CHAPTER 1

What is Political Economy?

What problems does political economy address?
What questions does it ask?
On what analytic foundations does it build?

As a discipline, modern political economy provides an accessible approach to the study of economic issues. It seeks to illuminate the world in which we live so that we may act in it intelligently and effectively. This introductory chapter explains how this ambition can be achieved. It suggests three ways of defining political economy: (1) in terms of the practical, real-world problems on which it focuses; (2) in terms of how these problems are analysed; and (3) in terms of the current of economic thought from which it draws. It also proposes that the pedagogy of modern political economy can counteract the dwindling interest in the formal study of economics.

RELEVANCE TO REAL ECONOMIC PROBLEMS

The relevance of economic issues in the real world is obvious. Economic concerns beset us individually in our everyday lives—the problems of earning a living, managing an income, and making decisions about consumption and saving. They also beset us collectively, necessitating political decisions on difficult issues, such as how to balance economic growth against environmental concerns, how much to redistribute income through taxes and government expenditure, and how to deal with imbalances in international trade.

The way in which these issues have been addressed in economic analysis and policy has been strongly influenced by one particular economic theory—neoclassical economics. This emerged in the late nineteenth century and is still the dominant economic orthodoxy today. It stresses the beneficial effects of competitive markets as a means of allocating economic resources. From the neoclassical viewpoint, the role of government is, at most, that of an adjunct to the 'free-market' economy. The underlying view is that the capitalist economy is a stable, self-equilibrating system.

A frequently recurring charge against this economic orthodoxy is that it is 'unrealistic'. Models of market exchange under competitive conditions fail to illuminate the world in which we live. Such models, it is commonly said, prioritise elegance over relevance. There is much in that criticism. However, the theoretical models have a strong influence on economic policy in practice, and they therefore have an awesome relevance—for better or worse. This has been particularly evident in the last two decades, which have seen the ascendancy of neo-liberalism. Orthodox economic reasoning has
given rise to particular policy prescriptions, such as the liberalisation of trade, the deregulation of capital and labour markets, the privatisation of public enterprises, and the extension of 'user-pays' principles to the public services that have not been privatised. The proponents of these policies seem relatively untroubled by the failure of the real world to exhibit the features assumed in the abstract theories. It is as if the real world is being reconstructed in the image of a particular theory. Either way—as a rarefied theoretical exercise or as a vulgarised version used for political purposes—conventional economics has deep problems.  
A more refreshing alternative—and one that makes for more interesting study—is to directly confront current political economic problems and policy issues. There is no shortage of such concerns: the challenge for governments posed by the power of multinational corporations; the tension between economic growth and ecologically sustainable; the intensification of economic insecurity and economic inequality driven by contemporary structural economic changes; the proliferation of speculative financial activities and their adverse consequences for economic stability and productivity; and the continuing problems of promoting balanced economic and social development, especially in poorer nations.

The immediate appeal of the political economic approach is its direct confrontation of these issues. A link is thereby established between studies in economics and what is reported in the daily newspapers, and on radio and television current affairs programs. Simultaneously, links are created with other areas of study, such as geography, history, social studies, political science, and industrial relations. Indeed, this interdisciplinary character of political economy is one of its strengths. Real-world phenomena do not fit neatly into boxes labelled 'economic', 'social', 'political', or 'cultural'. These categories have been constructed for academic convenience. The disciplinary divisions—between economics, sociology, and political science, for example—can be useful for the organisation of research and study, but they can impede a full understanding. Certainly, economic analysis is the richer if it draws from these other disciplines. Concurrently, the interdisciplinary inclination of political economy poses considerable challenges.

THE POLITICAL ECONOMIC QUESTIONS

Major explorations require an orderly procedure. In the case of political economy, this means systematically 'interrogating' each issue under investigation by posing questions such as:

- What is happening?
- Why?
- Who gains; who loses?
- Does it matter?
- If so, what can be done about it, and by whom?

Take the issue of globalisation, for example. It is commonly said that we are living at a time when our lives are being radically changed by the integration of economic activities on a global scale. Globalisation is said to be breaking down the territorial boundaries limiting the opportunities (and threats) that confront us. Technological and economic changes are said to be transforming society and culture. Is this really so?

A systematic, political economic analysis of these processes can be aided by asking the above questions. First, to answer 'what is happening?' requires a careful definition of the process. It requires important distinctions to be made between the globalisation of finance and trade, of culture, of environmental concerns, and of human rights. Each of these is affected by globalisation in different ways. Focusing on the globalisation of business activities provides the most distinct political economic perspective. It requires careful consideration of the extent to which 'globalising' economic processes involve international trade in goods and services, international investment, or international finance (including the proliferation of speculative activities).

The question 'why?' draws attention to the causal factors. For, each of these aspects of globalisation, we have to explore the relative significance of, for example, technological change, consumption, and government policies in driving the changes. It is a process of enquiry that takes nothing as given. In the case of globalisation, it seeks to illuminate the complex interactions between forces external to nation states and forces nurtured within them. The goal is nothing short of understanding the political economic forces reshaping modern society.

The question 'who gains; who loses?' is equally complex. This can be illustrated by looking at a specific aspect of globalisation, such as the changing international division of labour. Large multinational companies, seeking to take advantage of differential labour costs, have often relocated parts of their routine manufacturing activities to Third World nations. This helps the companies maximise their rates of profit. Their employees in more affluent nations face pressures for wage reduction in order to try to keep the local manufacturing businesses 'competitive', or face unemployment if the firms go under. Whether these workers are losers in the longer term depends on whether there are alternative employment opportunities. That depends on the regional distribution of jobs in the manufacturing industries shedding labour and the regional pattern of jobs in other sectors, such as the service industries, which may also be expanding. It also depends on the impediments to occupational and geographical mobility.

Meanwhile, the same processes of globalisation produce winners and losers among people in the more economically peripheral nations. Significant numbers of Third World workers, for example, have gained industrial employment previously unavailable to them. However, although usually better paying than the traditional occupations in those countries, these jobs are frequently associated with particular health or environmental risks. Whether the industrialisation, often localised in enclaves called 'export-processing zones', has 'trickle-down' benefits for the rest of the society is also uncertain and depends on how and where the extra income is spent, and on whether the companies pay significant amounts of money in local taxes. The close linking of national economies can also create problems if political or economic instability develops in a country. These circumstances of international economic interdependence remove the 'shock absorbers' that domestic economic policy instruments have previously provided. Taking stock of winners and losers in a situation like this is evidently very difficult. It illustrates the interdependence of economic, social, and political considerations, which is one of the hallmarks of political economy.
An evaluative approach is also necessarily part of political economy, for the link between analysis of problems and consideration of policy responses is inescapably normative. Hence the question 'does it matter?' Unless this issue is confronted, remedial policies and strategic responses cannot be systematically developed. It requires specification of the criteria by which evaluation occurs. Such criteria may include efficiency (in achieving what?), equity (according to what standards of fairness?), sustainability (economic, social, or ecological), and consistency with other social and political goals (which themselves need to be clearly specified). Establishing acceptable trade-offs between different goals is equally problematic. For example, would we be willing to accept a lower average standard of living in order to reduce the gulf between rich and poor? Or, how much short-term production might we be willing to sacrifice in order to achieve an economy that is sustainable in the long term? Political economy emphasizes that a 'positive', or 'value-free', economics is not possible without testing aside all the important and interesting questions. The task for political economy is to confront the evaluative issues systematically and openly.

Finally, in considering 'what can be done?', the role of government—and the state generally—comes under scrutiny. On the issue of globalization, a key question is whether the state's capacity for national economic management is undermined by the greater mobility of capital. If it is, by how much is it undermined? To what extent, and in which policy fields, has the state the ability to shape the terms of engagement with the global economy? If the state is indeed losing its managerial capacity to which other institutions—local, non-governmental, or supranational—can we instead look to control the processes of change? Can labour, environmental, or consumer movements, for example, 'go global' in order to counteract the globalization of business and finance? These are the kinds of big, strategic questions that modern political economy explores.

We are not simply passive observers of political economic change: we are active participants, and our effectiveness depends on how systematically we address the strategic question of what can be done.

**CONTRIBUTORY CONCEPTUAL CURRENTS**

Describing the concerns of political economy in terms of the major challenges of a globalized world is a down-to-earth beginning to our explorations. Analysis of these contemporary challenges requires us to draw on the rich heritage of concepts that have been developed to aid understanding of how the economy works. The focus on the big, 'real-world' questions does not deny the value of economic theories, but it does require us to make selective use of the competing currents of economic analysis.

Among the different schools of economic thought that have developed during the last two and a half centuries, four have obvious relevance in the construction of modern political economy. One is classical political economy. Eighteenth-century scholars like Adam Smith and David Ricardo wrote about economic affairs when capitalism was emerging from feudalism to become the dominant economic system in Western Europe. Although the economy then looked very different from today—with less sophisticated production and transport technologies, and smaller businesses that usually served only local markets—Smith's and Ricardo's insights into economic interests and political processes are of enduring relevance. The notion that the economic system produces goods and services surplus to what is required for social reproduction remains valuable. Understanding how that surplus may be expanded—whether through trade and an increasingly complex division of labour, for example—is central to the analysis of economic growth. Understanding how the surplus is generated also leads to explaining how the fruits of economic activity are distributed—among capitalists, workers, and landowners, for example. Classical political economy is generally held to have marked conservative political implications, but the underlying conceptions of economic production, distribution, and economic growth can be given a progressive, modern twist. The emphasis on the troublesome issue of land and land ownership, ignored by much economic theorizing over the last century, is particularly important.

Marxist economics also warrants careful consideration. Having its roots in classical political economy, it provides a quite different, more critical, interpretation of capitalism. It emphasizes the basis of the capitalist economy in particular property relations, the associated class structure and economic inequalities, and the relentless drive for capital accumulation. It posits the exploitation of labour as the source of the economic surplus. From that springs class conflict and, according to Marxists, the potential for radical political economic change. The tenets of Marxist economic analysis that underlie this view (such as the labour theory of value, the theory of surplus value, and the explanation of recurrent economic crises in terms of overproduction and underconsumption) need to be critically re-evaluated to test their applicability to the modern economy. These are, quite properly, focal points for debate about the relevance of Marxism today. Generally, though, the holistic character of this approach to capitalism has evident appeal in the current context. Globalization, for example, can be interpreted from this perspective as the drive by capitalist business interests to break through the constraints on their expansion imposed by national boundaries.

Institutional economics also has much to offer. This rather more eclectic tradition, which emerged from the German historical school of the nineteenth century, flourished in the twentieth century, partly as a reaction to the 'unrealistic' abstractions of orthodox economic theory. Its leading exponents, from Thorstein Veblen to J.R. Galbraith, have persistently emphasized the need to come to terms with the changes in institutional form associated with the ongoing development of capitalist economies. Distinctive themes are the growth of big business, transnational corporations, the influence of trade unions, and the character of governmental economic activities in different nations. Although coming from politically diverse positions, the institutional economists have provided a number of powerful ideas for shaping economic reform. The potential for more extensive interventions by the state to alleviate the inequality and instability of free-market capitalism is a particular focus.

Keynesian economic analysis also has continuing importance in this context. John Maynard Keynes explained the persistence of involuntary unemployment, and identified the necessary remedial policies, at a time when more conventional economic prescriptions had demonstrably failed. He showed that the 'macro' economy did not function simply as the aggregation of 'micro' economic markets and that, without enlightened government intervention, the capitalist economy would not ensure full
through the extension of private property rights to environmental goods, the use of pollution taxes, and so forth. Whether this is an adequate conceptualization of the problem is a contentious point; other social scientists reject this "environmental economics" add-on to market theory, arguing instead for a fundamental reconstruction to create an "ecological economics." Either way, the point is that the environmental issue must necessarily be central to modern political economy. In effect, that means seeking to build on, but also to transcend, the legacy of existing currents of economic analysis.

68. 1.1
Studying economics or political economy?

Is it possible that the various economic ideas are, of much larger scale, in the real world, there has been widespread decline in student enthusiasm for studying economics. Restoring the discipline is an important requirement. As a result, there has been a growing interest in econometric principles, the development of economic analysis in political economy, and the recasting of teaching economics to include more empirical data and less normative assertions. Moreover, the error of the "normative" tradition of political economy is to ignore or gloss over the social and political implications of economic policies. If we are to understand the problems of modern society, we need to see the economic system as part of a broader social system.

68. 1.2
Economic Processes and Problems

Employment. The force of these ideas was reflected in the subsequent attempt by orthodox economists to graft a mechanistic interpretation of Keynes on to their economic theory of markets in order to produce a "neoclassical synthesis." However, splicing together a macroeconomics emphasizing market freedoms and a microeconomics emphasizing the necessity of government intervention was bound to lack coherence, both analytically and politically. In that sense, the assault by monetarists and other neo-liberals on Keynesian economic "interventionism" during the last quarter of the century has produced a more consistent capitalist free-market ideology. But it takes us back to pre-Keynesian economics and spurs the valuable, practical insights that Keynes made. As post-Keynesians remind us, there is much in the original work of Keynes about the inherent instability of a monetary economy and about policies conducive to long-run expansion of productive capacity that is worth rescuing. Here is another important analytical current flowing into modern political economy.

The role of neoclassical economic theory is more problematic. One approach is to consider it pragmatically, as a possible source of contributions to the modern political economist's toolkit. Some elements within neoclassical economics—such as the analysis of "externalities" and the measurement of demand and supply "elasticities"—can be salvaged for this purpose. However, as indicated earlier, modern political economy is generally critical of the deficiencies of neoclassicism, both in theory and in policy practice. The view reflected in this book is that these orthodox economic ideas do need to be systematically studied, but that their strengths and weaknesses are better understood when treating comparatively with classical, Marxist, institutional, and Keynesian views. This is the essence of the liberal educational principle applied to the study of economic issues.

Looking at it in this light, modern political economy is not a return to the situation before the dominance of neoclassical economics; it is not simply a revival of the concerns of classical political economy as reflected in the writings of Smith and Ricardo and in the more radical analysis of Marx. Certainly, there is a strong echo of classical political economy in the breadth of issues considered in modern political economy. Studying the conditions for the broad progress of the economy and society is more in tune with that classical tradition than with the narrow, neoclassical focus on market equilibrium conditions. However, the analytical construction of modern political economy also draws on vigorous currents of economic thought that have been developed by subsequent scholars, including Joseph Schumpeter, Joan Robinson, Nicholas Kaldor, Michael Kalecki, Paul Sweezy, and Gunnar Myrdal, as well as Veblen, Galbraith and Keynes. A common theme is the rejection of the pseudo-scientific "positive economics" in favor of a more down-to-earth approach that addresses real problems and makes values explicit.

At present, there is also a pressing need to extend the definition of the subject of political economy to embrace environmental concerns. Perhaps the greatest challenge for us in the twenty-first century is to reconcile the economic with the ecological. There are some relevant concepts that can be drawn from existing economic analyses for this purpose. Neoclassical economists, for example, commonly concede that external diseconomies of production and consumption ("externalities") are sources of recurrent market failure. This leads to the advocacy of policies of "environmental fine-tuning"
CONCLUSION

In the real world there is considerable continuity in how the economy works—using natural, human, and manufactured resources to produce goods and services, and distributing the fruits of these endeavours according to the relative economic power of the participants. There is also considerable change, particularly in the present period of rapid technological innovation, globalisation, and structural economic adjustment.

In political economic analysis a similar dualism exists: there is continuity in building on the existing corpus of economic knowledge, but change comes through adapting and extending the analysis to deal with the evolving character of real political economic problems. The present time is one in which the need for such creative political economic thinking is imperative.

CHAPTER 2

The Personal is the Political Economic

Who makes economic decisions?
What is the current political economic context in which those decisions are made?
What are the principal political economic challenges we face?

Many people come to the study of economics expecting that it will offer guidelines for 'making money'. They are sometimes disappointed to find that it is about how the economic system works rather than how the system can be worked! The former may help the latter, of course. People are likely to make more mature business and financial decisions if they know about the economic, social and political forces shaping the business and financial environment.

Generally, it is not an unreasonable expectation that the study of economics should serve the needs of intelligent citizens who wish to make sense of the world around them. At the present time, it is an expectation that is both in sharp focus and difficult to satisfy. This is because it is a time of economic uncertainty, when individuals are forced to cope with major changes to their material circumstances, often with little understanding of what is driving those changes and the potential for a change of direction.

Taking this personal perspective helps focus attention on how individuals are affected by broader political economic forces. It provides a way of understanding the connections between the individual's economic circumstances and the functioning of the economy as a whole. It makes the link between 'micro' personal choices and 'macro' social choices.

ECONOMIC DECISIONS

Our day-to-day lives involve many economic decisions. Most of these are fairly small-scale and short-term and of no apparent significance beyond our immediate family and friends. In the aggregate, they shape the economic environment in which we live. Some such decisions, illustrating our various social and economic roles, are described below:

• As students, we are, in effect, investing in our economic future as well as (hope-fully) pursuing personal development. How much education we undertake and how many qualifications we acquire are likely to have a bearing on our future economic opportunities. Here are important strategic choices about investment in 'human capital'.
• As consumers, we are faced with daily decisions about which of the sometimes baffling array of products we will spend our disposable income on. We also make
decisions, if only by default, about how prepared we are to forgo the immediate gratification of consumption in order to accumulate personal savings.

- As workers, we are faced with constrained choices about the jobs we seek and the hours we work. We also have to make periodic strategic decisions, individually or collectively, about the stance to take in negotiations with our employers about wages and conditions of work.

- Meanwhile, business decision-makers make their own strategic decisions about employment and wages payments. They also periodically review the methods they use for producing goods and services, decide how much they will invest in new production facilities, decide on the prices they will charge for their products, and review their sales promotion practices.

- Speculators continually review their portfolio of assets, deciding what to buy and sell according to their judgments about future price movements and the possibility of making capital gains. When media commentators refer to how 'the markets' respond to breaking economic news or government policy initiatives, it is the behaviour of these speculators to which they are referring.

- Bank managers decide about making loans to their clients, usually according to guidelines set by their head office. The head office also makes decisions about the interest rates offered to depositors and charged to borrowers. The margins between these borrowing and lending rates are the principal source of banks' profits, and they are kept under continual review.

- Government ministers, especially those in key departments like Treasury and Finance, also make frequent adjustments to economic policies. They do so in response to changing economic conditions in national and global markets, and to political pressures (including the speculative sentiments of 'the markets') to modify their policy settings. As we will see in later chapters, these public policy positions are also significantly influenced by the prevailing economic ideas of the day.

It is reasonable, as a first approximation, to see what is happening in the economy as a whole as the outcome of these decisions. So, whether the economy is functioning well or not—whether the overall conditions are buoyant or stagnant, for example—is the result of numerous interdependent decisions. Whether the decisions 'mesh' effectively is, according to this way of viewing the economy, the key issue in determining the overall health of the economy. There is, of course, much scope for inconsistency, conflicts of interest, and contradictory elements in such arrangements.

As political economists, we can step back from the minutiae of these individual choices and short-term decisions to see the bigger picture. This can help us understand the political economic structures that shape and constrain our options. It can also—albeit with more difficulty—help to reveal the forces operating to change the context within which individual economic decisions are made. It can thereby help us to see the distinctive political economic characteristics of the present.

AN ENVIRONMENT OF ECONOMIC UNCERTAINTY

We live in exciting but unsettling times. Dramatic changes in technology are transforming the way goods and services are produced and, particularly, the way information is transmitted. The barriers to economic intercourse imposed by the 'tyranny of distance' and national boundaries, though still very significant, are being eroded. This process of globalization has cultural and political, as well as economic, dimensions; but its most notable feature is perhaps the growing economic power of transnational corporations. Some of these companies are larger than national economies. Understandably, many individuals feel dwarfed and powerless in these circumstances. The capacity of the democratic institutions within nation states to exercise control over the enormously powerful private corporations is under challenge; in many cases, the state does not even seem to have the will to exercise such control.

Meanwhile, the nature of work is rapidly changing. A significant proportion of the potential workforce seems to be permanently excluded from making a direct, productive contribution. Solving this problem of persistent unemployment is one of the great contemporary challenges. For those who are in work, the emphasis is increasingly on casual, part-time, or contract employment. The number of manufacturing jobs relative to service-sector jobs continues to shrink in the advanced industrial nations. More women are in the waged workforce, but it is commonly observed that the allocation of household tasks according to gender has not changed correspondingly. The proportion of older people in the population continues to grow; albeit slowly, posing a challenge to develop appropriate mechanisms for intergenerational income transfers. The capacity of governments to manage these processes—or any other income redistributions—seems to be regularly threatened by the difficulties of maintaining systems of taxation to generate the necessary revenue.

Increased income inequalities, both within and between nations, are a predictable feature of these circumstances. These repeatedly undermine the conditions for effective cooperation in seeking solutions. The presence of glaring economic inequalities between individuals is not conducive to the cooperative behaviour necessary for the simultaneous achievement of higher productivity and social cohesion. Similar problems exist on an international scale. Imbalances of trade and debt between rich and poor countries accentuate the long-established problem of economic inequality. Some of the poorer nations were achieving impressive economic growth rates in the 1980s and 1990s; but that growth was cut short, especially in South-East Asia, with the financial crisis at the end of the 1990s.

The slowdown in economic growth rates in the wealthier nations that began in 2000 and accelerated in 2001 also showed the vulnerability of economic trends to sudden reversals. The economic exuberance of the 1990s was replaced with a more troubled economic outlook at the start of the twenty-first century. It is a reminder that the capitalist system has always been prone to a cyclical pattern of boom and bust. Even more worrying for the long term is the recognition that the pursuit of economic growth on a global scale, as the principal means of addressing problems of continuing poverty, may be unsustainable because of the constraints imposed by the physical environment. How to most effectively harmonize economy, society, and ecology is a question to which there is, as yet, no agreed answer.

It is not surprising that many individuals feel overwhelmed by these developments and problems. Therein lies the twin challenge for political economy: to analyse the underlying forces and to point some effective solutions.
THREE TRILOGIES

A simple device for constructing a political-economic perspective on these contemporary concerns is shown in figure 2.1. It is taxonomic in character—emphasising classification rather than explanation. It draws attention to some broad social choices and to some tensions that arise at the interfaces between various types of economic arrangement.

(a) Institutions: market, state, community

![Diagram of institutions: market, state, community]

(b) Spatial scales: global, national, local

![Diagram of spatial scales: global, national, local]

(c) Systems: economic, social, ecological

![Diagram of systems: economic, social, ecological]

Figure 2.1 Three triologies: institutions, spatial scales, and systems.

The first consideration is the relationship between market, state, and community. The first diagram in figure 2.1 draws attention to the different ways in which economic activity can be organised. Goods and services may be produced for exchange in the market. Many are. Alternatively, the production of goods and services, and their distribution, may be organised by a central coordinating agency. The state then usually becomes the economic manager. As such, it may be responsive to the wishes of the society through democratic processes, or it may be authoritarian in character. The third possibility is that production and distribution could occur directly in the community, to serve community needs. The community may be quite small—perhaps just a household—or it may comprise a larger group of people whose voluntary cooperation results in purposeful economic activity without the need for markets or a state. Community provision involves people producing goods and services for themselves and their neighbours and benefiting from reciprocal relationships.

Here are three quite different systems for economic 'provisioning', three different ways of providing for our material needs and wants. All three normally coexist in any society, but the relative weight can vary enormously. Illustrative tensions concern the balance between public and private sectors of the economy, voluntary and government welfare provision, and the extent to which social life is structured by market processes.

The second trilogy concerns the spatial scales at which economic activities can be organised and coordinated. Local production can be for local consumption. Much is. National coordination of productive activity is also commonly attempted; the markets for some products are nationwide, and governments usually attempt, more or less successfully, to manage national economies. The global dimension is becoming increasingly important, however—as noted already. Global markets, even some embryonic forms of a global state, are striking features of the present time. How these three spatial scales are articulated and how best to strike a balance between them are key issues. From a political perspective, these concerns manifest in the challenges to national sovereignty, the development of global cities and regionalist responses. From an analytical perspective, this means that the spatial dimension is an important aspect of political economy. All economic activity—all of life—takes place in both time and space, so we need analytical structures that pay due attention to these coordinates of our behaviour.

The third trilogy depicts the relationship between economy, society, and ecology. Economic activities do not take place in a vacuum. They depend on certain social and ecological preconditions—the availability of labour and natural resources, for example—and they have major social and environmental consequences. Political economy must necessarily focus on these connections. What determines the relative priority given to economic, social, and ecological concerns? In part, it is the outcome of the balance struck between market, state, and community, and between local, national, and global scales of economic organisation. It also depends on the personal priorities of the participants in all aspects of economic life, particularly those with the greatest power to shape the outcomes. The tensions affect distributive equity, ecological sustainability, and the quality of life.

What should be the balance between these three sets of concerns—market, state, and community; local, national and global economy; economy, society, and ecology? From this perspective, the significance of the three triologies is in drawing attention to
CHAPTER 3

Structural Economic Change

The broader view

What major political economic changes have taken place in the last two decades?
To what extent do they have common purposes?
Do they have contradictory characteristics?

It is sometimes difficult to see patterns in the complex array of political economic changes taking place in the world around us. This has been particularly true in the last couple of decades, when the changes have been particularly rapid and diverse. Businesses and governments have been energetically reorganizing their activities in order to develop new opportunities for profit and to establish the conditions for faster economic growth. Businesses, of course, have a direct interest in higher profitability. Governments have broader concerns, but they too have an interest in creating profitable conditions, not least because their prospects of re-election are likely to be enhanced in buoyant economic conditions.

Somewhat systematically, we can identify six interlocking elements in the process of structural economic change: (1) the application of new technologies, (2) the reorganisation of businesses through mergers and takeovers, (3) the globalisation of production, (4) the reorganisation of employment conditions, (5) changes in the economic role of governments, and (6) significant changes in prevailing economic ideologies. This chapter considers each in turn.

THE APPLICATION OF NEW TECHNOLOGIES

It is usually in the interest of businesses to implement new technologies that cut the costs of production. This often involves labour displacement, producing more outputs of goods and services with fewer workers. Such has been the case throughout the history of industrial society when particular sectors of economic production have been transformed through technological innovation. The microelectronic revolution that began in the 1970s heralded a particularly dramatic wave of change in technologies of production and information dissemination. Computer-assisted design (CAD) and computer-assisted manufacturing (CAM) became widely applied in industry. The increasing use of robotics is perhaps the ultimate illustration of this transformation.

Structural unemployment is a recurrent concern in these circumstances. Unemployment arising from technological change is a contentious claim because this type of
unemployment has not previously been a major long-term problem. Of course, workers have frequently lost their jobs as a result of technological change; workers employed in making wagons, carts, and stagecoaches, for instance, lost their jobs when the technology for making motor cars arrived. However, new technologies have opened up many more markets and avenues for economic growth. Jobs for car workers exceeded the number of jobs displaced in the manufacture of horse-drawn vehicles. For the most part, unemployment has therefore been only a problem of transition between the old and new structures. Hence, there are good reasons to be sceptical about the notion of technological unemployment.

What is different now is that the new technologies are affecting the very sectors that have absorbed the labour displaced by technological change in the past. We can visualise the process of technological change as a series of overlapping waves. The first wave affected farming. The workers displaced by the mechanisation of agriculture moved to the cities, where they found jobs in manufacturing industries. Then technological change in manufacturing displaced these workers. This second wave saw the major job growth occurring in the growing services sector. One wit coined the term ‘McDonald’s law’ to described this situation: pointing out that, for every job lost in the manufacturing industry, a new job opened up in ‘fast food’ provision. But in this case, the technological changes associated with computerisation and information technologies are now impacting on the service industries, too. The interesting question arises: where is there left to go? Some argue that technology will continue to be job-creating in the ‘information economy’ sector expands. Others are expressing growing concern about the possibility of ‘jobless growth’, that is, growth in the output of goods and services unmatched by growth in employment.1

So, while the application of new technologies has a strong logic—even constituting an imperative—from the business perspective, there is a potential significant social fallout. A similar dualism is evident in the other dimensions of contemporary structural economic change.

MERGERS AND TAKEOVERS

The reorganisation of business through mergers and takeovers has been a notable feature of the last two decades. Like the introduction of new technology, there is nothing particularly novel about this. The voluntary combination of firms into larger units (a merger) or the acquisition of one firm by another (a takeover) is commonly driven by the pursuit of higher profitability. If the larger business unit can achieve economies of scale in the production and/or distribution of its products, it may be able to reduce costs. Indeed, political economists have noted that this type of business reorganisation is a predictable, perhaps necessary, response to a period of economic difficulties. Inefficient production units are ‘weeded out’ in order to enhance the overall efficiency with which capital is used. Such processes of corporate ‘rationalisation’ and ‘downsizing’ usually follow successful mergers or takeovers.2 The social costs of dislocation are painful for those who lose their jobs or their businesses, but, on this reasoning, the process may be functional for the capitalist economic system as a whole.

The tension between private interests and social costs is yet more striking when mergers or takeovers are undertaken primarily to secure market dominance. This would normally be conducive to higher business revenues or wider profit margins. But there is a strong likelihood that broader community interests—consumers’ interests, in particular—will be violated if the outcome is greater corporate monopoly power. How that power is used or abused becomes a matter of key political concern. The traditional assertion that what is good for General Motors is good for the USA has a decided hollow ring in these circumstances. Business interests are not synonymous with social interests. Not surprisingly, herein lies one of the most frequently recurring economic policy debates: whether to regulate the processes leading to the growth of big business or to permit freedom of the market place. Traditionally, economists have usually seen competition as preferable to monopoly and have argued the case for public policies to defend and promote it. However, another view, which is increasingly heard, favours the use of public policy to foster the growth of large businesses as ‘national champions’ in a world of competitive, international trade. This last view is the direct consequence of growing concerns about how to be a ‘winder’ in the global economy.

THE GLOBALISATION OF PRODUCTION

Globalisation opens up wider economic opportunities but poses particular threats. This, indeed, is one of the key issues of the present time—coming to terms with the global economic forces that have been unleashed by technological change, neoliber ally economic ideology, and the drive by transnational corporations for higher profitability and greater economic power.

These are multifaceted processes. In its basic form, globalisation involves the breaking down of the impediments to economic interaction arising from distance and/or regulations imposed by nation states (impeding the movement of goods, labour, or capital across national boundaries, for example). With the economic integration of nations (the breakdown of the coherence of national economies, some would say) comes social and cultural integration.3

Focusing on simply the globalization of production, it is not difficult to discern the basic logic behind the viewpoint of international business. If corporations can ‘shop around’ the globe for the cheapest raw materials and cheapest labour, they can minimise their costs of producing goods and services. If they can find, or create, new markets for their products in distant lands, that will increase their revenue. If they can locate their activities in the nations with the lowest tax rates—or at least make it appear that their profits are generated there—that helps them maximise after-tax profits. Similarly, they may ‘shop around’ for the countries with the least restrictive environmental regulations applying to their activities. Through all these means, globalisation serves business interests. The outcome is the dramatic geographical reorganisation of the activities of transnational corporations, which has proceeded space over the last few decades.

However, the politics of globalisation is contestable. The very changes that have served business interests have been associated with significant economic and social
problems. There is commonly said to be a "race to the bottom" in wage rates, tax rates, and environmental standards as nations compete to attract investment by transnational corporations. Living standards for workers, the capacity of government to finance infrastructure and social services, and our collective ability to achieve more ecologically sustainable development can be casualties in the process. How to balance the potentially progressive aspects of globalization against these real dangers is one of the key issues of the present time.

**Box 3.1**

**Contesting globalisation**

The twentieth century ended and the twenty-first century began with widely publicised 'anti-globalisation' protests. Thousands of demonstrators took to the streets in various cities around the world where meetings were being held by the World Trade Organization, the World Economic Forum, and the G8 (comprising the political leaders of the eight most powerful nations). Among the most widely publicised of these protests were those in Seattle, Davos, Prague, Melbourne, Quebec City, Gothenburg and Genoa. The demonstrators were protesting about the concentration of power in the hands of transnational corporations; about the trend towards greater economic inequality on a global scale; and about consumerism, environmental decay; and the undermining of working conditions, human rights, and the rights of indigenous peoples.

Struggle in the streets is only the visible face of a broad and persistent social movement. It can be interpreted as a global movement with diverse local and national focal points. Targeting the anti-social behaviour of particular corporations is one strategy being pursued. The "Sweating for Nike" campaign, which exposed the exploitation of low-wage workers in Third World nations, is an example of this. Contesting intergovernmentalism is another strategy. This means intervening in the processes by which international agreements are made and insisting on the insertion of labour and human rights clauses in trade agreements, for example. Building a progressive transnational consciousness is a yet more ambitious theme. It requires linkage between indigenous peoples, environmental groups, and other activists in different nations so that they can learn from one another about the most effective forms of resistance and discuss feasible alternatives to the current form of global capitalism.

In some respects, the 'anti-globalisation' label is inappropriate for this movement. What it stands in opposition to is the globalisation of capital. It seeks to combat corporate globalisation with a more progressive "grass-roots" globalisation, taking advantage of modern technologies, such as email and the Internet, to exchange information among activist groups. It has had significant successes, perhaps most notably in helping to thwart the introduction of the Multilateral Agreement of Investment in the late 1990s, which would have further restricted the capacity of governments to regulate the activities of transnationals operating in their nations. The struggles continue...

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**The Reorganisation of Employment Conditions**

The way in which work is organized within individual workplaces has also been subject to dramatic changes in the last couple of decades. In part, this is a consequence of changes in production and information technologies that require different types of labour, with different skills. In part, it is a consequence of the assertion of managerial prerogatives, reflecting an ongoing power struggle between employers and employees as classes with competing interests. In part, it is also the product of the drive for more 'flexibility' in the workplace as a means of achieving higher rates of profit.

These pressures are manifest in the greater emphasis on casual, part-time, and contract labour. This gives firms more flexibility in varying the number of workers they employ, to respond to fluctuations in the level of economic activity. Such arrangements also open up opportunities for increasing the intensity of labour—in the extreme, a simple speeding-up of the work required. Their potential to raise labour productivity opens up some more attractive prospects for the nature of work—working smarter rather than simply harder. However, the realisation of that potential for higher productivity depends on workers' commitment to employers, which may be undermined by the erosion of job security. Indeed, greater economic insecurity is the most obvious social fallout of these changes in economic conditions, which place the costs of adjustment squarely on the shoulders of the workforce. Some contend that these changes in the organisation of work are transforming a Fordist economic system to a post-Fordist one. Fordism, named after Henry Ford (who pioneered the mass production of motor vehicles), has required large numbers of workers to engage in routinised tasks to produce standardised products for mass markets. According to the proponents of post-Fordism, we are seeing those arrangements being increasingly replaced by smaller workforce teams with relative autonomy, producing more diverse products for niche markets. This is what flexibility at work means, according to the post-Fordist interpretation. Whether a shift to post-Fordism is indeed taking place, and, if so, whether it is more beneficial for employers or employees is a matter of ongoing debate. Could it be possible to introduce 'world's best practice' procedures in order to advance business competitiveness and enhance profitability? The consequences for the workforce are largely a by-product of this drive.

**Changes in the Economic Role of Governments**

Governments have played an active role in facilitating the four dimensions of structural economic change already described in this chapter: They have set the 'rules of the game' for business, prescribing particular structures and conduct and prescribing others. However, the rules have been changing. Increasingly, governments have asserted the need for more emphasis on market processes rather than 'interventionist' planning. At least that is the declared aim of neo-liberalism (sometimes called 'economic fundamentalism' or 'economic rationalism'). The core belief is that giving free reign to market forces will produce more efficient economic outcomes. Hence, the push...
in the pursuit of social goals. Vigorously promoted by New Right 'think-tanks', they have also provided a head-on challenge to socialist and social democratic beliefs about the desirability of collective provision to satisfy collective needs. As with the policies of neo-liberalism, the associated ideologies have many variations. They are plagued by the recurrent possibility of internal contradiction. Even the neoclassical economists, from whose theories the general claims about the efficiency of the market economy derive, have substantial reservations. The more punctilious among them stress the gulf between theoretical propositions based on restrictive assumptions and the messy conditions prevailing in the real world. However, the test of an ideology is not its sophistication, rather its effectiveness in conveying a simple and seemingly persuasive story. According to that test, the neoliberal ideologies associated with free-market economics continue to be a major force with which to be reckoned.

Ideological struggles are seldom, if ever, concluded. Rival beliefs stressing social justice, communitarian values, and ecological sustainability continue to vie with the dominant orthodox economic ideologies. Indeed, because the other dimensions of structural economic change reviewed in this chapter—new technologies, business reorganisation, globalisation, and changing employment conditions—have unsettling and contradictory consequences, these rival ideologies are continually reinvigorated. To the extent that ideologies based on competitive individualism undermine social cohesion, they create fuel for a collectivist alternative. To the extent that they pave the way for environmental decay, they stimulate the development of more ecologically based viewpoints. There lies much of the source of the social dynamic underpinning the ongoing public contest of economic ideas.

CONCLUSION

Economic organisation is constantly changing. This is why a historical, rather than mechanistic, approach is necessary in studying how the economy works. History versus equilibrium is Joan Robinson's characterisation of the two types of approach to studying economics, the former being less elegant but more realistic and useful. History in this context does not simply mean the past; it also means the continuous unfolding of events in real historical time. As political economists, we need a dynamic approach to analysing the world around us, an approach that shows the forces provoking and steering the processes of change. This particularly the ease in a time of dramatic and profound political economic change. A static view of the economy, in which the economy functions according to eternal 'laws of motion', sits too uncomfortably with these conditions in the real world.

This reasoning also indicates why seeking 'quick-fix' solutions to economic problems is likely to be unsuccessful. In so far as economic problems—such as periodic recessions, economic insecurity, or economic inequality—have complex and changing roots, they are not amenable to resolution through simple remedies. Indeed, as some of the reasoning in this chapter has foreshadowed, governments as well as businesses may pursue strategies that are themselves the root of our individual and collective economic difficulties. Potted solutions can themselves compound the problems. Our principal task as political economists is to try to make sense of this complexity.

CHANGES IN PREVAILING ECONOMIC IDEOLOGIES

The viability of any institution depends on the widespread acceptance of its legitimacy. So it is with whole economic systems. They depend on the dissemination of acceptable economic ideologies. Such ideologies are structures of belief about how the economy operates and the values that it serves. Neo-liberalism as a political practice is closely linked to, arguably dependent on, the ideology of free-market economics. At its core is the emphasis on individualism, the belief in the primacy of the individual as the basic unit of society. As Margaret Thatcher, Conservative prime minister of the United Kingdom 1979-90, once put it: 'There is no such thing as society; there are only individuals.' Those individuals are assumed to be self-interested, rational, and acquisitive, and it is through their interaction in a free-market economy that economic progress is assured. So the argument runs. In the extreme, 'greed is good' appears to be the central tenet.

Such economic ideologies have been vigorously disseminated in the last couple of decades, effectively countering and undermining the beliefs (such as those associated with Keynesian economics) about the need for a more extensive role for government regulations, including the pricing policies, environmental impacts of production, or employment practices. For example, privatisation involves the transfer of businesses from public ownership to private ownership, usually through the sale of shares in these former public enterprises. Trade liberalisation involves the reduction of tariffs and restrictions on imported goods and other impediments to international commerce. Other related policies—anti-policies, one might say—are the removal of government controls over financial institutions and over the flow of capital into and out of countries, and the lowering of business tax rates as means of increasing the material incentives for economic activity. The common theme is the restoration of the vitality of the capitalist economy, which is thought (by neo-liberals) to have been curtailed by excessive government 'intervention' in economic matters.

In practice, the outcomes have been much less clear-cut. The rhetoric about 'small government' commonly masks a process that actually involves 'different government'. The economic activities of government are not reduced, only reorientated towards directly serving the interests of business; they become less concerned with progressive income redistribution and the alleviation of social problems arising from the operations of the market economy. The policies certainly create winners and losers, whatever their effectiveness in relation to the dynamism of the economy as a whole: the removal of regulations promoting employment conditions predictably leads to more unevenness of employment practices and greater wage disparities; the relaxation of environmental controls leads to more environmentally degrading activities; the withdrawal of redistributive policies leads to growing problems of economic inequality and poverty. Not surprisingly, 'neo-liberalism', 'economic rationalism', and 'economic fundamentalism' have become pejorative terms for many people.
CHAPTER 4

A New Political Economic Order?

Continuing challenges

Have the structural economic changes produced beneficial outcomes?
What are the principal political economic problems to be addressed now?
Are solutions possible?

Do recent structural economic changes provide the basis for a coherent new political economic order? In the broad sweep of historical change one might surmise that this is their common purpose. The origin of the structural changes described in the preceding chapter can be traced to the end of the 'long boom' experienced by the capitalist economies during the 1950s and 1960s. The 1970s saw the problem of unemployment re-emerge on a scale unknown since the years of the Great Depression in the 1930s. The situation was made more difficult by the simultaneous appearance of substantial inflation. Economic growth slowed and became more erratic. These were conditions in which significant structural change seemed necessary in order to establish conditions for renewed economic expansion and prosperity. The structural changes that have taken place throughout the world economy since then have indeed been wide-ranging and dramatic. Have they produced the desired outcome?

Certainly there has been economic growth. However, growth continued to be punctuated by significant periods of recession. The early 1980s and early 1990s were periods of economic downturn in most of the major capitalist economies. In the late 1990s, major financial and economic crises prevailed in several advanced capitalist countries, as diverse as the Russian Federation, Brazil and the developing economies of South-East Asia. Japan, the former focal point of the East Asian 'miracle', faced relatively stagnant economic conditions in the 1990s and entered the new century in particularly difficult conditions. In the United States, growth was already slowing, even before the terrorist attacks in New York and Washington DC on 11 September 2001 accentuated the shift from boom to recession.

What are the future prospects? Apologies for capitalism in the 1990s proclaimed its 'triumph'. Even more boldly, they posited the 'end of ideology' following the collapse of the principal rival to the capitalist economy, the communist bloc of countries in Eastern Europe, which comprised the former Union of Soviet Socialist Republics (USSR) and its 'communist state' satellites. The prospect of perpetual progress towards prosperity, albeit subject to temporary interruptions, was also trumpeted in the wake of a US-led process of globalization. The US president talked

of establishing a 'new world order'. A more sober assessment of the obstacles to establishing any such 'new order'—with all that phrase implies about prosperity and stability—is needed. This chapter identifies six pervasive political economic difficulties that need to be confronted.

UNEVEN DEVELOPMENT

Economic development on a global scale continues to be remarkably lop-sided. The most obvious dimension of this is the gulf in economic prosperity between the affluent and the poor nations. Of course, there are significant inequalities within all countries, so it is not altogether helpful to talk about whole nations being either rich or poor. However, looking at per capita income (total national income divided by the total population), some striking disparities exist. They are of long standing. This is the essence of what is commonly called the 'North–South problem' (although this terminology is problematic in that there are some poor nations in the northern hemisphere and some rich ones in the southern).

Which are the most affluent nations, and which are the poorest? Table 4.1 shows a selection of them ranked according to two different economic and social indicators for the year 2000. The first indicator is gross domestic product (GDP) per head. This is the conventional measure of the value of goods and services produced in each year, divided by the number of people in the country. For the countries shown in this table, it is highest for the United States, then Norway, Switzerland, and Canada. The other indicator is a human development index (HDI), which takes account of national standards in health, housing, education, environmental quality, and equity in income distribution. This measure shows Norway topping the chart, with Sweden, Canada, Belgium, and Australia. The United States ranks significantly lower on this measure.

The poorest Third World nations are not in this league. A number of formerly poor countries have certainly experienced significant industrialization and economic modernisation over the last couple of decades. South Korea, Singapore, Hong Kong, and Taiwan—the so-called 'four Asian tigers'—achieved particularly rapid growth in per capita incomes in the last two decades of the twentieth century, while others, such as Malaysia and Thailand, also had rapid increases in national prosperity (although, as the regional economic crisis of the late 1990s reminded us, what goes up can come down, too). India and the People's Republic of China, the world's two most populous nations, have also recorded significant increases in overall economic performance, although major socioeconomic problems remain. Elsewhere, particularly in the poor nations of Africa, the achievement of economic development seems as elusive as ever. The bottom of table 4.1 shows a selection of some of these poorer nations' GDP and HDI performance indicators. Brazil and South Africa are rather different from other countries in this group because their GDP per capita figures are middle-ranking—the effect of averaging the living standards of rich and poor in vastly unequal societies. In the nations towards the bottom of the table, even allowing for the exclusion of the value of non-marketed production, the general living standards are very poor. Overall, the gulf between the rich and poor nations is glaringly wide.
The persistence of such entrenched economic inequalities on a global scale is not conducive to a stable world economic order. At the very least, the credibility of any such order would depend on the laggards catching up. Some are: some are not. According to the United Nations Human Development Report 2003, the level of inequality worldwide is grotesque. But trends over recent decades are ambiguous. The range of economic performance across countries and regions has increased between some regions and decreased between others. The challenge for the proponents of a new world order is to establish more effective mechanisms to narrow the gap. Indeed, to the extent that economic disparities—and the perception that they are the product of imperialism and exploitation—underpin international conflict, including terrorism, then the systematic reduction of those disparities has to become the top priority.

### TRADE IMBALANCES AND DEBT

In practice, trade imbalances and cumulative debt generally entrench uneven development. Trade deficits are understandably the norm among the poorer nations. Their exports are typically primary products—the produce of farming, forestry, fishing, and mineral extraction—while their imports are characteristically manufactured goods. The relative prices of these exported and imported goods—the ‘terms of trade’—have tended to move adversely, as manufactured goods have become relatively more expensive in relation to primary products. Trade deficits result.

Such trade deficits can be financed by the inflow of foreign investment or by the accumulation of debt. Both have the effect of accentuating economic dependency. The latter often has particularly pernicious effects. Debt, of course, can be economically advantageous. A carpenter who borrows money to buy some tools may then be able to earn sufficient income to pay the interest on the loan and eventually repay the principal of the loan. Debt aids economic development, on a personal scale, in such a case. However, if the income generated is insufficient to repay the interest on the loan, and if the carpenter then has to borrow more in order to meet those interest payments (or, in the extreme, sell the tools in order to do so), then disaster looms. This is the ‘debt trap’. It is the sort of situation into which many of the poorer nations have slipped. Paying a quartet, or even more, of their earnings from exports to meet their interest payments is not uncommon among these nations. Such debt impedes economic development.

The central role played by the International Monetary Fund and the World Bank in these processes has led to growing demands for their reform, even for their abolition. These institutions were set up by the richer nations at the Bretton Woods conference in 1944, ostensibly to facilitate economic security and development. However, their critics note that more has been taken out of the poorer nations in debt repayments than has been put in to promote economic development. Drawing on World Bank data, a recent book on globalisation notes that most of the increase in the debt of the poorer nations during the 1990s was generated to pay interest on existing loans, rather than to tackle poverty or to finance productive investment. ‘In six of the eight years from 1990 to 1997, developing countries paid out more in debt service (interest plus repayments) than they received in new loans—a total transfer from the poor South to the rich North of US$77 billion’.

### SPECULATION AND FINANCIAL INSTABILITY

Within the more affluent nations there is also evidence of a diversion of capital away from productive investment into various forms of speculation. Speculative activities are those that offer the possibility of substantial individual material gain (or loss),
depending on future price movements, but add nothing to collective wealth and well-being. There are numerous focal points for speculation, ranging from the buying and selling of tangible assets like works of art, antique furniture, and stamp collections (all of which have inherent scarcity value), to buying and selling real estate, precious metals, national currencies, and financial instruments, including futures and other derivatives. The increases in the volume of speculative transactions in national currencies and financial instruments has been particularly dramatic.

The result is what is sometimes called ‘casino capitalism’, or the quest for ‘profits without production’. Financial speculation may indeed be economically rational for an individual, especially when the rate of return on productive investment is relatively low. Investment in expanding and establishing industrial enterprises takes time and old-fashioned capitalist ‘know-how’. speculation offers the prospect of quicker and more spectacular returns for those with nerves and, preferably, some inside information on factors likely to affect asset price movements. However, for the economy as a whole, the result is counter-productive. An economy in which speculation is rife also tends to become more unstable because speculative markets are renowned for their price volatility ‘Follow-the-leader’ swings in speculative behavior lead to alternating booms and slumps.

A speculation-oriented economy also tends to be less productive in the longer term. Some markets in financial instruments may be a necessary adjunct to productive economic activity, but the proliferation of speculative activities in those markets tends to have a capital-diverting effect. It certainly has a personal energy-diverting effect. Entrepreneurial activities come to be focused more on ‘paper games’ of speculative trading than on the real economy in which tangible goods and services are made. This tendency, like the problems of uneven development, trade imbalance, and debt, also tends to move generalised prosperity within the capitalist economy in the years ahead. At the very least, some ways will need to be found to encourage the redirection of funds from speculative to productive purposes.

UNEMPLOYMENT

Meanwhile, millions are unemployed. Looking at the world economy as a whole, and taking account of underemployment as well as officially recorded unemployment, one estimate is that there are about 800 million people whose potential labor is not effectively utilized. There lies massive personal cost—the lack of income, the absence of occupationally defined social position and work-related social networks—and major social cost, such as the costs of ill-health and crime, which are correlated with the incidence of unemployment. Therein also lies a massive opportunity cost—the goods and services that society forgoes because the unemployed or underemployed are not engaged in socially valued productive activities.

The causes and possible remedies for this problem are the focal point of much political debate, as subsequent chapters of this book will indicate. Whether a faster rate of job creation is feasible or desirable is one of the key issues. If that implies a faster rate of economic growth, is that ecologically sustainable? The question of the redistribution of work is also contentious. Is it better to find mechanisms to spread the work around more equitably rather than try to increase the total number of full-time jobs? Or is it more important to redefine socially useful employment in order to include activities not currently valued in capitalist labour markets, and to find some mechanisms for redistributing the pattern of rewards accordingly?

Until such issues have been resolved, it cannot be said that a sound basis for our collective economic future has been established. On the contrary, it seems that the persistence of the unemployment problem, and its concentration in particular localities and among particular minority groups, is giving rise to greater social divisions. Some describe this in terms of the growth of an ‘underclass’ more or less permanently excluded from the economic mainstream of society. It is bodes ill for social cohesion.

ECONOMIC INEQUALITY

Social cohesion within individual countries is also fractured by persistent economic inequalities. Table 4.2 provides some illustrative data on income inequalities in selected countries, based on the latest available United Nations figures. The ratio of the income received by the richest 10 per cent of people to the income of the poorest 10 per cent is a good summary measure. For the United States, this is over 16:1, for Australia it is over 12:1, and for the United Kingdom over 12:1. In the European nations, particularly in Scandinavia, the ratio is typically around 5:1, indicating the egalitarian effects of social democratic policies. At the other extreme, some South American nations, such as Brazil, have ratios of over 60:1. So, too, does South Africa which is over 40:1, partly because of the legacy of racial discrimination from the apartheid era. In some of the other poorer nations (such as Indonesia, Pakistan, and Burundi) there are also wealthy elites, but the data indicates that greater ‘equality of poverty’ generally prevails.

Generally speaking, these economic inequalities seem to be increasing. The United States is the extreme case, with sharply increased disparities between rich and poor evident in the last couple of decades. Although less dramatic, the dominant trend in most of the other comparatively affluent nations has been in a similar direction. Why this should be so is the subject of ongoing controversy. There is also some evidence of a ‘shrinking middle’ in the types of jobs available. The number of highly paid professional and executive positions has increased, and a more than corresponding growth in their remuneration has taken place. Executive salaries of over a million dollars a year, sometimes rising to more than five or even ten times that figure, are now commonplace. At the other extreme, there has been growth in the number of jobs in ‘secondary’ labour markets—usually casual, part-time, and low-paid. Between the two extremes, for the advanced industrial nations at least, there are fewer of the traditional, middle-income positions based on skilled employment in manufacturing industries or the public sector. A British commentator has described this as the development of a ‘40-30-30’ society: about 40 per cent of the people prospering as a result of technological and structural economic changes; 30 per cent hanging on to less secure employment-based incomes; and the other 30 per cent more or less permanently excluded from participation in regularly remunerated productive activity.
### Table 4.2: Economic inequalities within nations 2000: selected countries

<table>
<thead>
<tr>
<th>Share of income (%)</th>
<th>Survey year</th>
<th>Poorest 10%</th>
<th>Richest 10%</th>
<th>Ratio of richest 10% to poorest 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rich countries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Norway</td>
<td>1995</td>
<td>4.1</td>
<td>21.8</td>
<td>5.3</td>
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<tr>
<td>Sweden</td>
<td>1992</td>
<td>3.7</td>
<td>20.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Canada</td>
<td>1994</td>
<td>2.8</td>
<td>23.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>1996</td>
<td>3.2</td>
<td>23.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Australia</td>
<td>1994</td>
<td>2.0</td>
<td>25.4</td>
<td>12.5</td>
</tr>
<tr>
<td>United States</td>
<td>1997</td>
<td>1.8</td>
<td>30.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1994</td>
<td>2.8</td>
<td>25.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1993</td>
<td>4.8</td>
<td>21.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Finland</td>
<td>1991</td>
<td>4.2</td>
<td>21.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1992</td>
<td>2.6</td>
<td>25.2</td>
<td>9.9</td>
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<tr>
<td>France</td>
<td>1995</td>
<td>2.5</td>
<td>25.1</td>
<td>10.1</td>
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<tr>
<td>United Kingdom</td>
<td>1995</td>
<td>2.2</td>
<td>27.7</td>
<td>12.3</td>
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<tr>
<td>Denmark</td>
<td>1992</td>
<td>3.6</td>
<td>20.5</td>
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<tr>
<td>Austria</td>
<td>1995</td>
<td>2.5</td>
<td>22.5</td>
<td>9.1</td>
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<tr>
<td>Germany</td>
<td>1994</td>
<td>3.3</td>
<td>23.7</td>
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<tr>
<td>Italy</td>
<td>1995</td>
<td>3.5</td>
<td>21.8</td>
<td>6.2</td>
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<tr>
<td>Some poorer countries:</td>
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<tr>
<td>Brazil</td>
<td>1998</td>
<td>0.7</td>
<td>48.0</td>
<td>65.8</td>
</tr>
<tr>
<td>China</td>
<td>1998</td>
<td>2.4</td>
<td>30.4</td>
<td>12.7</td>
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<tr>
<td>South Africa</td>
<td>1993-94</td>
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<td>45.9</td>
<td>42.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1990</td>
<td>4.0</td>
<td>26.7</td>
<td>6.6</td>
</tr>
<tr>
<td>India</td>
<td>1997</td>
<td>2.5</td>
<td>33.5</td>
<td>9.5</td>
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<tr>
<td>Papua New Guinea</td>
<td>1995</td>
<td>1.7</td>
<td>40.5</td>
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<tr>
<td>Pakistan</td>
<td>1996-97</td>
<td>4.1</td>
<td>27.6</td>
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<tr>
<td>Nigeria</td>
<td>1996-97</td>
<td>1.6</td>
<td>40.8</td>
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<td>Ethiopia</td>
<td>1995</td>
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<td>33.7</td>
<td>11.4</td>
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<tr>
<td>Burkina Faso</td>
<td>1998</td>
<td>2.0</td>
<td>40.8</td>
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<tr>
<td>Benin</td>
<td>1998</td>
<td>1.8</td>
<td>32.9</td>
<td>18.3</td>
</tr>
<tr>
<td>Niger</td>
<td>1993</td>
<td>0.8</td>
<td>35.4</td>
<td>46.0</td>
</tr>
</tbody>
</table>

Note: Because data comes from surveys covering different years and using different methodologies, comparisons between countries should be made with caution.

For the rich countries, the data is based on surveys of income distribution. For the poorer nations except Brazil, the data is based on surveys of consumption. The latter data therefore tends to be more equally distributed, for poor people generally consume a greater proportion of their income than rich people do.


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Is this the basis for a sustainable economic order? At best, it seems that it would be one that would depend on the enforcement of social control to maintain order in the face of polarized interests. Therein lie difficulties which could be expected to become more problematical. If the rich take refuge in security-patrolled, suburban ‘gated communities’, and if the poor are increasingly policed or incarcerated, as is the case in the United States, then order is maintained at a high social cost. Moreover, in so far as a belief in the equitable sharing of the fruits of cooperation is a necessary precondition for increased productivity, these trends may ultimately prove counter-productive, even from a narrowly economic perspective.

**ENVIRONMENTAL STRESS**

Whether economic growth is sustainable raises yet more fundamental problems. There has been growing recognition of the ecological constraints. Some resources, such as oil, are, to all intents and purposes, non-renewable, and there is necessarily concern about their exhaustion. Other potentially renewable resources are being used more rapidly than they are being replaced. Meanwhile, pollutants produced as a by-product of economic activities are the source of cumulative, and sometimes irreversible, environmental decay. Global warming and damage to the ozone layer surrounding the earth—although still debated among scientists—may be regarded as manifestations of these problems on a global scale. Locally, in individual cities and regions, environmental problems are manifest in unhealthy atmospheric pollution, loss of arable land, damage to waterways and marine life, loss of habitat, and the extinction of many species of flora and fauna. These are not features of a sustainable economic system.

As with the other difficulties briefly reviewed in this chapter, there is no shortage of pointed solutions. Some are reformist, some more radical—even revolutionary—in character. The extension of market principles in limiting the use of scarce environmental goods is favoured by 'free-market environmentalists'. The price mechanism can be adapted to provide incentives for more ecologically sustainable economic practices, according to this viewpoint. Others argue the contrary, that the market economy is the problem rather than the solution because of the expansionary, ever-rapacious, patterns of economic behaviour it fosters. Meanwhile, the intensification of environmental stresses interacts with the other problems, such as economic inequality and uneven development. Societies characterised by major economic inequalities are generally less able to collectively control environmentally damaging processes. Their wealthy classes can, to some extent at least, buy their way out by acquiring environmental goods increasingly beyond the reach of the poor. And different countries of markedly uneven economic development have great difficulty in securing collective agreement on the control of further environmental degradation. The poorer nations tend to be resentful of regulatory policies, which they see as impeding their capacity to achieve the material economic conditions already achieved by the wealthier nations. The higher production and consumption levels of those wealthier nations contribute disproportionately to the problems of global environmental stress.\(^{13}\)
CONCLUSION

Dramatic structural changes have been propelled by businesses and governments intent on creating the conditions for economic expansion and profitability. A political economic perspective can help us to assess whether these conditions lay the foundation for a new era of general prosperity that is stable and sustainable.

Economists are notoriously poor at prediction; however, if we can understand the past and present conditions, we are better able to identify the possibility of repeating the successes and avoiding the problems previously experienced. Of course, some aspects of economic change are historically specific, so the 'lessons of history' may not be readily transferable to other times and places. Understanding the historically contingent character of political economic processes requires sophisticated judgments.

The evidence reviewed in this chapter suggests that optimism about the 'triumph of capitalism' on a global scale must be tempered, to say the least, with a recognition of some deeply entrenched problems. It is debatable whether these problems can be resolved within the framework of a capitalist economy, or whether they require fundamental socioeconomic and political transformations. Our task as political economists is to understand the problems, to analyze their causes, and to contribute towards their resolution. These are both intellectual and practical aspects to this challenge. This is what the rest of this book is about: understanding the economy and the state of economic analysis so that we can change them for the better.

PART II

Economic Systems

What's so special about capitalism?