, but also in some cases, through the application of the cooperative structure in ATOs at the consuming end of the chain.

Table 1: WFTO fair trade standard

1. Opportunities for economically disadvantaged producers/ groups
2. Transparency and accountability in supply chain
3. Adopt fair trading practices with producers
4. Pay fair prices
5. Do not utilise forced or child labour
6. Non-discrimination, gender equity and freedom of association
7. Provide a safe and fair working environment
8. Support producer capacity building where possible
9. Transparency on fair trade practices to buyers
10. Respect for the environment including sustainable sourcing

Source: WFTO (2014: 22).

While the bulk of fair trade activity has now shifted to the mainstream market, traditional alternative trade activities continue to grow (see Krier 2008 for a comprehensive study of key trends in Fair Trade markets). Alternative trade value chains can be differentiated from mainstreaming value chains, through the participation of not only marginalised producers, but also, dedicated 'fair trade' organisations at the consumption end of the chain. These organisations, which subscribe to the WFTO Fair Trade Standard, include importing, marketing and retail organisations. While these organisations sometimes use a branding strategy to market in traditional retail spaces (for example, Cafédirect is a major UK coffee brand produced by a UK ATO), they typically operate in holistic alternative value chains within which business models across the board are rearticulated. FTOs demonstrate their commitment through their compliance to Fair Trade Standards, which in turn are central to the value chain effected within this model of fair trade:

Simply put, our fair trade model is open for organisations whose core activity is fair trade, focusing on improving the practices of organisations in the supply chain to follow the 10 principles [or standards] of fair trade. it is our firm belief that upholding the

principles of fair trade is a shared responsibility of all key actors, not solely the producer. The relationships between producers and their buyers, and between sellers and consumers are an important focus of our system (WFTO 2014b).

It is exactly on this point – the relative commitment to fair trade by *all actors in the value chain* – that alternative trade is fundamentally distinct from the offerings of mainstream fair trade models.

Fair Trade's Shifting Response to Global Inequality: moving back to free markets

In contrast to alternative trade, mainstreaming does not rely on the reputations of individual businesses that sell and distribute fair trade products, but rather, on claims made about products that bear a fair trade label. Labelling's capacity to differentiate products has enabled the entry of fair trade products into conventional value chains. Essentially, while alternative trade offers a business or 'process' assurance, actively contesting the structures of businesses and trading networks, which characterise the conventional market, the mainstreaming strategy through the device of labelling provides a 'product assurance' entailing limited re-articulation of the value chains these products circulate in. However, this product assurance itself is shifting through now differentiated articulation in the Fairtrade International system and the new FTUSA system. This 'split' reveals important challenges for the mainstreaming venture and ironically sees fair trade engaging traditional questions of growth and inequality, arguably working to a 'pro-poor' growth logic rather than the deeper contestation of markets found in the alternative trade strategy. This section examines fair trade's competing mainstreaming ventures with reference to the differential value chains they manifest. It then turns to an analysis which problematises fair trade's critique of the growth-oriented trade paradigm today.

Fair Trade vs. Fairtrade in Mainstream Markets

The establishment of an international fair trade labelling regime was preceded by the creation of individual consumer market labels. The first Fairtrade label, 'Max Havelaar' was launched in the Dutch market. It served as a direct response to the appeal made by a group of Mexican

growers to a development organisation Solidaridad in 1986, ‘... that instead of aid they needed trade’ (Fairtrade Foundation, n.d.). Jos Harmsen (Project Specialist Coffee, Max Havelaar 2005) explained: ‘We started ‘Max’ up ... to bring it [Fairtrade coffee] into the normal supermarket where every consumer is doing his or her shopping’. Additional individual consumer markets soon followed before an international labelling regime was established in 1997 – Fairtrade International (formerly Fairtrade Labelling Organisations [FLO] International) – and an International Fairtrade product mark was launched in 2002 (Fairtrade International 2015). Under the Fairtrade International regime, existing mainstream value chains and actors are harnessed to support a growth strategy, which aims to lift Fairtrade production and distribution globally. This is achieved through a suite of production, trade and product standards that support Fairtrade product differentiation.

Fairtrade International is able to label products as Fairtrade, by setting and certifying the production and trade of products according to respective ‘Fairtrade’ standards. Fairtrade standards are set through a combination of Generic producer standards (which set out requirements for producers, also differentiating between democratically organised smallholder organisations, hired labour and contract production) and a Generic trade standard (setting out the conditions for *trade* but not making requirements for the structure of importing, marketing or retail organisations) (see Valiente-Riedl 2013: 82-3). Additionally, individual product standards set out product specific requirements, including minimum prices and the forms of labour mobilisation sanctioned for different products. While Fairtrade labelling is committed to servicing the most marginalised producers, historically – across both labelling and alternative trade – this has meant preferencing smallholder production, typically cooperatives. Today, the labelling system allows for democratically organised smallholders (in cooperatives or alternative structures) to participate, as well as organised hired labour in few product categories where the realities of production require engagement with workers. It also permits contract production in a few categories, on the condition that these small-scale producers work toward establishing a democratic organisational structure with the assistance of a partner organisation (typically an exporter or NGO) (Fairtrade International, 2016). It offers certification for predominantly agricultural commodities but also gold, sports balls, carbon credits and composite products

(Fairtrade International 2016a). Table 2 shows that across these product categories (note, these can be broken down further, for example ‘fresh fruit’ comprising apples, bananas etc.), only permit production by hired labour. While Fairtrade International requires the producers it works with to adopt business structures that are community-development oriented, it does not make concomitant demands of the businesses that operate at the consumption end of Fairtrade value chains.

Table 2: Fairtrade Product Standards for Small Farmers and Hired Labour, 2016

Labour Type	Small Farmers	Hired Labour	Contract Production
Product Category	Cane Sugar Cereals Cocoa Coffee Fibre Crops Fresh Fruit Gold Herbs, Herbal Teas & Spices Honey Nuts Oilseeds & Oleaginous fruit Prepared & Preserved Fruit Secondary Products Tea Vegetables	Fresh Fruit Fresh Vegetables Oilseeds & Oleaginous fruit Flowers & Plants Herbs & Herbal Teas Prepared/Preserved Fruit Secondary Products Sports Balls Tea	Cereals Cocoa Fiber Crops (e.g. cotton) Prepared/Preserved Fruit

Sources: Fairtrade International, 2016a, 2016b and 2016c.

Not surprisingly, the rise of labelling has drawn heavy criticism from within traditional alternative markets. Dean's Beans (2010), a coffee roasting cooperative/ATO which describes itself as a '100% fair trade coffee company', questions the participation of conventional businesses in Fairtrade. In turn Starbucks, a company that Dean's Beans (2010) is strongly critical of, describes itself as 'strongly committed to buying and serving responsibly grown and ethically traded coffee to help create a better future for farmers and a more sustainable supply chain' (Howard Schultz, Starbucks CEO quoted in TransFair USA 2009: 32). This is not without reason. In 2009 Starbucks emerged as the single largest purchaser of Fairtrade coffee in the world after purchasing 39 million pounds of Fairtrade coffee, drastically increasing its purchases from the previous year by 20 million pounds (Starbucks 2010). Despite this purchasing spike, Starbucks Fairtrade coffee purchases only represented just over ten percent of its total purchases in that year (Starbucks, 2010), a figure which reduced to 8.6 percent for 2014 (Starbucks 2014: 3). While it has made a clear contribution to growing the Fairtrade market, Starbucks is more broadly seen to champion its own voluntary supply chain scheme, C.A.F.E Practices.

This underscores the increasing tension between fair trade and competing certification systems (*e.g.* Organics and shade grown), as well as companies own voluntary ethical supply chain sourcing practices (see Hudson, Hudson and Fridell 2013: chapter 5 for a discussion of this). Indeed, in 2015 Starbucks claimed 99 percent of its coffee was ethically sourced, without providing figures for the relative proportion that was sourced through Fairtrade networks (Starbucks 2015: 5). As such, Starbucks still limited commitment to fair trade raises concern for ATOs operating in this market. Concerns have increased with the entrance of even more notorious corporations such as Nestle into the market (see Hudson, Hudson and Fridell, 2013: chapter 5 for discussion of corporate participation and strategies in this sector). The question put forward by many ATOs is whether a 'strong commitment' to marginalised growers and ethical trade is really demonstrated through 'partnership' with Fairtrade labelling for only a portion of a company's products. This position, as will be discussed further in the section below, drives tension in fair trade networks that continue to worry the transformative potential of fair trade, over the lure of expanding markets.

Table 3: Fairtrade Market Share for Ground Coffee in Europe and the USA, Selected Years

Country	2004	Latest year available
Austria	2.3	2 (2008)
Belgium	1.7	2.8 (2008)
Denmark	2.0	2.0 (2004)
Finland	0.4	0.4 (2004)
France	N/A	7.0 (2007)
Germany	1.0	1.5 (2007)
Ireland	2.0	3.5
Italy	N/A	0.1 (2007)
Luxembourg	N/A	3.5
Netherlands	N/A	3.0
Norway	0.9	1.4 (2007)
Sweden	<1.0	3.4 (2008)
Switzerland	6.0	5.0 (2007)
United Kingdom	20.0	N/A
USA	1.8	2

Sources: Krier 2008: 46 (2004 data); TransFair USA 2006 : 3 (2004 data); FAO 2009: 13-4 (latest year available).

Under the Fairtrade International umbrella, Fairtrade has certainly emerged as a global market venture by harnessing the existing value chains for products of import to marginalised producers in the developing world. There are now twenty-two established National Fairtrade Organisations (NFOs), spanning Europe, the Americas, Asia and the Pacific, which market Fairtrade and also license the Fairtrade Certification Mark in their domestic markets (Fairtrade International 2016d). In addition, there are ten Fairtrade Marketing Organisations (FMOs), including in Brazil, India, the Philippines and Slovakia, which

market Fairtrade in their domestic markets while Fairtrade International undertakes the licensing activities (Fairtrade International 2016d). This growth is impressive however, if we consider the most mature Fairtrade product – coffee – labelling remains a niche market which only accounts for less than four per cent of individual domestic markets in ground coffee (see Table 3). This highlights the limitations of this mainstreaming strategy, with the corporations that have grown Fairtrade markets only offering a limited commitment and many others not participating at all or developing their own in-house sourcing policies or seeking out alternatives. These limits to Fairtrade's growth capacity has driven the launch of a new Fair trade mainstreaming strategy through the creation of FT USA; a strategy which seeks to 'upscale' and thereby arguably increasingly affirms conventional market value chains.

From Market Harnessing to Market Affirming Fair Trade

Before the advent of fair trade mainstreaming, Renard (2003: 89-90 in Schreck 2005: 18) describes the hard reality alternative trade advocates faced; questioning the operation of the free market system on the one hand, yet 'far from resolving the problems of selling Third World products' on the other. This is the strength that fair trade mainstreaming offers – despite arguably *diluted values* and processes for fair exchange, it has scope to be of (economic) value to more producers than ever before. Yet, as shown above, mainstreaming under the Fairtrade International system has also hit a wall emerging as a 'niche' rather than 'whole market' strategy. It is in this context that FTUSA splintered from the international mainstreaming system. Its departure and its launch of a 'Fair Trade for All' approach '... created shockwaves through the fair trade movement' (Tallontire and Nelson 2013: 28). Yet, where Fairtrade International's 'market harnessing' value chain serve up the contradiction of corporate buyers on one end of the value chain, whilst maintaining socially embedded production models at the other, FTUSA is arguably simply pushing a market-based development strategy even further with ambitions for broader relevance across mainstream value chains, including diverse sites of production. Essentially, the shift from 'market harnessing' to 'market affirming' transpires through: a) extending the model holistically to mainstream value chains (*i.e.* opening up to myriad structures of labour mobilisation), and more broadly; b) working to

satisfy the demands of corporate buyers in articulating an increasingly buyer driven value chain.

In its decision to move away from the international Fairtrade labelling system, FTUSA's founding CEO, Paul Rice (2012) argues that the organisation 'has chosen to buck the status quo... to make Fair Trade truly fair for all'. Providing the example of coffee, Rice (2012) promised that both smallholder growers and plantation workers could join the FTUSA system and as such, over four million previously excluded farmers could now gain access to the fair trade value chain under the new US model. Indeed, across 2012 and 2013 FTUSA rolled out an Independent Smallholder Standard and a Farm Workers Standard (Walske and Tyson 2015: 132). Certainly, the issue of the forms of labour mobilisation that fair trade serves remains divisive in fair trade networks today. Indeed, in an evaluation of the narratives used within different fair trade systems, Tallontire and Nelson (2013: 28) argue that FTUSA's departure is primarily due to 'a divergence of approach about what are the most effective and legitimate means for supporting smallholders and workers at a large scale'. Under the Fairtrade International system, major crops like coffee, cocoa and sugar remain exclusive to smallholder production, but these same producers only manage to sell a portion of their product in Fairtrade markets (Jaffee and Howard 2015). Herein lies a tension. The model of organised smallholder production units is preferred in the Fairtrade labelling system, as a structure which facilitates producer empowerment (see Tallontire and Nelson 2013). Yet, by permitting opportunities for value chain upgrading solely through collective capacity and enterprise, the Fairtrade market is limited and many producers who are not organised remain excluded. In response, FTUSA has opened up the production base but is also swiftly moving to diversify product lines and composites that can be branded 'fair trade'.

While coffee remains the flagship of the Fairtrade labelling system within a limited menu of 'Fairtrade' product lines, FTUSA is pursuing the possibility of a 'Fair Trade Lifestyle', wherein consumers have broader choices to 'shop responsibly in every product category' (FTUSA 2016a). Where, with the exception of Gold and Sports balls, Fairtrade International is largely limited to agricultural product lines; FTUSA has managed to extend into a range of manufactured goods through its 'apparel and home goods' line, and is also strongly pushing 'multi-ingredient foods' (FTUSA 2016b). Composite products are not new to Fair Trade mainstreaming. Fairtrade International also offers certification

and a differentiated ingredient specific label for composite products provided that ‘all that can be’ is Fairtrade sourced and ‘at least 20% of the content must be Fairtrade certified’ (Fairtrade International 2016e). However, the scope for only partially Fair trade products to bear a label is increased under the FTUSA model, through dual devices. FTUSA offers a ‘Fair Trade Certified Ingredient’ label for products that contain more than 20 percent Fair Trade certified ingredients, and a ‘Fair Trade Certified Ingredient Specific’ label (*e.g.* where the label would state ‘Fair Trade Certified Chocolate’ to signify the use of Fair Trade chocolate in a composite product) (Walske and Tyson 2015: 125-6). The rise in composite products across the board raises concerns that consumers will increasingly struggle to differentiate between 100% and partially Fair Trade products, with a recent survey suggesting that most consumers are not aware of the difference in labels (Lake Research Partners 2013 Survey cited in Jaffee and Howard 2015). It is, however, crucial for a strategy that seeks to strongly align itself with existing free market value chains and the needs of mainstream actors.

FTUSA has firmly positioned itself as a system that seeks to affirm and work with existing market structures, seeking to draw in more corporate participation by offering greater flexibility in its certification scheme. In its mission and values it claims:

Companies should not have to choose between social responsibility and the bottom line. we envision fair trade as a new global business model that helps industry secure its own profitability and competitiveness while it protects the environment and ensures a fair return to farmers and workers (FTUSA 2016a).

This concern with supporting businesses, is also reflected in its business planning activities, with its CEO claiming: ‘[I]f we are not ready to offer large companies the whole-of-business solutions they require, they will work with the next best solution...’ (Rice in ‘FTUSA Business Plan 2013: 13, quoted in Walske and Tyson 2015: 135). On the one hand, this strategy, which seeks to strengthen extension into buyer driven value chains, resonates with ‘the broader development discourse of “making markets work for the poor”...’ (Tallontire and Nelson 2013: 41). However, herein the reduced role of Fair Trade Organisations – either at the site of production or consumption – significantly shifts the orientation of this fair trade value chain to more emphatically affirm existing market actors and relations. Indeed, the elimination of what Reed (2009) refers to as ‘social economy actors’ arguably reduces Fair

Trade to just another ‘... form of corporate accountability’ (Reed 2009: 15). This is arguably a natural progression to the mainstreaming exercise started with Fairtrade labelling, however, it does cement a re-orientation of fair trade’s earlier critique of the conventional export-oriented growth paradigm and its capacity to address global inequality – with increasing emphasis on working within rather than contesting existing value chains.

Conclusion

Since its inception, fair trade has invigorated debate on trade as a vehicle for ameliorating global inequality. With the proliferation of a myriad of fair trade responses to free markets over the years, including more recently FTUSA’s promise under the ‘fair trade’ banner to strengthen the performance of free markets (FTUSA 2016), it is important to reflect on the ‘point of difference’ that fair trade maintains today. This article sought to analyse the evolution of fair trade vis-à-vis the prevailing free market paradigm, by mapping the different actors and distribution networks that characterise different fair trade models. In so doing, three key ‘fair trade’ models are identified.

The market-harnessing model offers ‘fair trade’ as another *product* to circulate through existing free market pathways. It works to facilitate fair trade’s access to existing free market actors and networks, whilst maintaining mechanisms for producer empowerment that contradict traditional market arrangements. Herein, global value chains are arguably treated to a shallow re-articulation. In contrast, the market contesting model associated with the original ‘alternative trade’ roots of the sector, seeks to transform exchange as a *process* by reformulating the principles and practices of exchange through the creation of alternative business models and networks spanning the sites of production, processing, manufacturing and retail creating a holistic parallel market. Cemented by the recent split of ‘Fairtrade USA’ from the international labelling regime, this tension over the utilisation of existing market mechanisms has now manifested a significant erosion of fair trade’s applied critique of free trade, signaling challenges for a cohesive fair trade model in the future. The entry of Fairtrade USA produces a third model, the market affirming model for fair trade, seeking to reinforce existing free market pathways and actors across the board, including at the site of production.

In this context, fair trade is rife with contradictions:

A key contradiction for fair trade is that it operates ‘in and against the market’, working through market channels to create new commodity networks for items produced under more favourable social and ecological conditions and simultaneously working against the conventional market forces that create and uphold inequalities (Raynolds 2000 in Raynolds and Bennett 2015: 25).

The contradiction of critiquing conventional market forces on the one hand, yet relying on them on the other is fundamentally problematic despite the expansionary logic that has propelled fair trade’s mainstreaming efforts. Herein, FTUSA works to resolve this contradiction in somewhat unexpected ways. It strongly endorses an export-oriented growth paradigm, re-positioning fair trade as the means to ‘help[s] “free trade” work for the poor’ (FTUSA 2016). A position reminiscent of traditional (pro-poor) growth arguments. For better or worse, fair trade has moved away from its roots and the lines between ‘free’ and ‘fair’ trade are shifting.

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THE IMF AND A NEW GLOBAL POLITICS OF INEQUALITY?

Alex Nunn and Paul White

This paper addresses a simple, and largely empirical, research question: is the International Monetary Fund's (IMF) recent high level commitment to reducing inequality translated into concrete action in its dealings with member states? Addressing this research question is significant in several respects. First, the high level rhetorical commitment to reduce inequality might be seen as paradoxical because the IMF, alongside other institutions of global economic management, has long been criticised for its role in promoting economic reform in member countries, partly on the basis that this increases inequality (Peet *et al.* 2009; Kentikelenis *et al.* 2016: 550-1). It is therefore important to assess the extent to which recent pronouncements on inequality by the Fund suggest a change in emphasis or a genuine institutional commitment. Second, addressing the question contributes to a contemporary academic literature on more technical aspects of how we should understand and interpret IMF policy advice and conditionality. This literature currently focusses on a range of aspects of IMF policy advice, but does not address the recent interest of the Fund in inequality. The paper addresses this lacuna.

Our focus on inequality complements several strands of investigation in the existing literature on the IMF, particularly a variety of recent studies which assess the extent to which the Fund's practice and ideas have shifted since the financial crisis that started in 2007 (*e.g.* Park and Vetterlein 2010). Much of this existing research focuses on fiscal and financial policy (see Ban and Gallagher 2015). Our focus is in some ways broader; seeking to locate IMF practice not just in the post-crisis context but in the deeper historical process of world market expansion. It is also in some ways more specific: studying IMF policy and practice

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specifically in relation to income and wealth inequality within countries. We argue that there is evidence of change in the orientation of the IMF but that this has not fully percolated down into IMF practice in relation to the policy advice it dispenses to its member states. Similar to Kentikelenis *et al.* (2016: 565) in relation to labour and social protection issues, we find that there is evidence that the IMF's commitment to inequality "reflects more 'talk' than 'walk'".

The paper proceeds in the following way. The first section reviews and contextualises the IMF's recent statements on inequality as one of several notable institutions to take up this concern. It is suggested that one possible explanation for this is that these international organisations are engaged increasingly in risk management; focussed on their shared agenda of promoting and sustaining world market integration. In that context, increasing inequality is now being seen, not merely as an unfortunate consequence of that shared agenda, but as a risk to it. The second section reviews the recent literature focussing more specifically on IMF policy advice, drawing from that a series of more detailed ways in which the central research question for the paper might be addressed. The empirical strategies found in some of this literature are used to shape the way in which data is collected and interpreted. The third section briefly summarises the empirical data collection and analysis process undertaken. The fourth section presents the results of this multi-stage process to chart the IMF's commitment to reduce inequality. It includes a review of high level policy documents and speeches, recent changes to the operational guidance that shapes the work of IMF staff and an analysis of the changing policy advice that the IMF officially offers to its member states. The consistency (or lack of it) of the IMF's commitment to reducing inequality – in its own terms – through these different institutional scales is then used to answer the central empirical research question. The final section of the paper discusses how these empirical findings may be interpreted as a contribution to the broader 'Critical' International Political Economy (IPE) literature and suggests avenues for further research which are consistent with *JAPE*'s commitment to critical and pluralistic scholarship (Stilwell 2015).¹

¹ Here we note the debate in *JAPE* over whether there are grounds for fruitful engagement between heterodox political economy and 'International Political Economy' (e.g. Chester and Schroeder 2015) but assert that our contribution is consistent with this critique and is located within the 'Critical' IPE tradition, for example as outlined by Shields *et al.* (2011).

Context and Background

It has been known for some time that socio-economic (income and wealth) inequality has been increasing within many countries, accentuating global inequality, while aggregate inequalities between states have been narrowing. Moreover, in many countries gender inequalities have also narrowed (though by no means disappeared). The OECD has tracked increasing income and wealth inequalities within countries for some time, noting large upward shifts in the gini-coefficient in most of its member states between the mid 1980s and mid-2000s (OECD 2011). Anthony Atkinson and Thomas Piketty (2007) and many other political economists (Stillwell and Jordan 2007) have long been significant in highlighting the role of very high earners in shaping this shift, but it is Piketty's (2014) post-crisis book *Capital in the 21st Century* and Oxfam's high profile 'Even it Up'² campaign which have really caught the political mood. Indeed, a 'new politics of inequality' might be emerging (Nunn 2015). While similar arguments can be made about the ways in which gender inequality has been treated by significant international institutions (e.g. see Elias 2013; Bedford 2009), the focus in this paper is broadly the increased inequality between households in terms of income and wealth that is reported in many countries internationally (Milanovic 2016).

There is some evidence of a 'new global politics of inequality' emerging (Nunn 2015). The terms of this new global politics of inequality are two-fold; consisting of both bottom-up and top-down dynamics. From the bottom-up, rising inequality, the effects of the global economic crisis of 2008 onwards and state responses to it, have released a wave of protests and new political movements at both ends of the political spectrum. For example, trends as diverse as the election of Jeremy Corbyn to lead the Labour Party, the electoral attraction of UKIP³ and the 'Brexit' referendum vote in the UK, to popular protests against austerity in Greece and the formation of Syriza and Golden Dawn as rival political alliances, the emergence of the Five Star movement in Italy, AfD in

² See for e.g. <https://www.oxfam.org/en/campaigns/even-it-up>.

³ UKIP is the popular acronym for the UK Independence Party who have gained electoral support in recent years in the UK but even more than their electoral support they have been influential in shaping UK public opinion in relation to the European Union.

Germany, the election of Donald Trump in the US and various protest movements in Spain, Turkey and Latin America can all be read partly in this way. While there are clearly very different proximate causes for these developments in different countries, dissatisfaction with high or rising inequality, resulting insecurity and other consequences can be read as one potential unifying theme.

From the top-down, international organisations, and global fora for business and policy elites, have responded to these movements by developing a new-found interest in inequality. A previous paper (Nunn 2015) argued that these concerns with inequality can be thought of in terms of systemic risk. International organisations have placed increasing emphasis in recent years on risk management. Discussing this focus on risk management, Cammack (2012) distinguishes between 'positive' and 'negative' risks. He argues that the former category are those risks deemed necessary as part of the process of world market integration and the latter is about risks to that process such as natural disasters or financial crises with systemic significance. In an expanding world market nearing completion, a range of these risks may become significantly amplified in scale and significance (Jessop 2015; Peet 2011). Crisis tendencies in capitalist development could be offset in the post-World War II and then post-cold war system through spatial expansion of the system (Harvey 1982: Chapter 13). As the spatial limits of that process loom into view, the prospect of further 'spatial fixes' become more limited and attendant risks take on a more systemic nature. In that context, a variety of international organisations including the World Bank, the IMF, the OECD and, in a different fashion, the World Economic Forum are increasingly focussed on the need to undertake systemic risk management. The new found interest of these international organisations in tackling the rising inequality that the take-up of their policy advice helped to create, might therefore be interpreted in these terms. In the 'post-crisis' landscape, inequality is seen as an emergent risk to the sustainability of world market expansion.

That different International Organisations (IOs) have converged on a similar understanding of inequality is itself of interest. Robert Cox famously characterized this consensus across different institutions as a 'nebuleuse' (Cox 1992), though that somewhat under-explains the social constitution of these shared positions as a product of material struggle (Bonefeld 2006: 48), in which these international organisations are conscious and influential actors. In the context of this paper, the social

constitution and political economy content of this agency is revealed by the prominence that IOs now give to inequality as a risk to the smooth sustainability of world market expansion. Ideas about how to best manage their shared agenda of world market expansion flow between, and are sometimes contested within and between, these organisations. The World Bank's adoption of poverty reduction as a mantra in the 1990s in contrast to the IMF's more orthodox neo-liberal position is a case in point. But given their shared agenda and the interchange of ideas and information between them, it is no surprise that these organisations often alight on shared analyses of attendant risks to their objectives and develop shared agendas for addressing them.

Of course, these IOs operate with different levels and types of agency, sometimes more focussed on shaping available ideational structures to justify domestic policy development, and at other times operating with clearer material leverage over domestic policies. In either case, these ideational frameworks arise from the material processes of world market expansion, and have resulting material consequences for that process. Managing inequality as risk is, then, both an ideational and a material process at the same time, and the division of labour between and within IOs reflects their different contributions to the risk management process.

Among IOs, the OECD has played an important leading role in identifying inequality as a risk to world market expansion. The organisation has long emphasised the benefits of risk management and its post-crisis *New Approaches to Economic Challenges* project is constructed around the ways in which climate change, resource depletion, political instability and inequality might threaten the stability of world market integration. The notion underpinning the project is that 'discredited' and narrow economic thinking is a barrier to identifying and coping with these risks. The OECD has also led the way in identifying inequality as an emergent systemic risk. While there is a long track record of some marginal or less celebrated publications from the OECD, and OECD staff, on inequality under neo-liberal reform (e.g. Atkinson *et al.* 1995), the issue became much more prominent for the organisation in the mid 2000s, especially (but not only) with the release of the high profile *Growing Unequal* (d'Addio 2007; Förster and d'Ercole 2005; OECD 2008). *Growing Unequal* had accepted that inequality was an issue that member states increasingly needed to address. In a number of publications from 2011 onwards, the OECD appears to take an increasingly radical stance on inequality. The (2011) report *Divided We*

Stand: Why Inequality Keeps Rising is a serious book-length attempt to understand inequality and the causes of its increase in most OECD countries. First, noting this increase, the report opens with the statement that ‘inequality has become a universal concern, among both policy makers and societies at large’ (17) and it quickly marks out why this is so:

The economic crisis has added urgency to deal with the policy issues related to inequality. The social compact is starting to unravel in many countries. Young people who see no future for themselves feel increasingly disenfranchised. They have now been joined by protesters who believe that they are bearing the brunt of a crisis for which they have no responsibility, while people on high incomes appear to have been spared. From Spain to Israel, from Wall Street to Syntagma Square, popular discontent is spreading rapidly. Due to the crisis, uncertainty and inequality-related issues have reached the middle classes in many societies. (OECD 2011: 17).

Underlining the emphasis now being given to inequality as a risk by the OECD Secretary General, Angel Gurría (2013) comments that:

The benefits of growth have not trickled down. Income inequalities have become one of the biggest global challenges, attracting growing attention not only in academic literature but also among policymakers globally. The world community is increasingly highlighting the pernicious influence of inequalities on social stability and development outcomes. High levels of inequality generate high costs for society, dampening social mobility, undermining the labour market prospects of vulnerable social groups, and creating social unrest.

So the renewed emphasis to be given to inequality is not just the result of knowledge that inequality is rising, for that was known already. Rather, the effect of inequality as a cause of social and political unrest is central to understanding this renewed interest. Published work on inequality coming out of the OECD has since gathered steam. Research and policy publications focus on explanations for the declining labour share of GDP (Bassanini and Manfredi 2012), widening income inequalities post-crisis and into the future (OECD 2013 2014a 2014b) and that inequality may undermine economic growth (Causa *et al.* 2015; Cingano 2014). This analysis underpins the OECD’s adoption of the mantra of ‘inclusive growth’ as a tool to “create economies where every citizen, regardless of income, wealth, gender, race or origin is empowered to succeed” (Angel Gurría, Foreword to Keely 2015: 3). That ‘inclusive growth’ has now been taken up as a policy idea by other international organisations (*e.g.*

World Bank, UNDP, EU, Asian Development Bank) exemplifies the point made here about shared agendas and the inter-penetration of ideas.

The World Bank's (2014) World Development Report: *Risk and Opportunity: Managing Risk for Development* is also illustrative of this risk management emphasis. The report outlines the benefits that can come from a risk management approach that promotes 'positive' risk taking but controls for the effects of 'negative risks' at a range of different scales. The distinctive contribution that can be played by international organisations, such as the Bank, at the scale of the international community is precisely the identification of systemic risks that might result from world market integration and overwhelm the capacity of individual states and groups of states.

Since 2010 the IMF has also taken up the concern with inequality and the organisation has published a range of reports on the subject and even has a dedicated website focussed on the topic.⁴ IMF publications make a strong empirical case for the relationship between increasing income inequality in the US, the rise of precarious household indebtedness, financial sector vulnerability and crisis (Kumhof & Ranciere 2010). In *Redistribution, Inequality and Growth*, released with some fanfare in March 2014, Ostry *et al.* (2014) argue that greater original and net equality are positive for growth and that greater inequality reduces growth potential in multiple ways, including declining political and social consensus, and stability. The report pays particular attention to the role of inequality in stimulating public opinion in support of more redistribution, suggesting at least a partial concern for political stability. The IMF Policy Paper: *Fiscal Policy and Income Inequality* (IMF 2014a) presents a detailed review of the effects of various fiscal and social policies on inequality, with the conclusion that inequality, like poverty, can be bad for growth (for a discussion see Obeng-Odoom 2016: 134-5); thereby presenting a risk to the expansive character of the world market.

Interviews with senior IMF staff⁵ in both policy and research departments suggest that the Fund is fully committed to a new global

⁴ <http://www.imf.org/external/np/fad/inequality/>

⁵ Interviews were undertaken by the authors with two senior representatives of the IMF in relation to policy and research. These followed a semi-structured topic guide focussed on explaining the production of high profile recent publications on inequality (see Findings section). Both respondents have been connected with the Fund's work on inequality and

politics of inequality. They pointed to the Executive Board Work Programme for 2014, which includes a section on inequality, committing Fund staff to examine the ‘interplay between financial inclusion, growth, inequality, and financial stability in emerging and developing countries’ and to ‘operationalize the Fund’s recent analytical work on inequality’ in Article IV discussions with member states and to expand this work on inequality in relation to ‘Jobs and Growth’ (IMF 2014c). The interviewees also argued that inequality can be regarded in both positive and negative terms in relation to the objectives of the Fund. ‘Good’ inequality can drive positive risk taking, innovation and growth, with China cited as an example of this. ‘Bad’ inequality can undermine growth, leading to fragility and creating political and social instability. The point at which ‘good’ becomes ‘bad’ inequality, however, is not a measurable benchmark but one of social and political struggle inside any one society.

Interestingly, interview responses suggested that while the Fund had a long-term interest in inequality as a result of the social and political consequences from early structural adjustment programmes from the early 1980s onwards,⁶ the more recent intensification of this interest was triggered by the unrest of the Occupy movement and Arab Spring in 2010/11. The interviewees suggested that in responding to this, the focus of the Fund has been shaped by its Mandate to concentrate not on internal political issues and structural policy, but on macro-economic policy. So while socio-political risks associated with inequality are fully recognised, most of the content of the Fund’s key publications and its new Work Programme are shaped by the connection identified by Ostry (and colleagues), Rajan, Kumhoff and Ranciere in relation to inequality, growth and macro-economic (in)stability (IMF 2014b, 2014c). The Fund interviewees suggested that in this regard they saw themselves working alongside the OECD (in rich countries) and the World Bank (in Developing Countries) whose formal responsibilities more closely align with domestic structural reform.

both had long track records in senior positions at the Fund. The interviews were undertaken at the Fund’s Headquarters in Washington DC in November 2014.

⁶ See (IMF 2014a) for details of the assertion that the Fund has a longer interest in inequality charting back to experience with Structural Adjustment Programmes in the 1980s, the issue of new Staff guidance in the 1990s on income distribution and several important publications in the early 2000s.

The high level political and rhetorical commitment to tackling inequality has also been repeatedly emphasised by the IMF Managing Director Christine Lagarde. For instance, speaking at a World Economic Forum debate on inequality in early 2015, she remarked triumphantly that she had moved “the IMF in the direction of looking at inequality as mainstream and core business” (Lagarde 2015). Similarly, a further high level IMF report during 2015 continued to frame inequality as one of the most significant policy challenges facing the international community:

...Widening income inequality is the defining challenge of our time....
The economic and social fallout from the global financial crisis and the resultant headwinds to global growth and employment have heightened the attention to rising income inequality... (Dabla-Norris *et al.* 2015).

Taken as a whole, the discussion in this section might lend emphasis to the suggestion that there is a new politics of inequality emerging among global elites concerned with managing the process of world market integration. The significance of this ‘new politics’ can be taken to be the apparent shift in emphasis away from a relaxed neo-liberal attitude to inequality on the grounds that this is less important than growth and combatting absolute poverty, toward a concern with the negative effects of inequality on growth, political and financial stability. Such a concern can be interpreted not so much as a Damascene conversion to egalitarianism, as an attempt to stabilize an expanding and increasingly unstable international system suffering intensifying feedback effects from socio-economic polarization, problems with absorbing surpluses and shifting the costs of devaluation (Nunn 2015; Nunn & Beeckmans 2015).

This high level rhetorical analysis leaves a number of important empirical questions unanswered, such as how seriously this new politics of inequality is taken by key institutions. The IMF is an ideal target for research in relation to this because, unlike the World Bank or OECD, its membership is near universal and unlike the OECD, it actually has mechanisms at its disposal to promote reform within its member states. As such, the remainder of the paper focuses on evidence from IMF policy advice and conditionality requirements to assess the extent to which high level rhetorical commitments to reduce inequality are actually transferred to member states.

Recent Literature on the Changing Policy Advice of the IMF

IMF policy advice has long been a controversial subject. Though it was initially intended to offer only economic and not political advice, research shows that IMF policy advice has increased in its expansiveness and in controversy over a long period of time, and at least since the 1960s (Best 2012: 675). Criticism reached a particular high point in the late 1990s and early 2000s when policy advice was arguably at its most prescriptive, expansive and detailed (Boughton 2012: Chapter 4), and also when popular protest became more prominent, for example when the IMF was among a number of institutions attacked by violent protests, as well as more peaceful NGO and social movement campaigns to 'Make Poverty History' and 'Drop the Debt'.

At about this time, the Fund was also criticised for its handling of the East Asian financial crisis (Babb 2013: 282; Best 2012: 684). Like the debt and poverty campaigns, this criticism was notable because it was put forward by relatively sober and mainstream figures who had previously supported market oriented reform such as Jeffrey Sachs. Joseph Stiglitz – who was then Chief Economist of the World Bank – was one of those critics and his book *Globalisation and its Discontents* (Stiglitz 2002), might have been better labelled 'The IMF and its Discontents'. The book was well received among those critical of the wider political economy of structural adjustment, and, for a time, there was something of a fissure between the Bretton Woods twins, as the World Bank under the leadership of Stiglitz and Managing Director Paul Wolfensohn sought to move away from this agenda. The result was the emergence of the Post-Washington consensus development paradigm, which was symbolically dominated by the UN's Millennium Development Goal of 'Poverty Reduction'. The IMF, gradually and perhaps reluctantly, began its own review of conditionality under the new Managing Director Horst Köhler in 2001/2 in an attempt to offset criticism.

Despite these reforms, during the 2000s the IMF lost considerable policy leverage and significance. Relatively strong and protracted growth in the global economy, combined with the attempts of many emerging and developing countries to build up their reserves precisely to avoid the need for future IMF 'support' in the wake of the Asian crisis and

response, meant that programme lending, and the number of countries supported, fell dramatically (Bird & Rowlands 2010: 1280). A range of commentators, including the then Managing Director Dominique Strauss-Kahn, questioned the long-term viability of the institution (Kaya 2012: 24).

However, in the wake of the 2008 financial crisis and international efforts by the G20 to respond to it, the institution has been rejuvenated. The renewal of IMF resources (Bird & Rowlands 2010; Kaya 2012) and legitimacy in response to the great financial crisis also necessitated a change in geographical emphasis as the Fund initially stepped in to support European economies such as Iceland, the Baltic countries and, of course, Greece. At the same time, conditionality and policy advice was once again re-packaged in terms that sought to emphasise the Post-Washington Consensus focus on country ownership, sensitivity to contextual features and therefore a less doctrinaire approach (Gabor 2010), including a new focus on the social effects of economic reform (Lütz and Kranke 2014). New arrangements were introduced which enabled some countries to borrow through the Flexible Credit Line without recourse to explicit conditionality, principally because their existing economic policy provided sufficient up-front credibility (Lütz and Kranke 2014: 324).

In this context, a variety of studies have focussed on IMF governance reforms (Lesage *et al.* 2013), lending volumes (Bird & Rowlands 2010), the content of loan conditionality (Broome 2015; Gabor 2010; Grabel 2011; Lütz and Kranke 2014) and its overall policy preferences (Babb 2013). Opinion differs as to whether Fund conditionality and policy advice exhibits essential continuities with neo-liberal preferences for monetary stability (Gabor 2010) and fiscal retrenchment (Babb 2013; Broome 2015) or emergent change (Lütz and Kranke 2014) in which there are opportunities for progressive and heterodox alternatives, especially under competition from state 'forum shopping' behaviours and new alternative sources of external finance (Grabel 2011). Of particular relevance to our paper, Kentikelenis *et al.* (2016) find that there is evidence of rhetorical change but that this masks significant continuity in the trajectory of neo-liberalisation, especially in relation to labour market and social protection policy. This paper makes a contribution to this literature by assessing the extent to which recent high level rhetorical policy commitments to reducing inequality are carried through to policy advice to member states, whether that be the 'soft' policy advice of

Article IV commentaries on member state economic policy, or the ‘harder’ policy advice associated with lending and programme conditionality.

Empirical Methods

As Broome (2015: 149) notes: ‘Analysing the scope of the IMF’s policy advice to borrowers provides a window through which to trace changes in the organization’s preferences for national economic policy reforms’. Clearly the IMF has a variety of different relationships with its member states; it is not a unitary actor (Chwioroth 2009). Several studies show that IMF policy advice is often variable between members (Bird & Rowlands 2010), and other research has shown that the IMF has more leverage with smaller countries (Kaya 2012) and those who borrow from the Fund, or whose access to other financing may be dependent on favourable IMF commentaries (Broome 2015). It might be argued that the additional leverage between the IMF and borrowing countries (as opposed to those simply subject to surveillance under Article IV) suggests it is important to focus mainly on these countries. However, given the potential for IMF policy advice to have knock-on effects in relation to other financing (Broome 2015: 151), and that it spends the majority of time on its surveillance activities (Broome and Seabrooke 2007) there is merit also in focussing on policy advice to non-borrowing members. Moreover, this also has the advantage of enabling comparison in policy advice between borrowing and non-borrowing members. Additionally, recent claims by the IMF itself suggest that IMF policy advice is increasingly shaped in country-specific ways. If this were true, then it would be expected that IMF policy advice in relation to inequality would be shaped in part by the degree of inequality (and perhaps also change in inequality) within individual member states.

The presentation of empirical data in the ‘findings’ section follows the four stages in the data collection and analysis, as below:

1. Several of the documents which characterise the IMF’s recent high level political commitment to reducing inequality, also include discussion of a series of macro-economic and structural policies which are identified as increasing or decreasing socio-economic inequality. This discussion is summarised below in order to establish a framework by which the IMF’s own commitment to inequality might be tested. This follows the

approach recently used by Broome (2015) to test the IMF's continuing policy commitment to the 'Washington Consensus'. Broome uses the initial proclamation of a Washington Consensus as the source for identifying a list of specific policy commitments that is then used to test continuity and change in policy advice. The approach here is to summarise the IMF's own discussion of policies that might increase/decrease inequality so that policy advice can be tested to explore whether inequality-decreasing measures feature and, conversely, to explore whether those policies which might be regarded as increasing inequality are absent. The data is taken from three high profile IMF policy publications (Dabla-Norris *et al.* 2015; IMF 2014a; Ostry *et al.* 2014) on inequality.

2. IMF staff who produce policy advice for member states work under a set of operational guidelines. An examination of changes in operational guidelines provides a method by which to assess the extent to which high level commitments to reduce inequality are genuinely held by senior figures in the Fund and Executive Directors / influential Member States. The revised guidelines are therefore examined to assess the extent to which they promote the policies suggested in (1). Several revisions are discussed, the most recent being agreed in 2014 – subsequent to the publication of some of the high profile policy publications mentioned in (1) and which took effect from June 2015 onwards. The revised guidelines and associated documentation were read critically for all references to inequality and distributional discussions. These relevant discussions are summarised below.

3. Examination of recent – that is; subsequent to the publication of high level commitments at (1) and changes to operational guidelines at (2) – policy advice to member states, including both borrowers and non-borrowers. We considered policy advice to eleven countries. The sample size was limited by the number of newly agreed programmes and Article IV consultations that had taken place between the implementation of the new operational guidelines and April 2016, when we completed the empirical research. The sample includes all seven countries that completed new programme agreements during that period and a cross sample of countries who had undertaken Article IV consultations to reflect different domestic conditions and possible relations between the Fund and the Country Authorities. Article IV/Programme documents were first keyword searched for references to 'inequality', 'equality', 'distribution' and then were read in detail. Particular emphasis was given

to the sections which contain the Executive Board assessment and commentary, Staff Appraisal, discussions of ‘risk’ and the Country Authorities’ own comments. Comparison of these might illuminate, for example, differences or similarities of emphasis between the priorities of the EB, operational staff and country authorities. The documents were also read to identify what proportion of the policies to reduce inequality in high profile documents (1) appear, especially when compared to the standard prescription of fiscal discipline. The results of this are summarised in Figures 2-4 and the relevant discussion below.

4. Even if operational guidelines have been changed to reflect a new commitment to reduce inequality and recent policy advice also reflects the mix of policies identified by the Fund as reducing inequality, it could be suggested that there is no real change in policy advice. This might be the case if policy advice had always reflected this concern. This is important to investigate, on the grounds that prior interview data and IMF documents suggest that a concern with the effects on inequality of IMF policy advice have to some extent shaped operational policy with member states since the 1980s (IMF 2014a: 5; Nunn 2015). Analysis of change over time within the advice offered to those member states included in the sample at (3) offers one way of assessing this claim on its own terms, but also the related issue of whether there is any specific recent change. As such, for countries in the sample, we also repeated the exercise at (3) for the immediately prior Article IV consultation or Programme Reviews, where relevant.

Findings: high level policy rhetoric, changing operational guidelines and recent policy advice to member states

The Fund’s Recent High Profile Statements on Inequality

Several recent papers from the IMF discuss the links between policy and inequality (Dabla-Norris *et al.* 2015; IMF 2014a; Ostry *et al.* 2014). IMF (2014a) shows that redistributive fiscal policy in advanced countries typically offsets around a third of market or original income inequality, that this redistribution is often effective over the life course rather than between wealthy and poor households *per se*, and that the effects of this redistribution have weakened as market inequality has grown. The paper

distinguishes between policies in 'Advanced' and 'Developing' economies. In advanced economies the report argues that there is persuasive evidence that "fiscal policy has played a significant role in reducing income inequalities", particularly in relation to welfare and pension transfers (15). This then leads to the rather obvious conclusion that progressive income tax and redistributory social policy spending can reduce inequality. Two further high level considerations are suggested in relation to fiscal policy. Corporate taxation is regarded with some scepticism as it is argued that the scope for capital mobility means that the burden of corporate taxation is effectively passed on to less mobile labour. In addition, indirect taxation and spending are regarded differently; with the former being regressive and the latter being more progressive. In relation to developing economies the report suggests that the redistributory effects of fiscal policy are often limited because of the generally low levels of tax and spending on social programmes and transfers. The report also notes some of the complexities of fiscal policy, and social spending in particular, in developing countries; with the equality effects of in-kind transfers such as public services being strongly dependent on detailed issues of policy design and accessibility. The report then goes on to arrive at a list of 18 policies that might result in beneficial redistribution in advanced economies and 21 policies (some overlap) which might have similar effects in terms of developing countries (see Figure 1).

Dabla-Norris *et al.* (2015) undertake a simple analysis of within country variation in inequality, focussing on the contribution of a number of factors drawn from the wider literature which might be thought to impact on inequality. The analysis suggests that overall labour market flexibility has the broadest impact on increasing inequality, followed by financial deepening, technological change and financial openness. The contribution of increasing pay returns to skills, financial globalisation, technological change and financial deepening was reported as different for advanced and emerging market economies. Turning this analysis into policy advice, they suggest that country specific approaches are clearly most appropriate, but that fiscal policy can promote effective redistribution that does not have to harm growth; that education policies to facilitate adjustment to technological change and financial inclusion can all help reduce inequality. Active Labour Market Policies are also recommended for advanced economies, as is reducing informality for emerging market economies.

Figure 1: Policies to Reduce Inequality Identified by the IMF

Policies which reduce inequality	Advanced Countries	Developing Countries
Improve fiscal sustainability of existing pension systems – increasing retirement ages	X	X
Tighten link between social contributions and receipts		X
Expand non-contributory means-tested pensions		X
Expand means-testing of family benefits and strengthen work incentives		X
Intensify use of ALMPs and in work benefits to promote transitions	X	
Develop unemployment savings accounts	X	
Consolidate social assistance programmes and improve targeting		X
Replace general price subsidies with targeted transfers		X
Expand conditional cash transfer programmes	X	X
Improve design of public works as a safety net employment provider with below market wages.		X
Improve access to education of low-income families	X	X
Increase private financing of tertiary education	X	X
Maintain access of low-income groups to essential health services	X	
Expand coverage of publicly financed basic health package		X
Implement progressive Personal Income Tax (PIT) rate structures	X	X
Relieve low-wage earners from tax or social contributions	X	

Policies which reduce inequality (cont.)	Advanced Countries	Developing Countries
Expand coverage of the PIT		X
Reconsider income tax exemptions, based on a critical tax-expenditure review	X	X
Impose a reasonable PIT exemption threshold		X
Tax different types of capital income in a neutral manner	X	
Develop more effective taxation of multinationals	X	X
Automatically exchange information internationally	X	X
Utilize better the opportunities for recurrent property taxes	X	X
Examine scope for more effective taxes on inheritances and gifts	X	
Minimize VAT exemptions and special VAT rates	X	X
Set a sufficiently high VAT registration threshold	X	X
Use specific excises mainly for purposes other than redistribution	X	X
Policies which might increase inequality		
Fiscal consolidation – but possible to minimize by balancing spending cuts with tax increases, ensuring progressivity and targeting distributional effects		
Reduced labour market regulation	X	X
Decline of organized labour	X	X
Rising income premium to higher skills.	X	X

Source: IMF 2014a, except the final three lines which are from Dabla-Norris *et al.* 2015.

The purpose of summarising these policies here is not so much to subject them to critique or alternative interpretation of their impact on inequality, but to draw out a list (see Figure 1) of what the IMF *itself* advocates in terms of policies that might reduce inequality. While these are discussed in terms that stress their connection to fiscal policy, the recommendations are much broader, straying into areas of social and labour market policy. These recommended policies to reduce inequality can now be used to assess the extent to which IMF operational guidelines for staff, and the policy advice that those staff and the Executive Board recommend to member states, reflect policies that the IMF itself suggests result in either reductions or increases in inequality.

Changing Operational Guidelines Since 2011

When working with member states, IMF staff are guided by a series of operational guidelines. There are separate procedures for the conduct of surveillance activities and programmes with borrower countries. This section documents the evolution of these two sets of procedures. The purpose of this discussion is four-fold: (1) to evaluate how far changes to these guidelines have taken on board the apparent new focus on inequality; (2) the extent to which these considerations have been present over time; (3) the leeway that the Operational Guidance offers staff to interpret the guidance independently; and (4) to meet country specific dynamics, including the extent of, and change in, the degree of inequality in individual member states.

The processes for surveillance activities are subject to regular reviews, most recently in 2011 and 2014. The 2011 review was undertaken in the context of the global financial crisis. A prominent concern was the way that IMF surveillance had failed to effectively address global imbalances, which, figures connected with the fund were by then suggesting, were central to the cause of the crisis and future vulnerabilities (*e.g.* Rajan 2011). The review therefore focussed on inter-connectedness and weaknesses in IMF surveillance of state policies, especially larger countries who are both more systemically significant and with whom the Fund has less leverage (for *e.g.* see Stiglitz 2011). The resulting changes clearly prioritised international financial stability and strengthened the risk assessment procedures included in Article IV surveillance (IMF 2012b) but did also mandate surveillance activities to be guided by

member states' own economic policy objectives and "take into account the member's other objectives and shall respect its domestic social and political policies" (IMF 2012a: 8).

The 2014 review of surveillance activities was still conducted in the lengthening shadow of the ongoing crisis and continued to focus on the importance of domestic policies for overall systemic stability. It was noted that the relationship between structural policies and macro-economic stability was significant and that this required greater cooperation with other multi-lateral organisations such as the ILO, OECD and World Bank. It is also interesting that in contrast to some recent academic research which found that post-crisis IMF Policy Advice in borrowing countries had narrowed (Broome 2015), member states wanted a broader focus on structural policy in Article IV surveillance, including social protection and labour market policy (IMF 2014c). The Managing Director's Action Plan arising from the 2014 review recommended that labour market policy in particular should be more prominent in IMF surveillance reports "reflecting the shared challenge of achieving more durable, job-rich and inclusive growth" (IMF 2014d: 6). While the Action Plan does suggest that guidance on Article IV Surveillance missions will be updated and that this will support the link between structural policies and macro-economic risk reduction in IMF policy advice, inequality is not mentioned in the review. This was despite the Review concluding at about the same time as the Managing Director's Global Policy Agenda which identified inequality as one of a number of structural issues which threatened stability.

The Operational Guidelines which shape policy advice to borrowing countries have also gone through various phases of reform, the most recent becoming operational in June 2015. The IMF's guidelines on conditionality were reviewed in 2002 and 2009, and then guidance on the operational interpretation and application of these guidelines was reviewed in 2011-12 and new guidance (effectively guidance on the guidance) was issued in 2014. The 2002 review was set against the criticism of the Fund's handling of the Asian Crisis and the wider criticism then apparent of globalisation and international institutions. The intention was to streamline conditionality, narrowing the scope of IMF policy advice to focus only on the core competences of the Fund (IMF 2002). That said, many commentators – and the IMF evaluation office – concluded (in 2007) that in practice the scope for staff discretion meant that conditionality remained broad (Best 2012). In the light of the 2008

crisis, the IMF has reviewed practices in relation to conditionality on several occasions. The 2009 review was undertaken in the context of broadening the number and type of programmes offered by the Fund to enhance crisis management capacities – particularly the introduction of the Flexible Credit Line and Precautionary and Liquidity Line, both of which required revised conditionality arrangements to enable ‘ex ante’ conditionality based on prior policy performance. A further review in 2012 looked at the use of conditionality since the 2007 IEO report and resulted in the introduction of new guidance on the application of conditionality in 2014. The Revised Operational Guidelines to IMF Staff on the 2002 Conditionality Guidelines, makes very little reference to concerns with distribution or inequality. Indeed, the word ‘(in)equality’ does not feature in the document and distributional issues are mentioned explicitly only once:

in helping the authorities to design a Fund-supported program, staff should (i) seek the views of country authorities early and make every effort to accommodate their preferences and policy choices—including on growth, labor market and distributional targets—where possible, subject to consistency with resolving balance-of-payments problems, macroeconomic stability, and all other program goals—and (ii) follow program preparation and review processes that can facilitate reflection on the links between program goals, strategies, and conditionality (IMF 2014b: 6; emphasis added).

Here the reference is to ‘jobs and growth’ or ‘macro-social issues’. Footnotes say that the guidance should be read in conjunction with the ‘Guidance note’ on *Jobs and Growth: Issues in Surveillance and Program Work* (IMF 2013b) which in turn offers staff guidance on the conclusions from an Executive Board paper on *Jobs and Growth: Analytical and Operational Considerations for the Fund* (IMF 2013a).

IMF staff seeking information on how to adopt the high level focus on inequality in their work with borrowers must first read the 2014 guidance on the 2002 guidance, and then follow a footnote to a separate document which itself must be read alongside a separate document summarising the concerns. This contradicts the image of inequality as ‘the defining challenge of our time’.

Turning to the content of these documents, the guidance note suggests that Fund staff should improve policy advice in a number of areas, e.g.:

More systematic integration of policy advice on reforms of tax and expenditure policy to encourage (i) higher labor force participation,

including by women; (ii) stronger job creation; (iii) progress in reducing inequalities in income distribution; and (iv) more effective protection for the most vulnerable (1).

However, the guidance note quickly suggests that there may be trade-offs between growth, jobs and a more equal income distribution and where this is the case, 'staff's policy advice in surveillance and program contexts should generally prioritize growth' (3) and '...When recommending measures to support a more equal income distribution, staff and policy makers need to be mindful about preserving the incentives that underpin individuals' willingness to expend effort...' (4).

So while inequality is accepted as a potential challenge to growth, the guidance is clear that this is a secondary and subordinate consideration. The mandate of Fund staff should be interpreted as remaining consistent with the objective of increasing and sustaining growth and macro-economic stability. There is considerable discussion of inequality but some of it appears much less certain about the benefits of reducing inequality than the high level documents discussed above. Staff are advised to include consideration of inequality and income distribution issues in relation to their initial discussions with national authorities in both surveillance and programme discussions. However, income distribution issues are frequently discussed in ways that question the evidence of the links between inequality and growth.

Further, policies are recommended which in the wider research are argued to increase inequality. For example, the guidance recommends putting downward pressure on wages across the economy; using public sector pay containment to suppress wages in the private sector. Similarly, the guidance suggests that 'Income taxes and social contributions have the most adverse effects on growth' (20); contradicting the policy recommendations on inequality cited above. Elsewhere in the document a more nuanced picture is presented about the design of fiscal policy, recommending greater progressivity in income tax and targeting of social transfers. All that said, the message is substantively consistent: inequality *can* reduce growth; redistribution *might* be positive for growth; promoting employment is to be encouraged while containing wage growth and ensuring that poverty at the bottom of the distribution does not lead to counter-productive (to growth) behaviour among the poor. Overall, in the staff guidance the commitment to reducing inequality is certainly less clear cut than that suggested in high profile speeches and

policy publications, and is clearly secondary to concerns with growth and/or fiscal discipline.

IMF Policy Advice to Member States Since the Change in Operational Guidelines

The policies listed in Figure 1 are used in this section as a means of establishing the extent to which policy advice to member states reflect the high profile commitment to reducing inequality. If IMF policy advice produced since the change in operational guidance (effective from June 2015) appears to promote policies which it recommends as reducing inequality, then we will have some greater evidence on which to conclude that the recent high level commitment goes beyond rhetoric. Conversely, if we find that IMF policy advice contains policies which it regards as increasing inequality and that inequality reducing policies are absent, then there is some evidence to support the opposite conclusion.

We undertook a review of policy advice to different member states who have concluded Article IV or programme negotiations with the IMF since the change in operational guidelines discussed above. While the limited passage of time since the change in operational guidelines constrains the size of the possible sample of countries, we have so far been able to review policy advice to eleven countries (as set out in Figure 2).

The sample of borrowing countries covers all seven member states who had concluded new borrowing arrangements with the Fund between the change in operational guidelines becoming effective and the time of writing in early May 2016. There was more choice among surveillance countries because of the greater regularity of Article IV reviews. The countries chosen: the United States, United Kingdom, Brazil and China, reflect a range of different countries (including advanced/developing) but all have relatively high levels of inequality and all are arguably of systemic significance. Between surveillance and borrower countries in the sample, there is clear variety in the capacity and power relative to the IMF. While it is sensible to think that policy advice is likely to have more traction with smaller countries and borrowers, whether or not the policies are implemented is not necessarily a measure of how genuine the IMF's commitment to reducing inequality is. As such, the full sample can be read on an equivalent basis when addressing that element of the research.

Figure 2: Sample of IMF Lending to Programme Countries since June 2015

	Kenya		Colombia	Kosovo	Sao Tome & Principe	Guinea Bissau	Mozambique
Programme	Stand-by Arrangement and Credit Facility		Flexible Credit Line	Stand-by Arrangement	Extended Credit Facility	Extended Credit Facility	Standby Credit Facility
Programme Dates	03/2016-03/2018	06/2015-06/2017	06/2015-06/2017	07/2015-05-2017	07/2015-07/2018	07/2015-07/2-18	12/2015-06/2017
Amount (000s, SDRs)	709,259 354,629	3,870,000	3,870,000	147,500	4,440	17,040	204,480
HDR Indicator/Ranking	0.548/145	0.720/97	0.720/97	N/A	0.555/143	0.720/178	0.416/180
GDP Per Capita (USD), from Prog. Document	1,417 (2014)	7,928 (2014)	7,928 (2014)	3,559 (2014)	3,023 (2014)	639 (2014)	624 (2014)
Poverty Rate MDG	43.4%	5.6%	5.6%	N/A	43.5%	48.9%	60.7%
Debt as % GDP (Gross, from IMF Prog. docs)	48.1	44.3 (2014)	44.3 (2014)	16.7 (2014)	74.5 (2014)	49.8 (2013)	56.6 (2014)

Source: IMF 2016, *IMF Lending Arrangements as of March 31 2016*
<http://www.imf.org/external/np/fm/had/xtarr-11.aspx?memberKey1=ZZZZ&date1key=2020-02-28>.

The policy discussion and advice in these documents is revealing. Relatively little discussion of inequality concerns is present in any of them (see Figure 3 and Annex I). Where it is present, this is usually in very passing references. Inequality also appears to be more likely to be discussed in Article IV papers than in programme reviews. One possible explanation for this might be that this reflects the policy preferences of country authorities and their greater ability to press for their own domestic objectives to be reflected. Where inequality is mentioned in these documents, this is mainly in passing and some surprising commentaries are present, again suggesting that the references are there at the behest of country authorities. For example, positive comments are made about reductions in inequality in Brazil, despite it having a very high level of inequality and recently witnessing urban unrest related to inequality. Similarly, the UK government is praised for monitoring the distributional effects of austerity policies, though prevailing domestic opinion on UK austerity would be somewhat more critical of the distributional effects themselves as opposed to mere measurement activity. No mention is made whatsoever of inequality in China, though the impressive economic growth of recent decades is widely noted to have realised rapidly increasing inequality, raising the prospect of social tension. Indeed, the only place in the Article IV report where inequality is mentioned is by the Chinese Executive Director who comments on urban-rural divides, but not on new urban inequalities, the plight of migrant workers in urban environments or industrial tensions around wage repression.

The absence of discussion about distributional issues may reflect Fund staff staying closer to their specific brief of exchange rate, monetary and fiscal policy than the more expansive policy advice dispensed in previous times, but it also suggests that inequality is at best a second order consideration when it comes to programmes and reviews.

Figure 3: Comparison of Discussion of Inequality in Article IV Documents in Surveillance Countries

	Article IV Papers			
	US	UK	Brazil	China
Gini Level (date)	0.4 (2013, OECD).	0.35 (2012, OECD)	52.9 (2013, World Bank)	0.47 (2014, National Statistics)
Gini Change 5 years	+0.2 5 years	-0.1 5 years	-1.5 5 years	-0.2 5 years*
policies which reduce inequality	10/18	1/18	0/21	3/21
Fiscal consolidation	Yes	Yes	Yes	Yes
Inequality Mentioned in EB Assessment	Yes	Yes	Yes	No
Inequality mentioned in staff appraisal	No	No	No	No
Inequality mentioned in risk matrix	No	No	No	No
Summary	Ineq. mentioned in EB appraisal as a 'challenge'	Ineq. Mentioned in view of govt. monitoring of impacts of austerity	Ineq. Fallen over last decade bc social programmes.	N/A
Sources	IMF 2015j	IMF 2014f	IMF 2015k	IMF 2015l

Looking at the policies recommended (see Annex II) is also revealing. The country where recommended policies fit most closely with the outline of policies prescribed for inequality reduction is the US. It may well be that this reflects more the views of the national authorities than the Fund itself. Outside of this, the policies suggested are much less frequently present in those recommended to member states. Indeed, while the traditional recipe of fiscal consolidation is recommended in all countries in the sample, very few of those policies that the IMF recommend to reduce inequality (see Annex II) are mentioned at all. Where these policies are recommended to borrower countries, the most prominent could also be interpreted as being concerned as much with fiscal consolidation as reducing inequality ('consolidate social programmes and improved targeting') and also reflect the clearly growth-oriented concern to 'expand educational enrolment' (a commitment that was part of the Millennium Development Goals for more than 15 years now in any case). Add to this, the frequent exhortations to reform social programmes to contain state spending and to suppress wage growth, and the reader is left wondering what, if any, change in priorities there has been as a result of the fanfare over the Fund's new high profile commitment to reducing inequality.

That said, there is some evidence that the very limited prominence of inequality in recent IMF Programme documents represents slow progress in increasing the systemic consideration given to inequality in the Fund's work with member states. When comparing with the immediately prior programme documentation for borrower countries it was clear that inequality had been even less of a concern prior to the change in operational guidelines. It is perhaps too early to conclude definitively, but this might suggest that there are marginal signs of a slow and limited change in emphasis.

Discussion: the significance of IMF policy advice on inequality

There are many different perspectives on the work of international organisations, and the IMF has been perhaps both one of the most studied and most criticised. The early commentary on international organisations like the IMF in critical IPE tended to take the line that these organisations were part of the establishment of a quasi-constitutional

neo-liberal institutional structure above the state which sought processes of 'lock-in' through their institutionalised linkages with member states (Gill 1998). Other materialist scholars have associated the institutions of global economic management with a project to expand the world market, attempting also to solve problems attendant to that project (Cammack 2001 2004). In that critique, the turn to the 'post-Washington Consensus' in the early 2000s represented a recognition of the risks and problems associated with markets and market failure, and a corresponding attempt to cope with these (Cammack 2009, 2012).

More recently a range of broadly critical but more constructivist scholarship has sought to show how the ways in which international organisations like the IMF construct their 'cognitive authority' is crucial to understanding their attempts, successes and failures to secure the implementation of their policy advice within member states (Broome and Seabrooke 2007, 2012).

One similar line of discussion in this tradition and which is relevant to our paper is the 'organised hypocrisy' thesis developed by Weaver (2009) and others (Kentikelenis *et al.* 2016). Weaver's work, which focuses upon the activities of the World Bank, highlights 'mainstreaming gaps', or discrepancies between what the Bank claims are its priorities (alleviation of poverty and socioeconomic development) and what it actually does to pursue these goals, resulting in 'organised hypocrisy'. Such an analysis might explain our own findings and the discrepancy between high level pronouncements and the structure and content of policy advice. This might arise especially from the tensions between environmentally influenced goals (such as the recognition that high levels of inequality are systemically destabilising) and the internal organisational culture, with its entrenched ideologies, norms, and standard operating procedures. Indeed, Gronau and Schmidtke (2016) apply similar arguments to the IMF. They argue that the IMF is undergoing a 'legitimacy crisis' flowing from the negative consequences of loan conditionality for employment, poverty, and social stability. They go on to argue that the IMF's 'public legitimisation strategies', which emphasise poverty reduction, social security, and democratic participation, are seen by IMF staff as being in conflict with the Fund's identity and purpose, and constituting an inappropriate expansion of the IMF's mandate towards more political issues. This tension between the externally influenced 'legitimisation strategy' publically adopted by the IMF and the organisation's strongly entrenched internal bureaucratic

culture could lead to a situation of ‘organised hypocrisy’ similar to that identified by Weaver in the World Bank. Similarly, a recent paper by Kentikelenis *et al.* (2016) suggests that ‘organised hypocrisy’ explains the difference between IMF rhetoric and the content of policy conditionality and advice. This would help to explain our own findings and provide an insight into the root causes of the disconnect between the IMF’s high level pronouncements on reducing inequality and the far more limited practical action taken to that end.

Here the attention is much less on the macro-global policy frameworks that they deploy and more on the inner workings of international organisations themselves and the means by which particular policy paradigms are transferred from international organisations into member state policy. In this latter conception, it is a mistake to identify simplistic patterns of coherence between international organisations or simple policy convergence within member states at their hands. That said, these scholars do see important processes by which international organisations mobilise indirect ideational power, leading to policy changes within their member states.

The central theme of this paper cuts across these different perspectives. That several international organisations have adopted both the concern with systemic risk management and the perception of inequality now being a ‘negative risk’ (Cammack 2012; Nunn 2015) in systemic terms, is, of course, notable itself. But to make sense of this, it is necessary not just to enquire about the internal processes by which inequality came to be framed as a policy problem. Rather it is necessary to enquire into the specific historical conjuncture; the material processes and social struggles within which this has occurred. The organised hypocrisy thesis might help explain the gap between the Fund’s rhetoric and practice. A ‘soft’ interpretation of the rhetoric/practice gap might merely be that the rhetoric helps to offset criticism and provide legitimisation for a continued commitment to neo-liberalisation. However, while we cannot fully substantiate this claim, we are tempted to go further. It may be no accident that leading IOs have come to worry about managing global risks. The current conjuncture is one at which systemic risks are becoming more prominent precisely because the system is reaching its spatial, social and ecological limits. If risks cannot be offset through deferring them in time and space, then they are likely to become amplified (Jessop 2015). As Cammack (2014, 2015) persuasively argues, the current point in the history of capitalism as a world system is marked

by the proximity – if not yet the reality – of the completion of the world market, at which point that system may become more unstable and crisis prone, requiring more than mere rhetorical legitimisation. A ‘harder’ interpretation therefore might be that the commitment to manage these risks is genuine – more than rhetoric – but that there are institutional barriers to this being adopted in relation to policy and practice implementation.

With this context in place the explanatory problem then shifts to precisely how inequality might be ‘framed’ as a material and systemic problem. Here the constructivist literature with its emphasis on the way that international organisations seek to diffuse policy ideas can help. The discussion of inequality in key IMF strategic policy publications has a heavy reliance on research papers produced by IMF staffers as well as research by the World Bank and particularly the OECD, which has arguably led the way among international organisations on this issue. It is notable then that the Fund is only one of a number of organisations, including less formal agenda setting elite forums such as the World Economic Forum, to be now legitimating and framing inequality as a policy problem from the perspective of promoting and sustaining world market integration. Interview data with Fund staff suggests that though emergent, this framing represents a genuine commitment to reduce inequality rather than being mere rhetorical legitimisation.

However, it seems that this policy problem has not fully diffused through the institutional structure. Inequality is less clearly seen as a problem either in the evolving operational guidelines for IMF staff or the policy advice administered to member states. Moreover, where it features at all at these more operational scales, inequality appears to be subordinate to concerns with growth and fiscal consolidation. Institutional barriers and internal struggles might have been important in blocking the transfer of the high level rhetorical commitment from translating into policy advice to member states. Indeed, this might be no particular surprise. It may be that the commitment of the MD and senior staff has yet to be taken up by the professional economists who dispense policy advice to member states through Article IV and programme discussions. Best (2012) notes that previous changes to operational guidelines have sometimes been resisted by staff who are uncomfortable with stepping beyond the boundaries of their professional training. Not only do many of the inequality-reducing policies lie outside of the Fund’s traditional competences in relation to fiscal and monetary policy, but also, as one senior IMF official suggested

to us in an interview, the recent high level commitment to reducing inequality ‘breaks one of the ten truths that all economists know’. Such ideational and institutional barriers to reorientation may both mean that any change of emphasis in policy advice regarding inequality will be slow, and that the Fund’s capacity to act as a systemic risk manager in the decades to come is significantly constrained by such internal rigidities.

While not explicitly intended to achieve this, the evidence above might also contribute to some of the wider debates on IMF policy advice in the contemporary literature. It suggests that there may once again be some broadening of the IMF’s policy advice, counteracting the narrowing of Fund advice over the last decade (Broome 2015). The policies recommended by the Fund to reduce inequality stray far outside of fiscal and monetary policy. They also suggest the promotion of a more sophisticated policy agenda of neo-liberalisation akin to the hybrid and context sensitive interpretation offered by Brenner *et al.* (2010), than the more simplistic ‘Washington Consensus’ prescriptions. Following this, the way that the discussion of inequality occurs in borrower and non-borrower policy advice also suggests that there is scope for flexibility, ownership and influence of IMF policy advice by country authorities, especially among more powerful non-borrowers.

Conclusions

The paper addresses a largely empirical question related to the IMF’s recent high profile statements on the importance of reducing inequality. These are somewhat at odds with the Fund’s hitherto reputation as an organization that is unconcerned with inequality and committed to a reform agenda of neo-liberalisation. Indeed, it might easily be argued that policies that the Fund has previously recommended have contributed to the increased inequality that it now, apparently, sees as a problem. As such, it is interesting to explore how significant the espoused commitment to reducing inequality actually is, by assessing the extent to which this commitment is reflected in recent changes in operational guidelines and the policy advice given to member countries. The data collected here suggests that the concerns expressed in high profile policy statements are not wholly carried through to operational guidelines and practice. Given the long-term connection of the IMF with neo-liberalisation, this is perhaps unsurprising.

While this series of steps in the collection and analysis of data is able to explore how genuine is the IMF's commitment to the 'new politics of inequality', a number of important limitations remain. First, we cannot fully explain why there is an apparently greater commitment to reducing inequality at a strategic policy scale and a much more muted commitment at more operational scales. Instead, we are limited to offering *possible* explanations related to organised hypocrisy, internal struggle and institutional inertia. Second, we cannot assess the extent to which this policy commitment – to the extent that it exists – is actually implemented in practice by member states themselves. Third, we are not able to assess whether non-implementation reflects 'policy slippage' or merely tacit and unwritten arrangements between the Fund and member states that some policy commitments should be taken more seriously than others, regardless of what is written in programme documents. Since IMF policy advice has been interpreted as sometimes opaque and informal (Best 2012), this may be significant. Further research should therefore address these limitations.

Several avenues for future research are suggested by this analysis. The sample of borrower countries involved in the type of analysis of policy advice conducted here should be broadened. Change over time should be considered in the process as the new operational guidelines bed in. Further, at least two lines of enquiry for interview-based research are suggested by the discussion. First, it would be useful to explore why the reviews of operational guidelines were not more fully shaped by the high level policy pronouncements on inequality. Second, it would be useful to explore why Article IV reports and Programme Agreements and reviews act on or ignore the guidance on inequality that is present in these guidelines. This would involve discussions with EB members, IMF staff and Country Authorities in relation to a sample of Article IV and Programme negotiations.

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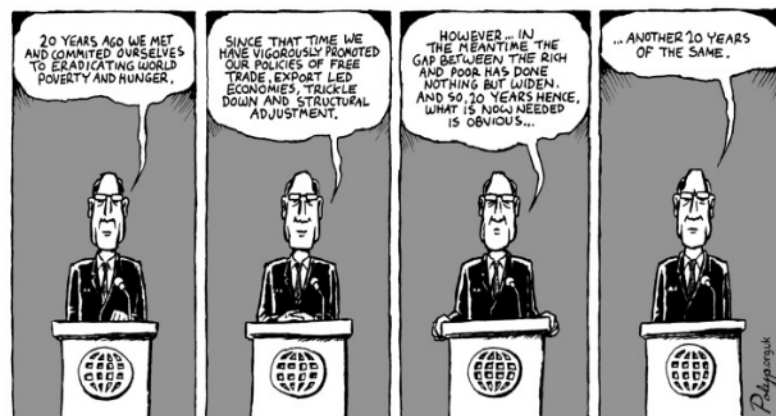
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'MORE'

Annex I: Comparison of Discussion of Inequality in Programme Documents for Borrowing Countries

	Kenya	Colombia	Kosovo	Sao Tome & Principe	Guinea Bissau	Mozambique
Gini Level (date)	0.48 (2005-2013, UNDP)	0.535 (2005-2013, UNDP) (2013, World Bank)	N/A	0.339 (2005-2013, UNDP)	0.355 (2005-2013, UNDP)	0.457 (2005-2013, UNDP)
Gini Change 5 years	N/A	0.025 (from 0.56 in 2008, World Bank)	N/A	N/A	N/A	+0.001 (from 0.456 in 2008, World Bank)
No. of policies reducing inequality	0/21	4/21	4/21	5/21	4/21	1/21
Fiscal consolidation	Yes	Yes	Yes	Yes	Yes	Yes

EB Assessment mentions inequality?	No	No	No	Yes	Limited references	Limited references
Inequality mentioned in staff appraisal?	No	No	Limited references	Limited references	Yes	Limited references
Inequality mentioned in discussion of risk?	No	No	No	No	No	No
Inequality mentioned by country authorities?	No	No	Limited references	Yes	Yes	Limited references
Commentary	Staff appraisal mentions 'inclusive growth' & that fiscal discipline	National authorities and IMF both strongly emphasised fiscal consolidation.	Fiscal consolidation and economic growth main concern of both country authorities and IMF. Cuts / limits	Country authorities emphasise financial consolidation and economic growth, but also	Staff appraisal makes some mention of 'financial inclusiveness', improvements to infrastructure and	Authorities mentioned 'inclusive growth' and poverty reduction but mainly emphasised fiscal

Commentary (cont.)	might enable social spending but this is unspecific and lacks detail. Inequality in Kenya is not discussed anywhere in the programme documents.	Very brief mention of 'inclusive growth' by EB appraisal, but no detail. Otherwise no mention of issues pertaining to inequality.	to public sector wages targeted. Some limited mention by country authorities of social goals, <i>e.g.</i> increasing employment, especially for poor and women, some modest increases to welfare. Staff appraisal makes brief references to 'inclusive growth' and 'inclusive and sustainable development'.	poverty reduction strategy and public investment, 'inclusive growth', extension of social services and social protection programmes. EB statement and staff appraisal emphasise fiscal consolidation and economic growth, but mention poverty reduction and social spending.	education, and discussion of 'inclusive growth', but main concern economic and political stability and fiscal consolidation. Some mention of poverty reduction and 'inclusive growth' in EB statement. Job creation and poverty reduction are stated key objectives of the country authorities.	consolidation, controlling inflation and GDP growth. Wage reductions / controls planned. EB made brief mention of 'inclusive growth'. Staff appraisal also made brief mention of 'inclusive growth'.
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Commentary on comparison with immediately prior IMF Programme Document (Cont.)	Inequality was mentioned in the SBA/SBC agreement in Feb 2015 as a priority of the Country authorities.	Previous FCL arrangement was established in 2009 and renewed in 2010 and 2013. 2013 renewal document contained some limited references to reducing inequality, e.g. through tax reform.	SBA arrangement set up in 2012. No mention of inequality in programme documents.	Three-year ECF arrangement from July 2012. Staff, EB and country authorities mentioned poverty reduction strategy in programme documents.	RCF arrangement in November 2014. Poverty reduction strategy emphasised in programme documents.	Three year PSI agreed in 2013. Poverty reduction strategy was a target along with macroeconomic stability.
Sources	IMF 2015a; 2016a	IMF 2013c; 2015b	IMF 2012c; 2015e; 2015f	IMF 2012d; 2015h; 2015i	IMF 2014e; 2015c; 2015d	IMF 2013d; 2015g; 2016b

Notes: EB is Executive Board; UNDP is United Nations Development Programme; SBA is Stand By Arrangements; SCF is Standby Credit Facility; ECF is Extended Credit Facility; RCF is Rapid Credit Facility; PSI is Policy Support Instrument; FCL is Flexible Credit Line.

Annex II: Policies Recommended to Sample Borrower Countries

Policies which reduce inequality	Advanced Countries	Developing Countries	Colombia	Kosovo	Sao Tome & Principe	Guinea-Bissau	Mozambique
Improve fiscal sustainability of existing pension systems – increasing retirement ages	X	X		X*			
Tighten link between social contributions and receipts		X					
Expand non-contributory means-tested pensions		X	X				
Expand means-testing of family benefits and strengthen work incentives		X					

* No cut to retirement age – but cuts to pension benefits and beneficiaries

[illegible]

Maintain access of low-income groups to essential health services	X						X	X	
Expand coverage of publicly financed basic health package		X							
Implement progressive Personal Income Tax (PIT) rate structures	X	X							
Relieve low-wage earners from tax or social contributions	X								
Expand coverage of the PIT		X							
Reconsider income tax exemptions, based on a critical tax-expenditure review	X	X					X		
Impose a reasonable PIT exemption threshold		X							
Tax different types of capital income in a neutral manner	X								

Develop more effective taxation of multinationals	X	X	X				X		
Automatically exchange information internationally	X	X	X						
Utilize better the opportunities for recurrent property taxes	X	X	X						
Examine scope for more effective taxes on inheritances and gifts	X								
Minimize VAT exemptions and special VAT rates	X	X	X		X		X**		
Set a sufficiently high VAT registration threshold	X	X	X						
Use specific excises mainly for purposes other than redistribution	X	X	X						

*** Introduction of VAT system for first time.

Policies which reduce Inequality	Advanced Countries	Developing Countries	Colombia	Kosovo	Sao Tome & Principe	Guinea-Bissau	Mozambique
Fiscal consolidation, but possible to minimize by balancing spending cuts with tax increases, ensuring progressivity and targeting distributional effects			X	X	X	X	X
Reduced labour market regulation	X	X					
Decline of organized labour	X	X					
Rising income premium to higher skills	X	X					

Sources: As in Figure 3 and Annex I.

REVIEW ESSAY

YANIS VAROUFAKIS ON GLOBAL IMBALANCES

Gavan Butler

Yanis Varoufakis

**The Global Minotaur: America, Europe and the Future
of the Global Economy,**

Zed Books, London, 2015, pp. 280, paperback edition, \$28.95.

Yanis Varoufakis

**And the Weak Suffer What They Must? Europe,
Austerity and the Threat to Global Stability,**

The Bodley Head, London, 2016, pp. 318, paperback edition,
\$35.00.

This review is an attempt to crystallise the central arguments of two recent books by Yanis Varoufakis. The books contend (a) that the world needs mechanisms to transfer (or re-cycle) surpluses generated in some parts of the world or regions to other parts and (b) that it has not been well-served by the way the institutions of global capitalism have functioned in this exercise, specifically since the Second World War. This review will argue, among other things, that a weakness of both books, particularly the second, is their scant acknowledgement of the Global South.

**Butler, G. (2016),
'Book Review Essay: Yanis Varoufakis on Global Imbalances'
Journal of Australian Political Economy
No. 78, pp. 232-42.**

In January 2015, Yanis was elected to the Greek parliament and immediately became the minister of finance in the first Syriza government of Alexis Tsipras. After he left office and then declined to stand again for parliament, he completed writing the books under review (actually the third version of *The Global Minotaur*) in which he pursued the theme of the critical importance of surplus recycling mechanisms. This year Yanis has been working with comrades in the DIEM25 (Democracy In Europe Movement 2025) and most recently, in this context, he had a lot to say about the 'Brexit vote', the plebiscite in Britain on the question of whether the British parliament should decide that Britain leave the European Union. It is difficult to keep track of Yanis these days, almost as hard as it was during his stint jumping on the toes of Europe's other finance ministers while serving as Greek finance minister (for the period January to August 2015).¹

The Minotaur

It would be sensible, early on, to clarify, firstly, just what the original (Minoan) minotaur was and, secondly, the origin of the first part of the title of Yanis' 2016 book. The Minoan minotaur is a mythical beast that resulted from the coupling of the wife of King Minos of Crete with a magnificent bull that had been given to the king. The progeny was wild and uncontrollable; but some degree of control was afforded by confining it to a maze and regularly feeding it live adolescent humans. Yanis with Joseph Halevi re-birthed the Minoan minotaur back in 2003 when they developed their narrative of the importance of *The Global Minotaur* as a global surplus-recycling mechanism in an article published in *Monthly Review*,² and Yanis went on to put more flesh on the beast in three versions of a book with that title in 2011, 2013 and 2015. It is no surprise

¹ Yanis seems to be everywhere. He has been back here in Sydney in conversations with other writers as part of the Sydney Writers' Festival and delivering lectures at The University of Sydney where he was an academic from 1989 to 2000 (see the *Journal of Australian Political Economy*, <http://australianpe.wixsite.com/japehome/current>, for the transcript of the lecture of late 2015). He has been frequently in conversation with Noam Chomsky and Owen Jones and countless others to whom reference is made on page after Googlian page.

² Halevi, J. and Y. Varoufakis (2003), 'The Global Minotaur', *Monthly Review*, July-August.

that someone of Cretan background, as Yanis is, would want to recruit the minotaur into the telling of his story. As to the words of the first part of the title of Yanis' 2016 book, these come from a sentence written by the Athenian historian Thucydides in his *Melian dialogue*. The sentence reads '[r]ight, as the world goes, is only in question between equals in power, while the strong do what they can and the weak suffer what they must'.³

The following sentence identifies baldly the connection Yanis makes between the two books: 'Europe is disintegrating because its architecture was simply not sound enough to withstand the shockwaves caused by our Minotaur's death throes' (*The Global Minotaur*: 237). To appreciate the 2016 book, then, it is necessary to understand what the 'global minotaur' is (was), what its role was up until the Global Financial Crisis of 2008 and what brought about its demise (or near-demise)?

The International Monetary System Established at Bretton Woods

After World War II, at Bretton Woods, the victors in that war sought to stabilise the global economy and thus to set the basis for post-war recovery. Whereas John Maynard Keynes on behalf of Britain urged the adoption of a single world currency (bancor) to be managed multilaterally, the US insisted on the acceptance of the US Dollar as the world currency. The Dollar would be tied in value to gold and rates of exchange of all other currencies with the Dollar would be pegged. The US proceeded to allocate public finance to the reconstruction of Europe and Japan and to promote private investment in Europe. The investment returns added to a substantial trade surplus on the credit side of the US balance of payments. However, the re-industrialisation of West Germany and Japan was so successful that the US trade balance turned from surplus to deficit. These and other countries running surpluses had to accept Dollars in settlement of US balance of payments deficits for fear of bringing about a run on the Dollar. Gradually the gold backing of the US Dollar declined and inflation eroded the value of Dollars in exchange for US exportables. In 1968, President de Gaulle of France gave notice of

³ Thucydides, *The History of the Peloponnesian War*, Book 5, s.89 – see Varoufakis, *And the Weak Suffer ...*, fn 5: 265.

wanting the US to exchange some of France's Dollar reserves for gold; and by 1971, West Germany held more reserves in total than did the US. That year, then-President Nixon ended the convertibility of US Dollars into gold at the 25-year-old price of \$35 per ounce of gold. In Yanis' account, the impact of this break in the 'global plan' of 1944 was exacerbated particularly by the US decision (evidently admitted by Henry Kissinger) to push oil prices above what OPEC wanted in order to inflate the prices of goods manufactured by the oil-importing countries. By 1979, Yanis argues, the 'global plan' was dead in the water and, in its place, the US was deliberately crafting a 'new design', at the core of which was the 'global minotaur'.

'A New Design'

The task facing the designers was to construct a new mechanism to transfer the world's surpluses to Wall Street. The task was largely in the hands of President Carter's appointee as chair of the Federal Reserve System, Paul Volcker. Yanis quotes Volcker as describing what he set out to do as 'a controlled disintegration of the world economy' (*The Global Minotaur*, p. 100). In 1981, Volcker raised interest rates to 20 per cent and then to 21.5 per cent. Thus began the reign of the 'global minotaur'. Volcker's interest rate increases not only brought down a high rate of inflation in the US but established a very effective lure: funds to feed the minotaur began to pour into the US – in purchases of bonds and treasury bills and equities and in new direct foreign investment. The US had thus moved away from a plan for some sort of multilateral regulation of international payments to a system under which the US nakedly (and no longer clandestinely, if you will) pursued its own interest in financing continued consumption of imports and to hell with the rest of the world. The tribute to the 'minotaur' was boosted in several ways: by profits from German and Japanese factories which had been forced to change lines of production to save on increasingly expensive oil imports; by a much greater rate of productivity growth in the US than the rate of real wage growth; by the greater profits of US oil companies; and by interest payments by Eastern European and 'Third World' countries which had borrowed from US banks when interest rates were low and then had to pay Volcker's much higher rates through the remainder of the twentieth century - and indeed for the first few years of this century.

In Yanis' story, the 'minotaur' had the help of 'handmaidens'. Prominently, these included: a welter of mergers and acquisitions of US companies by the rest of the world at very high prices; the emergence of huge retail stores such as Walmart that expanded profits not only by persuading customers that their products were cheap but by squeezing suppliers; the creation of private money (securitised derivatives or collateralised debt obligations – CDOs) by which mortgages ballooned, as did house prices and thence borrowing by mortgagees on the basis of their apparently larger equity in their houses; and the undermining of money wages and containment of other labour costs in the US alongside reduced inflation of other input costs and a (poorly explained) rise in productivity.

The notion that a minotaur had 'handmaidens' seems quite inappropriate, as does the notion that they struck back, as Yanis portrays them as having done after the crash of 2008. Language aside, just how was their behavior structurally connected with the behavior of the 'minotaur', as it implicitly was? At any rate, the 'minotaur' is said to have been mortally wounded by the GFC; and, despite the strike-back by the 'handmaidens', the capacity of the US to recycle the world's surpluses is said to have been broken. At best, while it existed, the 'global minotaur' was, to use Yanis' term, a very *peculiar* surplus-recycling mechanism that was destined to implode. As Yanis would have it, Europe 'cracked' when the US-centric recycling mechanism broke.

The Damage to Europe

The structure that 'cracked' began with a cartel, the European Coal and Steel Community, initiated and dominated by West Germany. Simultaneously, the Americans were much taken with the idea of European unification, as evidenced by the involvement of the CIA in funding the European federalist movement.⁴ The Treaties of Rome were signed by six member states in 1957 and the European Economic Community (the Common Market) and the European Atomic Energy Community were established. Gradually the number of states committing to unification grew from the original 6 members of the EEC to the point

⁴<http://www.telegraph.co.uk/news/worldnews/europe/1356047/Euro-federalists-financed-by-US-spy-chiefs.html>

where the (now) European Union consists of 28 member states (at the moment, mid-2016, still including the United Kingdom which has yet formally to withdraw in the spirit of the 'Brexit' vote). Greece joined in 1981. To become an EU member, European countries have had to meet certain criteria (the Maastricht criteria) relating to inflation rates, government finance (deficit in relation to GDP and government debt in relation to GDP), previous exchange rate performance and long-term interest rates. The first European parliament to be elected on the basis of universal adult suffrage in the member states was elected in 1979. The European Union became a reality after the signing of the Maastricht Treaty in 1993. The formation of the Eurozone was only completed more than twenty years later.

Yanis tells a story of a meeting between the West German and French finance ministers in March, 1964. According to Yanis, Valéry Giscard d'Estaing, the French finance minister, astonished his West German counterpart by suggesting that France and Germany agree to a common currency and invite the four other member states of the EEC to join. After 1971 the member states of the EEC agreed that their central banks would try to keep the fluctuations of their currencies against each other in a much narrower band than all of them together could fluctuate relative to other currencies ('the currency snake'). This agreement was replaced by a commitment to support the European Currency Unit (ECU) through the Exchange Rate Mechanism (ERM). The UK pulled out of the ERM in the early 1990s and, along with Switzerland in particular, has not been part of the subsequent Eurozone. As of the beginning of 2002, following agreement to establish the Euro and the European Central Bank (ECB) in 1999 and thus to abandon the ERM, the Euro currency went into circulation within the Eurozone. The Eurozone today consists of nineteen countries. The finance ministers of countries in the Eurozone constitute the present 'Eurogroup', which is not an official body within the EU but does, in Yanis' narrative, exercise enormous power over monetary matters.

In his *And the Weak Suffer...*, Yanis develops two principal explanations as to why Europe cracked in the wake of the crash of 2008 (from about 2010 on), the first being that the architecture of the European Union is weak and inappropriate and the second being that too much power in Europe is in the hands of Germany and unaccountable elements of the EU, namely the Commission bureaucrats and the Eurogroup (of finance ministers), although the bureaucrats are technically beholden to nation-

state representatives.⁵ The chief problem with the architecture of the EU is, Yanis insists, that it lacks effective mechanisms to re-cycle to the deficit regions the surpluses of those member states able to create them: the European Central Bank has lacked the capacity to issue European bonds and to bail out member states in difficulties; and it has lacked a 'union-wide-investment' fund.

The constraints on the ECB are, we are told, the result of the influence of the Bundesbank on the construction of the ECB in the late eighties and early nineties. Germany was intent on preserving as much of the power of the Bundesbank over the management of the common currency in the form of the Euro as it would have had if the Deutschmark had formally been able to assume the mantle of the single European currency or of the European reserve currency.

As Yanis tells it, when the shock of the 2008 crash was fully felt in Europe, demand for the products of all European states fell, and especially so did demand for the output of the Southern states. Output fell drastically in the Southern states, including Greece; the servicing of private debt owed to local banks collapsed; and the Greek state lost its capacity to bail out Greek private banks and to fund the servicing of public debt. At the same time, private money created by European banks evaporated as it had done in the US, affecting liquidity throughout the EU. The surpluses available to be recycled within the EU (and among the nineteen members of the Eurozone in particular) were anyway diminished by the continually collapsing demand of the US. The situation worsened as the private banks in the South became insolvent and as, in turn, the exposure to these banks of the larger banks of France and Germany and other Northern countries threatened *their* stability. By this time the Southern states of the EU (the so-called PIIGS – Portugal, Italy, Ireland, Greece and Spain), beginning in 2010 with Greece under then prime minister George Papandreou, sought European and international support. A committee representing the European Commission, the ECB and the International Monetary Fund (the evil 'Troika') stepped in to provide emergency funds. As Yanis argues, this

⁵ See http://www.gr2014parliament.eu/Portals/6/PDFFILES/NA0113090ENC_002.pdf for an outline of the governance of the EU and an indication as to why the European Union may be regarded as undemocratic or even anti-democratic.

funding was not to help the Southern states: the Troika declined to 'shave' the Greek debt, to offer longer terms of debt repayment or to bail out the Greek state but, at the same time, the ECB bent its rules against bailing out member states to enable it to bail out the powerful banks of Northern Europe. The harsh policies of the Troika forced debtor states to cut public social expenditures, to cut the wages of civil servants and, in general, to impose austerity on the people. As Yanis has long insisted, echoing Keynes, an austerity program is not only cruel and inhumane but exacerbates economic decline and is the epitome of stupidity on the part of political elites who need to sustain popular compliance with capitalism.

The Global South, Fading into the Background

There are immanent implications for the Global South in Yanis' arguments about the fundamental importance of mechanisms transferring surpluses of production and value from some parts of the world to others. For 'the southern states of Europe', read the Global South or the peripheral states in the world system. However, there is little explicit reference to the generation of surpluses in the Global South and their role in the world economy. There is reference (in *The Global Minotaur*) to contributions by way of interest payments gouged from the poor oil-importing countries to feeding the beast during the 1980's and even later; but the relationship of production in the reach of Europe's multinationals to the prosperity of the Northern States of Europe is explored only poorly. In the past Africa in particular was a major part of Europe's hinterland, although today it contributes to the surpluses of China and the US as well.

There has been a surge in direct foreign investment in Africa in very recent times. The sources of investment include China which, for some time now has been anxious to invest its surpluses in infrastructure, real estate, mines and agricultural and pastoral industries outside its territory rather than entirely in US paper assets. However, Europe's contribution to the absorption of anticipated exports from Africa and elsewhere is currently being threatened by Germany's fixation on export growth and balanced budgets and its preferences as to what a European central bank should be (Yanis actually made this point in relation to demand facing the Southern states – see *And the Weak Suffer...*, p. 240), as well as by

the continuing austerity fixation of the IMF and the European members of the troika. In turn, the extent of an intra-African absorption of new industries would be vulnerable to pressures on wages and taxation policies which would be provoked by weakened returns on investment – a spread of the austerity infection.

Yanis on Stage

By the time Yanis had returned to Greece from Texas in late 2014, he had written much in a blog about the contradictions in ('stupidity of') policies to push down wages and purchasing power; and with Stuart Holland and James Galbraith he had fashioned *A Modest Proposal for Resolving the Eurozone Crisis* (July 2013,⁶ the first version of which appeared in 2010).⁷ That proposal, briefly, was for (i) case-by-case direct recapitalisation of private banks by the European Stability Mechanism, (ii) a limited debt conversion program (member state debt converted to ECB debt), (iii) an Investment-Led Recovery and Convergence Program (involving the European Investment Bank -EIB and European Investment Fund – EIF), and (iv) an Emergency Social Solidarity Program to fight against the rise of poverty. These elements were designed to address the deficiencies which the authors of the proposal identified in the architecture of the European Union.

Were Yanis and the two other authors of *A Modest Proposal* to have their way, the EIB would be empowered to fund pan-European infrastructure projects without the present constraint that the countries that are host to the projects must contribute 50 per cent of the necessary funds, while the EIB's smaller offshoot, the EIF, would finance small projects. The ECB would be able to practise credit control through its buying and selling of solidly backed EIB/EIF bonds.

It is at about the time of Greece's seeking help that Yanis became a player – moving from being a vocal and critical political economist within the University of Athens and an adviser to George Papandreou before he became prime minister in 2009 to becoming a trenchant critic of both the Troika and of Papandreou's government. Yanis' excitement in

⁶ <https://yanisvaroufakis.eu/euro-crisis/modest-proposal/>, Version 4

⁷ <https://varoufakis.files.wordpress.com/2010/11/a-modest-proposal-yv-and-sh-version.pdf>, Version 1

remembering and recounting those heady days make for difficulties in understanding the many complex arguments he puts in *And the Weak Suffer...* It takes some concentration to stay with the broad, declaratory accounts of what was happening, such as the accounts (i) of the subterfuge of the failing private banks' creating worthless IOUs so that they could pretend to be solvent while the corresponding states assured possible buyers that the IOUs were guaranteed (155), (ii) of Outright Monetary Transactions (179), and (iii) of the 'multiple coincidence of impossible beliefs' on which effective 'quantitative easing' depends (187). And do not expect much of Yanis' bibliography in helping explore or delve further into the empirics behind his claims. All of that having been said, though, Yanis does entertain the reader with rollicking good yarns, generally illuminating allusions to history and mythology, and most of all, instances of the ignorance, incompetence, arrogance and perfidy of politicians (some more than others) and of the Commission's bureaucrats. With the latter tales in mind, the reader can hardly be surprised that Yanis was not a favorite figure in Brussels.

Conclusion

As *And the Weak Suffer What They Must?* came off the press, so to speak, Yanis was in Berlin to launch a movement called DiEM25, a movement aimed – as it says – at bringing about democracy in Europe by 2025. As against the preferences of the current German finance minister, Dr Wolfgang Schäuble (*And the Weak Suffer...*, p. 218), to regard the EU as an alliance of nations with a Budget Commissioner to reject 'errant' national budgets and formally to privilege the Eurozone countries within overall European governance, Yanis is preaching greater transparency within European governance (particularly live streaming of all meetings and full disclosure of all trade agreements and similar documents) and, after the European mechanisms have been 'fixed', the creation of a constitution to establish an 'authentic democracy' – 'a sovereign Parliament that respects national self-determination and sharing power with national parliaments, regional assemblies and municipal councils'⁸. In July 2016 Yanis responded to questions about 'Brexit', taking the view

⁸https://www.volksbuehne-berlin.de/praxis/en/diem_25 (with a three-minute video introduction) and <https://www.youtube.com/watch?v=AbSGg7PGu74>

that it is better to work on the present structure of the EU than to allow it to disintegrate (by at least partially deserting it) at a faster rate than it is anyway disintegrating.⁹ What an exhausting distance there is still to go, even if eventually the EU *can* be repaired!

The two books are well-presented and almost flawlessly sub-edited.

Finally, some reference must be made to the publication by the IMF in July 2016 of its own evaluation of its part in the generation of the Greek debt crisis and social and economic crises.¹⁰ While Yanis could be forgiven for claiming to have been vindicated, he is keen to caution that the leopard has not changed its spots – that the restructuring of Greek debt now offered by the IMF for 2018 will have no effect in ameliorating those crises.¹¹

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⁹ www.project-syndicate.org/.

¹⁰ <http://www.imo-imf.org/imo/pages/CompletedEvaluation267.aspx>.

¹¹ <https://yanisvaroufakis.eu/2016/07/31/imf-confessing-to-the-sin-in-order-to-repeat-it/>.

BOOK REVIEWS

Tim Di Muzio

The 1% and the Rest of Us: A Political Economy of Dominant Ownership

Zed Books, London, 2015, pp. 248, paperback edition, \$24.95.

Reviewed by Tom Barnes

This is a fascinating read on the political economy of the world's tiny, super-rich minority and the perils of extreme inequality. As the title suggests, the book is inspired by the distinction between the '1%' and the '99%' popularised during the Occupy movement that exploded onto the world's streets in 2011-12. Overall, it is clearly-written, theoretically engaging and thought-provoking. It adds a new dimension to important studies of socio-economic inequality, including Weeks (2014) and Piketty (2014).¹

The book is comprised of six chapters plus an introduction. Chapter 1 looks at the definition of the 1%, opening with the important distinction between income and wealth distribution. The author argues that 'the best way to identify this miniscule class—despite some methodological challenges—is to focus on how the leading financial institutions interpret them' (p. 27). To support this view, he outlines several alternative ways to define this class and explores the concept of the ultra 'high net worth individual' as a percentage of the global population. Full of useful empirical analysis, this chapter makes it clear that the super-rich core of billionaires in fact comprises substantially *less* than one percent of the world's population. For the author, these are capitalism's 'dominant owners'.

Chapter 2 forms the core of the author's theoretical contribution, framed via the concept of 'capital as power'. This comes from Nitzan and

¹ See Stilwell (2014) and Sheil (2014) respectively for excellent reviews of these two works.

Bichler's (2009) view of capital as 'commodified differential power expressed in finance and only finance' (Di Muzio 2005: 50). This position rejects both the neoclassical economic view of capital as a simple factor of production and the Marxian view of capital as '*solely* rooted in the exploitation of surplus labour power' (p. 55; Di Muzio's emphasis). He argues that Thorstein Veblen's work offers a pathway out of this confusion because it defines capital on the basis of observations of business people and the understanding of capital they adopt in the real world, i.e. as 'neither machines nor unpaid surplus labour but the capitalisation of expected future profits' (Di Muzio 2015: 59). But Nitzan and Bichler (2009) go even further than Veblen in framing capital 'not simply as a fund of money values invested or for investment, but as social power itself' (Di Muzio 2015: 61).

The author's focus on dominant owners is important because their relatively greater market capitalisation suggests that they also have a greater capacity to exercise this social power than others. The study of capital then becomes a matter of focusing on the power of rich firms and individuals relative to each other, reflected in their different market values or what the author called 'differential capitalisation'. In his view, capitalism is not a mode of production in the classical Marxian sense but an 'encompassing mode of power' defined by individual and institutional attempts to commodify nature, people and knowledge, to fight for the right to organise as firms and business units and to seize income streams through ownership (Di Muzio 2015: 66). No doubt, Di Muzio's definitions of capital and capitalism will provoke debate among political economists, particularly from those scholars influenced by Marxism. However, his analysis is, in my view, welcome and broadly echoes sentiments of other radicals trying to revise old frameworks, from those focused on the financial constitution of capitalism (Bryan and Rafferty, 2006) through to theorists of global capitalist development looking to transcend debates about the system's historical foundations (Banaji 2010; Anievas and Nisancioglu 2015).

Chapter 3 looks at wealth accumulation via a detour through the history of economic thought. Intriguingly, the author reserves a special place for the historical role of energy from non-renewable fossil fuels in the expansion of wealth. He argues that 'exploitation of fossil fuels expanded the limits of the possible by *adding greater capacity to do work*' (p. 135; author's emphasis). By incorporating what he sees as the neglected role of energy resources in critical studies of capitalist society, he wishes to

move towards a 'general theory of money, energy and power'. A very basic outline of this theory is offered, although full treatment has been given over to a separate, co-authored book.

Chapter 4 focuses on 'conspicuous consumption' – critically important for any follower of Veblen – and its manifestation in the New Gilded Age: 'a period of escalating inequality in income, wealth and life chances across a range of political communities' since the mid-1980s (p. 151). This period has been underpinned, the author argues, by abundant fossil fuel energy, new technology, trade and investment liberalisation, a more globalised labour market and massive accumulation of debt. I especially enjoyed the author's discussion of the uber-rich's peculiar consumption habits, such as the 'arms race' in yachts, signified by competition to build the world's biggest private yacht, from the princely *Dubai* to *Eclipse*, with two pools, submarine, 18 luxury suites, three helipads, 92-strong crew, armour plating and bullet proof glass (p. 157-8).

Chapter 5 focuses on the political economy of ownership and presents the author's foray into moral justifications for extreme wealth. This chapter rejects the neoclassical theory of profits and income distribution in favour of a Veblen-like position that ownership is 'nothing more than an outright seizure of a given portion, element or fraction of the "immaterial equipment" of humanity and has virtually nothing to do with individual productivity per se' (p. 181). The author powerfully argues that extreme wealth accumulation via differential capitalisation is 'illegitimate because it is undemocratic and in no way earned on the basis of individual skill or talent' (p. 190).

The book is concluded, in Chapter 6, by recognition of the Occupy movement and the outline of a manifesto for a foreshadowed 'party of the 99%'. The author lists several interesting ideas, including reform of national monetary systems and their replacement with a 'democratically controlled debt-free money system' (p. 208); free universal education, healthcare and childcare; a ban on money in politics; abolition of the patent system; a new system of public insurance; fully-funded retirement; a 'guaranteed income' from a public bank (although delimited by one's personal contribution to labour); a transition from fossil fuels dependence and demilitarisation.

This book represents an ambitious collage of arguments and deserves serious reflection. However, the author's arguments would be strengthened through a more comprehensive engagement with parallel

literatures in radical political economy, particularly if the author is claiming to have developed a 'general theory' of the global economic system. At a core level, he focuses on Veblen's contribution without mentioning his institutional economic lineage on corporate and market behaviour via the likes of J.K. Galbraith, Alfred Chandler and others. The author's fascinating discussion of the New Gilded Age (Chapter 4) does not delve into the large economic and sociological literatures on neoliberalism. This is not to castigate the book's insights but, rather, to suggest that these would be strengthened through such an engagement.

There are two examples where this is especially the case. First, the author's framework suggests that capital represents the subjective assessment of investors (via prices) about the capacity of businesses to successfully compete in the future: 'what investors capitalise when they buy claims to future flows of income is the power of that business enterprise to shape and reshape the terrain of social reproduction relative to other firms trying to do the same thing' (p. 62). This is an appealing insight but there is little acknowledgement of research on the *competitive structure* of markets that bear this argument out in practice, including the role of transnational corporations. No doubt, many mainstream economists would argue that the various structures of imperfect competition (such as monopolistic competition, oligopoly and monopsony) provide us with models that explain this process. Among more critical thinkers, there are now vast literatures on the reconfiguration of global economic activity into 'global value chains' or 'global production networks' in which powerful industrial and financial 'lead firms' dominate (e.g., Gereffi *et al.* 2005; Coe and Yeung 2015). According to one recent estimate, about 80 per cent of global trade is controlled by these firms (UNCTAD 2013). The author briefly touches upon these issues by, for example, referring to a business study of corporate control over markets and industries (p. 179).

Second, there is insufficient discussion of the social mechanisms that might link the problems the author identifies with his charter of demands in Chapter 6. In reading these, I was reminded of Marx's ten demands in Part Two of *The Communist Manifesto*, e.g. free education and a national bank. More recently, Guy Standing's *Precariat Charter* (2014) has garnered significant discussion. While Standing's charter is longer (29 demands) and more focused on the politics of work, his vehicle for delivery is a 'precariat' of (mostly) young workers who have been denied basic economic security by neoliberal capitalism. Like Di Muzio, he has

made an explicit link between his charter and the Occupy movement. However one views this approach, some discussion of the *agency* for social change is necessary, even if the focus on analysis is on the '1%' itself. In this regard, it is intriguing that the author posits the need for a *party* of the 99% given the likely antipathy of many (though not all) Occupy protestors to political parties.

Agency is also a consideration if one jettisons the Marxian labour theory of value. Based upon the three volumes of *Capital*, surplus value can be portrayed as the conceptual link between Marx's structural analysis of capitalism as a system of expansion and crisis and the structural power of workers (as value producers) to challenge the political rule of capital. Not that it is wrong to question or revise this schema—far from it. But it is perhaps also necessary to acknowledge that there might be something lost—in this case, the radical agency of workers, classically conceived—if labour loses its 'privileged' place as the source of value. If so, what are the implications for social agency and radical social change of the sort Di Muzio (and many others) advocate?

Of course, a book of this scope and ambition naturally invites critical reflection. Regardless of one's personal views, this book represents a welcome contribution to radical political economy. While it can (and should) be regarded as a theoretically-coherent whole, it can also be read as a series of essays, with much to learn from reading individual chapters. For example, Chapter 3's guide through the history of economic thought is a valuable read for students of political economy (and a fascinating refresher for established scholars). The author is careful to avoid jargon and to define and explain concepts, themes and institutions. For example, Chapter 3's portrayal of the 'architecture of capital as power' is premised upon a careful and appropriately-detailed tour through the basics of bond markets, stocks, real estate, derivatives, money and currency markets. In short, this book is accessible to all people interested in the political economy of extreme wealth and inequality and makes an original theoretical contribution to radical studies of capitalism that deserves to be widely read and discussed.

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Tom Barnes

Informal Labour in Urban India – Three Cities, Three Journeys

Routledge, London and New York, 2015, pp. 202, hardback edition, \$170.

Reviewed by Sohail Ahmad

The Indian labour market is predominated by informal employment, with more than 90 per cent of informal workforce working as self-employed or casual workers. In the absence of social security benefits for informal labour, this labour category tends to be associated with lower earnings and higher risks and, therefore, prone to increased prevalence of poverty and inequality. Moreover, informality has not been limited to unorganised sector but extends increasingly to the organized, formal sector.

India's labour-related acts and regulations are often said to be excessively pro-worker, leading mainstream analysts to contend that the state has caused labour market rigidity which, in turn, creates the shadow economy with a large share of informal labour workforce. Based on this line of analysis, mainstream analysts contend that there is a need for appropriate flexibility in Indian labour laws to compete industry globally, without compromising the labour welfare. Where such flexibility structures have failed, mainstream thinkers claim that the interventions to create flexible labour market are insufficient and weak. To address these issues there is a need, the orthodoxy claims, for enabling markets and environment for developing a 'formal' labour culture, using incremental approaches, which need a thorough understanding of mainstream labour economics (for a critical review of such mainstream narratives, readers can see Obeng-Odoom's book, *Reconstructing Urban Economics: Towards a Political Economy of the Built Environment*, 2016: chapter 5).

Informal Labour in Urban India, the book under review, however, challenges this mainstream analysis. Written by political economist Tom Barnes, it contributes to conceptual and theoretical development of understanding the expansion of informal wage labour in small and large enterprises, including the organised sector. The book presents excellent empirical analyses of the informal labour market, using changes to employment in three key mega urban regions Mumbai, Bangalore, and Delhi. The book comprises of six chapters, namely: India's informal economy; mapping informal labour in India; Mumbai; Bangalore; New Delhi; informal labour and resistance.

India's economic development differs from the West or even Northeast Asian regions. Unlike western economies, India's industrial development is dominated by informal labour employment. Based on theoretical and empirical evidence, the author presents two reasons: employers' exploitation of India's well-established social structure of accumulation, and usual global process of international competition and exchange. Notably organised sector has systematically exploited the informal labour market by sub-contracting activities or labour contract. While presenting measurement and monitoring of informal labour in three megacities, using datasets from Economic Census (EC) and National Sample Survey Office (NSSO), the book presents three perspectives of the informal economies: analytical categorisation of disadvantage and disempowerment; informal economies as diverse grouping of economic activities, in which state rules and regulations are absent, relaxed, or

eroded; and dynamic historical and spatial processes linked to various types of work and employment.

He succinctly notes Mumbai's shift towards the employment of wage labour in informal enterprises between late 1990s and mid-2000s, and explains through the structure and composition of the region's labour force. For instance, between 1998 and 2005, employment fell by about 54,000 in Own-Account Establishments (OAEs), and by 320,000 in Establishments with Hired Workers (EHWs). This shift was mainly due to the expansion of informal trading and manufacturing enterprises, the closure of factories and large-scale production units, the reduction of factories' workforce by rationalising production or attrition through voluntary retirement schemes, and restructuring of industrial labour into smaller units to enhance control of the production process or to avoid protective labour laws. In a geographical sense, the author provides evidence that manufacturing output, and therefore employment, has been displaced from Greater Mumbai to outer or peri-urban areas. In the second case study, of Bangalore, the author analytically reveals a shift towards employment of wage labour but also significant growth in large-scale organised sector enterprises. For instance, between 1998 and 2005, employment in EHWs grew by 29%, while OAEs fell by 5% in urban Karnataka. In the third case study, of Delhi, the author suggests a combination of 'Mumbai-type' and 'Bangalore-type' informalisation, with decline in the labour of large organised sector firms in expansion of large-scale industrial production, and systematic replacement of 'formal' workers with 'informal' workers employed casually or through networks of contractors. Given relocation of industries, workers have been also relocated in outer metropolitan and peri-urban areas. The vast majority of workers in urban areas relies on wage labour. Non-waged position in OAEs fell relative to wage position in EHWs. Most of increase in wage employment was in small establishments rather than in large factories and offices.

While presenting reliable empirical evidences, the author has judiciously used the best available data sources on employment, like EC and NSSO, as well as critical analysis of secondary source material and field research. This combination of methods has strengthened the overall argument. To show the miserable condition of informal labour, he compares wages between formal and informal labour and points out the existing disparity between them.

While presenting the nexus between urban development and informal workforces, at least in Mumbai and Delhi, the author provides evidence that working population has shifted into new communities in peri-urban areas or much further, often as a result of push factors such as slum relocation, or pull factors such as relocation or creation of employment opportunities, what Benjamin (2008) refers to 'occupancy urbanism'. Such pattern of dwelling relocation has been well documented but this book shows systematically how employment, including informal employment moves to peri-urban areas because of neoliberal policies in collaboration with urban policies and programs.

This book also highlights ongoing resistance in the informal labour market, particularly in the organised sector. The author rightly notes that informalisation marks the recent phase in India's historical development characterized by neoliberal policies and a new mode of exploitation among classes of labour. From labour's points of view, certain successes have been achieved in negotiating social security benefits, but still enormous challenges remain. The future lies in resistance and understanding the processes that produce positive results across classes of labour, which may be replicable elsewhere.

The analysis in this book could be further extended. Although the author has investigated empirical data sets in macro perspective, another set of analysis based on multivariate analysis in micro perspective could be a good complement to understand why individuals or households join informal labour markets. This micro level perspective of informal workforces could shed light on causality, after controlling for socio-economic characteristics. Potentially, micro data with the National Sample Survey Office or Indian Human Development Surveys could be used for such analysis. Besides studying mega urban regions, this book presents a great deal of analysis at district level where these megacities are located. A visual presentation of spatial analysis using GIS could be useful in understanding the location of informal labour in reference to these megacities. These additional analyses could complement and not change the overall argument presented in the book.

Tom Barnes has made an important contribution to understanding the informal labour market in urban India. This book is a must read for those interested in informal labour markets, but also for those interested in the nexus between urban development and the labour market. Researchers, teachers, and students in the fields of urban labour, urban

planning, economic geography, international development and development studies will find this book very useful, as will those generally interested in South Asian studies.

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Edward O'Donnell

Henry George and the Crisis of Inequality

Columbia University Press, New York, 2015, pp. 376, paperback edition, \$35.

Reviewed by Franklin Obeng-Odoom

During the Gilded Age of the 19th Century, Henry George was a household name in political economic analysis of growth, inequality, and poverty. However, as Mason Gaffney shows in his famous work, 'neo-classical economics as a stratagem against Henry George', published in *The Corruption of Economics* (1994), the rise of neoclassical economics pushed Georgism into obscurity. Until recently, most political economists thought of Henry George merely as an advocate of land tax, while most development practitioners knew next to nothing about George's penetrating analysis of inequality. However, some resurgence of interest in Georgist political economy may result from the publication of John Pullen's *Nature's Gifts* (2015), a major book on Henry George's lectures in Australia, its review by Frank Stilwell in this journal (Stilwell 2016) and the recent release of P.J. Bryson's major book, *The Economics of Henry George: History's Rehabilitation of America's Greatest Early Economist* (2011), positively reviewed in the *American Journal of Economics and Sociology* by Columbia University professor M.M. Cleveland (2013). The book under review - *Henry George and the Crisis of Inequality* (2015) - is yet another testament of the renewed interest in Georgist political economics in the modern gilded era.

The book is original in its aims and focus. Although, like Pullen, O'Donnell documents George's speaking engagements, O'Donnell covers a much wider scope. He provides a more detailed account of the social circumstances that gave rise to Georgism as well as how Henry George and the Georgists sought to transform those conditions. Unlike *Nature's Gifts*, which is centred on George as a famous speaker and reformer, the book under review looks at how George rose from obscurity and hardships to become the intellectual force behind a global movement against inequality.

Henry George and the Crisis of Inequality (2015) is divided into three parts. The first (pp. 3-68) is a personal biography of Henry George. The second (pp. 69-168) analyses the context within which Henry George developed his analysis and theories, while the third (pp. 169-276) identifies the attempt by George and workers to take control of the political system in New York City. The book contains an epilogue pp. (pp. 277-82) where the author reflects on the significance of Henry George in the political economy of the Gilded Age. O'Donnell concludes that George was a colossus, glorified even by critics such as Frederick Engels' who observed that: 'The Henry George boom...was an epoch-making day...The first great step of importance for every country newly entering into the movement is always the constitution of the workers as an independent political party, no matter how, so long as it is a distinct workers' party. And this step has been taken, much more rapidly than we had a right to expect' (p. xxiii).

The approach taken by Professor O'Donnell – focusing on the political statements and activities of Henry George in contrast to focusing on his economics – is both a strength and a weakness. It is a strength because it clearly distinguishes the book from other books such as *The Economics of Henry George* (2011) by Philip Bryson. It is a weakness because at least one of its major claims – that Henry George changed his principles and became less and less radical as he aged and lost the bid to become Mayor of New York – is apocryphal. Although seemingly well analysed by looking at how George backtracked on his statements in favour of socialism and his increasing friendship with the middle classes, his emphasis on land as the primary source of contradiction rather than the conflict between labour and capital, ignores or misunderstands the central tenets of Georgist political economy. This central tenet is *NOT*, contrary to what is claimed throughout the book, the 'single tax'. Rather, George's principal commitment was to equal access to land (not single

tax and not land value equality), a point strenuously argued by Richard Giles in his book, *The Theory of Charges on Common Land* (2016).

In spite of this limitation, *Henry George and the Crisis of Inequality* (2015) clears much fog over Georgism. It reveals that boycotts, protests, and working class organisation, while not on the menu of most Georgists today, were, in fact, a key part of Georgism. George endorsed them, encouraged them, and his early followers undertook them (see pp. 146-7). The book also reveals – contrary to what most political economists believe – that the support of George was mainly from workers. George was the candidate of the workers' party, the United Labor Party (ULP). Indeed, Marx and George were spoken of in the same sentence, as equals, both during and after their lifetime. So, 'special occasions like the return of Henry George or the death of Karl Marx were also marked by large rallies' (p. 141). Given that, today, the two movements are seen as opponents, the book's analysis of the historical alliance between Georgists and Marxists, is very useful and might be an additional reason why this book can be called 'revelations'!

Henry George and the Crisis of Inequality (2015) contains many substantial takeaway points. For a labour historian, the detailed analysis of the nature of the Gilded age, including an account of many cases of labour's success in its struggles with capital (see, for example, part 3, 'the great upheaval, 1886-1887') can show the effectiveness of labour's tactics of strikes and boycotts, including picketing 'boycotts' in front of offending employers. For political economists seeking to make an appearance in the field, the analysis that describes George's social impact (pp. 153-66) is a must read. This book also has much to offer to studies in global inequalities and development. Important lessons include the critique of philanthropy, whether of the Herbert Spencer-type (UK) or William Graham Sumner-type (America), the emphasis on working class struggles and the recurrent emphasis on growing inequalities as the key development problem. Regardless of which lessons is taken, we cannot overlook how unequal access to land casts a spectral shadow on every march of progress.

Henry George and the Crisis of Inequality is highly recommended to all political economists, particularly to those interested in global economic inequalities and development.

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Anne Haila

Urban Land Rent: Singapore as a Property State

Wiley-Blackwell, Chichester, 2015, pp. 304, paperback edition, \$44.95.

Reviewed by Franklin Obeng-Odoom

In development studies, Singapore is often cited as a shining example of how adopting a culture of hard work and advanced capitalist behaviour can lead to the success of entire societies. The world development agencies are particularly notorious for presenting the Singaporean case thus and then proceeding to recommend a Singaporean Model. Others, emphasising cultural superiority, tend to claim that it is the 'Asian values' held by Singapore that explain its meteoric rise. So, the culture of poverty is scorned in favour of a Singaporean culture of progress.

In *Urban Land Rent: Singapore as a Property State*, Anne Haila disputes these claims and, in their place, advances a new thesis: that the rise of Singapore is best explained in terms of how the state owns and uses landed property. Singapore is regarded as a property state because it uses its land for social and economic transformation of the city-state and its peoples. Specifically, land is put to public uses such as public housing. Unlike the holy grail of privatisation advocated by the World Bank for the slimming down of the state, Singapore has taken a path of investing

and building an elaborate state system that tries to curb speculation and hence influences land values. Indeed, in Singapore, value accruing to land as a result of community and state activities is deducted from 'market value'.

These ideas, Haila argues, were influenced by the embrace of Fabianism and Georgism. Generally, these philosophies shape what answers are given to key questions such as 'who gets rent, why and how it is distributed?' (p. 226) as well as the historic debates about the origin of property, the role of property in evolution, and the place of property in driving efficiency (pp. 33-6). The book shows that Singapore offers a path that does not easily sit in the binary 'philosophies of property' segmented into Lockian, individualistic focus and J.J. Rousseau's consent-based models (pp. 36-8). Thus, this book brings a fresh perspective to the historic property rights debates. It brings back the land question from where it is now often located – business and finance, to political economy – continuing and substantially extending into property and political economy of earlier work such as Roger Simon Farrell's *A Yen for Real Estate: Japanese Real Estate Investment Abroad – From Boom to Bust* (2000).

The relational spatial analysis in the book under review attempts to resolve the problem which Charles Gore called 'spatial separatism' in his 1984 classic, *Regions in Question: Space, Development Theory and Regional Policy*, showing how spatial analysis can be simultaneously cartographic, relative, and relational through property rights analysis. The focus on structural/socio-economic factors, especially property, demonstrates the failure of the cultural approach to development used by many economists and particularly anthropologists to explain the social conditions of Indigenous peoples, African Americans, Africans, and Native Indians.

This is a major book in urban political economy and the political economy of development for these reasons but also because it is well written and researched. The endorsement by the master of rent analysis in urban political economy, David Harvey, sums it up: 'This is a must-read for anyone concerned with contemporary economic conditions and trends'.

The book is structured into nine chapters. The first sets the scene by anchoring the study to ongoing debates about how best to explain Singapore's development, identifying the gaps, and showing the

distinctive approach used by the book to address the gaps. Chapter 2 provides a critical review of the various ideologies of land in the form of land regimes, debates on how they arose, philosophies of property, and ends with a highlight of the economic, social, moral, and political aspects of the land question. Chapter 3 deals with property rights theories more generally and rent theories specifically, while chapter 4 looks at examples of land reform programmes, including Chinese models. Singapore increasingly becomes the focus of attention from chapters 5 to 8. Chapter 5 looks at various land and housing sector agencies in the city-state. Chapter 6 examines the property lobby in Singapore and the strategies the state uses to rein in attempts by property tycoons to call the shots and embark on large scale speculation. Chapter 7 looks at the world from a Singaporean perspective by stressing how Singapore has become a safe haven for global real estate flows and in what ways Singaporeans and Singaporean institutions invest in land around the world. Chapter 8 considers the dark side of excessive financialisation of land in Singapore, linking that trend to various financial crises, while chapter 9 concludes by summarising the arguments and reflecting on their significance for the present and the future of development and urban policy and for debates in the political economy of development.

Like many good books, not all the light produced by *Singapore as a Property State* illuminates; some blinds, especially that related to *explanation* of the rise and fall of economic ideas and the nature of economic analysis. The argument that the Lockian theory of property remains and has grown in influence because it appeals better to people's sense of justice and through misinformation by the media (p. 38) is a case in point. The rise of the Lockian theory of property – developed to justify the colonial appropriation of land and to downplay Indigenous labour by claiming that mixing land with mere farming labour does not justify ownership of land (p. 37) – rose to popularity and continues its reign to-day because it supported and continues to support the wealth and aspirations of the powerful.

The book under review is meticulous in its presentation and analysis, but referring to multiple theories of rent and property rights (e.g. in chapter 3) and 'different rent concepts' (p. 57) while still using the singular ('property rights theory'/'rent theory'), equating Georgism to single tax (e.g., pp. 67, 69, 78-80) and overlooking the *essence* of Henry George (social problems and 'unequal access to land'), detract from this fine record. Also questionable is the classification of neoclassical urban

economics rent theory in relation to the classical traditions. Rent theory in mainstream urban economics is not simply different from classical theories in terms of definition, as the book argues (p. 47), but also in terms of role. While the classical theorists typically emphasised rent as a mechanism for structural inequality, neoclassical urban economics sees rent as an equilibrating mechanism that sorts out different land uses – as even a casual reading of Arthur O’Sullivan’s textbook on neoclassical *Urban Economics* (2012) makes clear.

I raise these points not to disparage this important book, but to indicate how its distinguished author might further enhance its quality in a revised version. As a teacher of urban economics and property and political economy, I use this book for my classes and research and strongly recommend it to readers of this journal. The book takes property rights analysis seriously, provides a fresh and original analysis about Singapore, and lucidly shows how this important city-state works. It will give political economists insights into how mainstream economics imperialises fields as diverse as urban planning, urban studies, and development studies through the export of its approaches and ideas and tools for analysis. Anne Haila’s book demonstrates this imperialising character concretely (see, for example, pp. 56-7). Development policy analysts also will benefit from reading this book, as it contextualises the Singaporean approach to development and social transformation forcefully. The book successfully disputes the foggy, false, and faux explanations of the Singaporean story as a successful case of neoliberalism, the superiority of culture, and inferiority of a state-based, land-heavy development policy.

Urban Land Rent: Singapore as a Property State demonstrates how building state capacity, and active and dynamic state intervention programmes by a social state, as well as the use of land rent by the state, can contribute to social transformation and inclusion.

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