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# AUSTRALIAN POLITICAL ECONOMY

- URBAN DISPLACEMENTS
- COVID-19 AND THE ASSET ECONOMY
- NEOLIBERALISM, GROWTH AND INEQUALITY
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*JAPE*'s online presence has now moved to the *Progress in Political Economy* website.

*PPE* is the blogsite of the Department of Political Economy at the University of Sydney. It features regular posts by leading Australian and international scholars on a range of themes in critical political economy and global governance.

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# E.L. 'TED' WHEELWRIGHT LECTURE

# URBAN DISPLACEMENTS:

## GOVERNING SURPLUS AND SURVIVAL IN GLOBAL CAPITALISM

**Susanne Soederberg**

In keeping with the spirit of the *Wheelwright Lecture Series in Political Economy*, my topic is one of the most pressing social issues in contemporary capitalism: urban displacements linked to the growing lack of low-income rental housing. This is at the core of the housing crisis.

While homeownership has received the lion's share of scholarly attention, largely because of its role in the Great Financial Crisis of 2007-2008 and its dominant status in many countries, my focus is on rental dwellings for a different reason. The rental tenure – comprised of public housing and the private rental sector – represents the place in which the majority of the urban poor around the world tend to live - and from which they have been increasingly displaced.

Tenants encounter displacement in a variety of ways. One of the most insidious manifestations is the vicious cycle of rental housing insecurity marked by over-indebtedness, evictions and homelessness, which have grown steadily during the last two decades, even in regions with relatively more generous welfare systems in place. Homelessness has hit a crisis point across many European cities as more and more people – especially migrants, refugees and single-parents – are being displaced from their homes due to insufficient or irregular income.

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Poorer tenants in Europe, as elsewhere in the world, often pay upwards of 40 percent of the net disposable income on rent (the EU benchmark for housing affordability), which often leads them to cut back on other vital expenses such as food, heat, and transportation (European Commission, 2016). My empirical case studies across three European cities – Dublin, Vienna and Berlin – reveal that there is a very close relationship between eviction and rental arrears (rental debt).

It is worth noting that those struggling to meet their monthly rental payments are not *just* tenants. They are also workers, whose jobs are often insecure, sporadic and do not offer living wages. Many of these tenants may be classified as working poor – a labour market category that has become a dominant feature of contemporary capitalism. Working poor refers to people who work but do not earn enough money to pay for basic subsistence needs such as rent due to low-wages, involuntary part-time shifts, or short-term work conditions (temporary jobs are on the rise across the EU). Those experiencing in-work poverty are often low-skill labourers, whose occupations are tied to the service sector. These are the workers who, by and large, assist in the societal reproduction of the high-wage, high-skill workers in urban spaces. The working poor make their lattes, care for their children, clean their houses and hotel rooms, train them in the gyms, serve and deliver their food, sell them retail goods, and so forth. The working poor may also be unemployed labourers, who are compelled by the state to work part-time in exchange for, or to top-up, their welfare benefits – a phenomenon known was workfare. This is to highlight that capitalist states – at their various scales of intervention (regional, national and municipal) – also play an important role in our story.

The working poor reflect a Marxian category of surplus population in that they have become marginal to the needs of capital in the context of global capitalism. While rental-based displacements have heightened in many parts of Europe since the 2008 financial crisis, this phenomenon has longer historical roots in capitalism's global dynamics. This is particularly true of its hallmarks – the accumulation of surplus capital largely in the form of privately created money (credit) and the accumulation of debt. The former Greek financial minister, Yanis Varoufakis, used a 'twin peaks' metaphor to capture these two features of contemporary capitalism, which he describes as entailing a mountain of debt and a mountain of idle money (Varoufakis 2011).

Locating displacements in global capitalism in the above manner yields some interesting questions. First, how might we understand the everyday life of the surplus workers, who struggle to survival in the valleys of the twin peaks of surplus money? And, how can we more fully grasp the reproduction of this reality over the past two decades, other than relying on the oft-invoked yet vague notion of financialisation?

Employing a historical-geographical materialist approach firmly rooted in a class-based analysis sensitive to geographical specificities as well as questions of gender and race, I attempt to shed critical light on these questions. This framing allows us to grasp that the lived experiences of the working poor on the ground have been shaped by the historical and spatial configuration of structural violence inherent to global capitalism. By structural violence I mean the class dynamics driving the continued expansion of accumulation, involving an array of actors ranging from landlords, creditors and states at various scales of intervention. On this view, displacement is revealed as the outcome of a class-based facilitation and normalisation of urban poverty and social marginalisation, on the one side, and capital accumulation driven by surplus money and the production of surplus workers, on the other.

## Foregrounding displacements: State of poverty and case justification

Before turning to the three urban cases, it is helpful to provide a framing of the state of poverty and inequality in the European Union (EU), given that all three countries are members of this regional monetary and trading bloc. The EU is one of the largest and most prosperous economies in the world. Austria, Ireland and Germany – the countries in which the three urban case studies are located – fall into the top 10 richest countries in Europe in terms of Gross Domestic Product (GDP).

Yet the vast amount of wealth generated in the EU has been largely produced without generating sufficient decent paying, permanent employment. Most jobs created in the EU over the past two decades have been precarious, marked by in-work poverty, involuntary part-time, temporary contract positions, while leaving high rates of long-term unemployment (more than 1 year duration) (Eurofound 2020).

The wealth produced by the twin peaks of capitalism in the EU has also not been subject to adequate redistribution, thus contributing to growing levels of income inequality. According to a recent study, between 1980 and 2017, the wealth of the top 1 percent of households in Europe grew more than two times faster than the bottom 50 percent and seized 17 percent of the income growth in the EU. At the same time, relative poverty in Europe increased from 20 percent in 1980 to 22 percent in 2017. That said, income inequalities in Europe are lower and have increased far slower than in the United States (Salverda 2015).

On the ground, this has meant that around 513 million people living in the EU (as of 2019) have been characterised as income insecure. For most people, meeting basic survival needs, such as housing, has become increasingly untenable. According to Housing Europe, a major EU housing justice organisation, paying for a roof over their heads has become the single highest cost for many people. Housing costs overburden has hit the poorest – and least politically powerful – residents of EU the hardest, especially racialised migrants, low-skilled workers and single-households, often headed by women.

Rental overburden combined with in-work poverty has led to a rise in evictions, which, in turn, has led to an increase in the most violent expressions of displacement: homelessness. Every country in the EU, with the exception of Finland, has witnessed a significant increase in the number of homeless people. In Ireland, for instance, homelessness rose 145 percent from 2014 to 2017, while Germany's homelessness rate rose 150 percent from 2014 to 2016. Although low in comparison, Austria's homelessness rate also increased by 32 percent over the 2008 to 2016 period.

The three urban spaces covered on which I focus have been selected for their specific political economic place in global capitalism. Dublin, for instance, is often seen as the poster child of liberal economic development in Europe. Vienna possesses a vibrant democratic welfare system on which its celebrated housing model rests. Finally, aside from retaining a relatively strong social democratic welfare system, Berlin is the capital city of Europe's most powerful country. Despite these differences, it is the similarities regarding displacement trends across these cities that I find particularly fascinating and profoundly disturbing. My ultimate concern is thus not to embark on a comparative analysis; but instead to ask what

these case studies can tell us about contemporary capitalism. I set out to trace how urban displacements have been reproduced in the shadows of the twin peaks of global capitalism, marked for well over two decades by the production of surplus money and surplus workers.

## Producing displacements in Dublin

Ireland, and its capital, grabbed the world's attention with their dizzying levels of economic growth from the mid-1990s to the mid-2000s. The so-called 'Celtic Tiger' era came to an end with an equally stunning crash in 2008. The crisis revealed that Ireland's growth was based primarily on financial speculation and wealth generated by highly leveraged banks. As the party came to a close, it also became apparent that not all people benefited from the 6 percent economic growth rates of the country and its fall in short-term unemployment.

The lack of investment in production or creation of well-paying jobs meant that many workers were not benefitting from the widely celebrated growth model based on growing surplus capital. While short-term unemployment indeed decreased, long-term unemployment (12 months and longer) rose by 165 percent, with many of these positions filled by women, primarily in low-skill service sector positions.

To make ends meet, surplus workers have often relied on private sources of money. From 1996 to 2007, during the Celtic Tiger period, the amount of private debt increased rapidly. According to the country's Money Advice and Budgeting Service, this was particularly true of lone mothers and stigmatised racial groups such as Irish Travellers, who often turned to high-priced consumer credit to meet basic subsistence needs such as rent, clothing and day-care.

It should also be mentioned that, despite the growth generated by financial capitalism, the Irish state did not redistribute the wealth. With the embrace of budget cuts, privatisation and market-oriented growth in the 1980s, which also affected the stock of social housing, the share of national income going to the top one percent doubled between 1989 and 2006, making Ireland among the most unequal countries in the global North.

With the imposition of tough austerity measures following the 2008 crisis, the Irish state cut its spending on social housing by 72 percent during the

next 10 years, whilst bailing out the banks – with public money – by purchasing the so-called toxic debt held by these speculators. Fast-forward to 2019: Dublin rental prices are 36 percent higher than their peak levels during the Celtic Tiger era, making the city the most expensive urban space to live in the EU. Adding to this stress, the social housing stock in Dublin accounts for only 5 percent of the total housing stock.

Between 2008 and 2017, wait-lists for social housing in Ireland increased rapidly – doubling to 120,598 people, a third of whom were residing in the Dublin area. Many on the wait-list are low-income, welfare-dependent households with children, of which almost two-thirds are headed by single-mothers. Ireland has the fourth highest proportion of low-paid workers (23 percent) in the OECD, the majority of whom are women (TASC 2016). Women represent 60 percent of all low paid workers. Half of women workers earn less than €20,000 annually, which is far below the EU median wage (€28,500).

It is also pertinent to observe that the largest social housing channel in Ireland is the private rental sector (PRS), through which the state subsidises landlords by guaranteeing rental payments for impoverished households. Against this backdrop, the government solution to the homelessness crisis has been to rehouse families on the wait-list in the same – albeit increasingly expensive – private rental tenure from which they were driven out, often resulting in a cruel cycle of precarity.

Households continued to be evicted, largely because they are unable to pay the large rent rises often demanded by landlords in the PRS. Income insecure households, unable to earn living wages and carrying debt burdens, simply could not keep up with the rapidly growing rental increases.

Faced with these glaring limits to its market-based solution to the housing crisis, the Irish state has downplayed its homelessness problem and deflected blame away from its unwillingness to veer from its policy course. In 2017, for instance, the Irish Chair of the Housing Agency went on record stating that the 'housing crisis is completely normal. Every country in Europe has equivalent issues in terms of affordability, in terms of homelessness' (Burke-Kennedy 2019). A year later, the Department of Housing announced that it would no longer prioritise homeless families on the wait-list, as it suspected that they were *gaming the system* by declaring themselves homeless to move up the wait-list more quickly. This

naturalisation of the current housing crisis and stigmatisation of its victims are powerful tools to obscure the historically specific dynamics that produce and govern profound housing insecurity within contemporary Ireland.

Meanwhile, the Irish state has continued to underwrite the PRS to the tune of €500 million per year by providing landlords – many of whom are not investor landlords, but rather individuals owning one or two rental properties. These subsidies are aimed at helping the more politically powerful landlords cope with high levels of mortgage arrears for buy-to-lets. The state also facilitated rental-based expansion by choosing not to impose regulations (rent caps, stronger tenancy rights, etc.) that could hamper rental price increases.

Finally, it should be mentioned that the Irish state actively subsidised other landlords who were tasked with housing homeless surplus workers. In 2017, for instance, the Department of Housing paid €97 million to hotels and spent a further €12 million on private emergency accommodations, including family hubs. One government informant aptly described these places as 'shadow housing'. This term is a fitting descriptor because not only do these emergency accommodations house the dark human suffering experienced by these families (stigmatisation, stress, fear and hopelessness), but the regulatory features pertaining to their management and the nature of their services remain outside of public scrutiny.

## Producing displacements in Vienna

Vienna continues to enjoy a top position in the global rankings as one of the wealthiest and most liveable cities in the world. The core feature of its prototypical status is the Vienna Housing Model. The city's vast amount of high quality social housing, often represented as its legacy from the halcyon days of Red Vienna of the 1920s, is affordable and offers security of tenure. This is an important attribute, as Vienna – like Berlin – is predominantly a rental city, with 85 percent of its inhabitants living in this contractual relationship.

In contrast to many of its European counterparts, the municipality has delivered 'state of the art' affordable housing to many of its middle-income and lower-income residents. This does not imply that poverty and social

dislocations are absent in the city, however. With the retrenchment of its social provisioning, especially after Austria joined the EU in 1995, surplus workers residing in Vienna have experienced rising levels of poverty, evictions and homelessness in its rapidly expanding private rental sector. In 2016, for instance, the city registered over 15,000 homeless people – more than in Berlin, a city almost double its population size.

Of the 1.88 million people residing in Vienna, over 40 percent have a migration background, meaning that the person or at least one of her/his parents was born abroad or has a foreign citizenship. Aside from the so-called elite migrants (high-skill, high-wage workers, mainly from Germany), the majority of migrants, who stem from poorer EU countries (Serbia, Romania) and third-countries (Turkey, Syria), earn their living in the precarious, low-wage service sector in Vienna. Indeed, mirroring the other two cases, the service sector comprises, like Berlin and Dublin, over 80 percent of the city's wealth production.

Social housing has been far from accessible to these poorer, and often racialised, inhabitants. Until 2006, third-country migrants were denied access to the city's social housing units, even if in possession of an Austrian citizenship. The result has been that the majority of low-wage migrants have been over-represented in the private rental sector. Low-income Viennese residents without a migratory background (native Austrians) who are entering the housing market for the first time have also been unable to access social housing. Meanwhile, other surplus people, notably single-parents, are struggling to make monthly rent payments.

Social housing in Vienna has two main components. The first comprises the 220,000 municipal social housing (or council housing) units, representing about 25 per cent of the city's housing stock. Approximately one in four people live in these high-quality social housing flats owned and managed by the City of Vienna, making it the largest municipal landlord in the country. It is important to underline that, while municipal social housing flats were originally intended for middle-class and working class native Austrians, minimum income requirements have meant that those entering social housing have not been the poorest residents in Vienna. These exclusionary practices had also existed in the Red Vienna era when lower echelons of the working class, including racialised migrants, were denied access to the prized social housing units and compelled to live in more expensive, lower standard PRS units.

The second main component of social housing in Vienna is the Limited Profit Housing Associations (LPHAs). Although these housing associations are permitted to make profits, their margins are not as high as those in the private rental sector. A critical distinction between these two types of social housing is that housing associations require a down-payment by tenants, whereas council housing does not. In Vienna, LPHAs are mandated to rent half of their new flats to lower-income residents; the remaining units are leased to moderate-income residents. The problem with this arrangement is that the down-payment requirement often acts as a barrier for low-income workers.

Together, both aspects of Vienna's social housing sector have kept rents affordable for many of the city's residents. While social housing in Vienna has been highly beneficial for those already residing in these units, it does not bode well for newcomers, especially low-income, native Austrians and racialised migrants, such as the many refugees who entered the city in 2015 and 2016. These residents, who are in greater need for rental protection, and qualify for social housing, have to endure long wait times while trying to continue renting in the private sector, often turning to consumer credit to pay for basic survival needs to augment their low wages. According to the state-sponsored debt counselling service, the majority of debtors are racialised migrants, namely Turks and Serbians. Another sinister side of Vienna's alleged housing model, according to my local information sources, is a rise in another demographic of homeless in Vienna: refugees.

## Producing displacements in Berlin

While there are no official statistics collected on homelessness at the federal level in Germany – a political act of erasure – Berlin is known as the nation's homeless capital, with upwards of approximately 10,000 homeless people.

Up until the 1990s, the Berlin Senate operated 19 non-profit municipal housing companies, which controlled 28 percent of the housing stock, keeping rent at affordable levels. Given that 85 percent of the population in Berlin rent their homes, this was a significant form of state provisioning for workers. However, a combination of factors, including German

reunification, rising unemployment rates, low economic growth, weakening of trade unions, and ballooning budget deficits, has caused social housing provisioning, from which a wide array of workers benefitted, to fall prey to the politics of austerity.

Although Berlin – like other German cities – was subject to a fresh round of austerity measures with the advent of the 2008 financial crisis, the German capital's experience with austerity dates back to 2001. In that year, BGB, Berlin's largest banking house, was bailed out by Berlin's Senate after incurring high losses due to risky real estate deals in which public finances were used in speculative activities. The Berlin Senate's decision to socialise private banking debt transformed the BGB crisis into a wider fiscal crisis. Neoliberal rollbacks were quickly scripted as the only viable response to the crisis.

By 2008, the Berlin Senate owned only six municipal housing companies, or 15.8 per cent of housing stock. The privatisation of many of its social housing companies, through sale to private equity real estate investors, resulted in the rise of investor landlords in the city. The Berlin Senate directed the remaining municipal housing companies to adopt market-oriented behaviour aimed at increasing revenue streams and adhering to management strategies modelled on the private sector. This resulted in a situation in which rental prices of units owned by Berlin's municipal housing companies not only increased rapidly but also often exceeded those in the private sector.

Marketisation and privatisation of housing have had negative consequences for a large number of low-income tenants, particularly unemployed workers and refugees. Recipients of Germany's workfare unemployment insurance, also known as Hartz IV, represent not only the largest category of over-indebted households and displaced people in Berlin, but also in Germany as a whole. This was particularly true of Hartz IV households in racially stigmatised areas of Berlin, such as Neukölln. Despite its claims of protecting debt-distressed Hartz IV recipients, the Neukölln Jobcentre held the infamous record for the highest number of rejections in Berlin - an 85 percent denial rate.

It is in this context that a recently arrived, marginalised, and often racialised, group of international refuges has struggled to survive. In 2015, for instance, Berlin received 55,001 refugees, tapering off to 16,889 in 2016 – exceeding any other city in Europe. This has meant that newly

arrived refugees have had to traverse resettlement in urban spaces marked by growing levels of internal displacement.

Once refugees have fulfilled their required time in the emergency shelters, they are allowed to move into either communal shelters or permanent housing in Berlin. Due to rental housing shortages, most refugees reside in communal shelters. This means that refugees get more privacy, as they live with fewer people as well as possess more independence than in emergency shelters. Nonetheless, due to spatial and privacy limits, these shared dwellings are not suitable for long-term occupation, especially for families and single women.

Permanent dwellings in the rental sector represent the third and most desirable – yet least attainable – type of refugee housing. In Germany, temporary residence permit means that refugees are granted the same status as Germans with regard to the social insurance system, including monthly housing assistance from the Jobcentres. Yet, even assisted with these welfare benefits, refugees find it difficult to secure affordable rental housing in Berlin, primarily due to lack of sufficient funds and discriminatory practices by landlords. Instead, refugees continue to use their allocated rental housing allowance to pay their lodging in communal shelters. In many cases, due to the lack of sufficient communal dwellings, refugees are using these benefits to pay for rent in emergency shelters.

In 2017, two years after the initial surge of forcibly displaced persons arrived in the capital, 28,000 of the 80,000 registered refugees remain without access to stable rental housing and thus continue to reside in unsuitable and precarious dwellings. Refugees now comprise a substantial amount of the homeless population in Berlin and across Germany.

## Analytical reflections

Despite the current prevalence of the housing crisis trope, high levels of housing stress, homelessness and social dislocations had been evident in Dublin, Vienna and Berlin, before the 2008 financial crisis and subsequent rounds of austerity. Attempts to explain and respond to the situation have been broadly of two types.

First are the technical and economistic framings of supply and demand favoured by states at various scales (national and municipal) and powerful

residents (landlords, employers). These have led, in each city, to policies that subsidise and incentivise the private sector to construct affordable housing. While there is no doubt that demand is outstripping supply, these apolitical perspectives do little to explain why this continues to be the case. The fact remains that tens of thousands of people on the wait-list for social housing have been patiently anticipating the market to find its equilibrium whilst often experiencing years of homelessness in the form of couch-surfing, overcrowded living standards and residing in shadow housing for years on end.

Second is the liberal approach, championed by the UN Rapporteur for Housing Rights among other housing justice organisations, which posits that housing crisis is caused by the market-led (neoliberal) approach to housing that treats shelter as a commodity rather than a human right. While I share the sentiment behind this view, most EU policymakers agree that more affordable housing is required to deal with the growing levels of social dislocations. To date, however, most EU member states, including Austria and Germany, have failed to implement this right, whereas Ireland has refused to accept this obligation. There has been insufficient critical reflection on the inner-contradictions and class relations that have continually opposed actually implementing housing as a human right in contemporary capitalism.

Although diametrically opposed, a common thread running through both framings is their focus on consumption. This limits our understanding of the origins of the rising levels of poverty and inequality sweeping across Europe and indeed the world. We also need to focus on the practices, processes and structures involved in the societal reproduction of total capital relation (labour and capital). Thus, we may think of constructing an analytical bridge between exchange and production that is conducive to a class analysis sensitive to racial and gendered considerations.

The alternative theoretical lens should also involve a rigorous understanding of the capitalist state in the inter-scalar governance of displacement – by which I mean ensuring the total societal reproduction of capital and labour by normalising displacements and disciplining the displaced. Some examples of these processes have been mentioned in the three urban cases, such as the disappearance of displacements through the unwillingness of states to count the homeless or to place them in expensive, and often commercial, forms of shadow housing.

Moreover, as Marxist scholars remind us, housing has always been a commodity under capitalism. This was the case even in the heyday of Red Vienna when high-skilled workers paid an average of 4 percent of the worker's monthly wage to the state (landlord). To understand why housing as a human right has not been delivered by states, it is fruitful to interrogate housing as a commodity – seen not as a thing, but a historical social relation - within the class dynamics and structural violence inherent to global capitalism, marked by its twin peaks of surplus money and valleys of everyday life of surplus workers.

A Marxist understanding of housing as a commodity can also reveal its inner-contradiction under capitalism. On one level, housing is indeed a thing (financial asset) or an item within the built environment that can be bought and sold on the market. On a deeper and less visible level, housing is a historical social relation that embodies both use-value and exchange-value. A home's use-value is that serves as a place of survival for surplus workers. Regardless of the tenure of a home, it is an intimate place in which they, indeed all of us, care for our loved ones, eat, sleep, work, entertain, and, if one lives with teenagers, bicker! Yet, as an exchange-value under capitalism, these places of survival are simultaneously sites of accumulation, involving both exchange and productive relations.

Seeing housing in this manner may help us understand the connection of households to two other commodities in these built environments: money (rent, wages, welfare payments) and labour power (tenants). Whereas the value of the surplus capital has been protected by the state through bankruptcy laws favouring creditors and subsidisation of private landlords, the low-income tenants, who are also surplus workers, are left to the discipline of market forces. They have to rely on a patchwork of monetised means, including meagre wages, expensive consumer credit, and inadequate social welfare payments to survive. In so doing, surplus people are linked to the structural violence of the twin peaks of capitalism and its drive to accumulation, with as little redistribution as possible.

This view also has another analytical benefit. Instead of embracing the housing crisis as exceptional, it comes to be seen as part of the crisis-prone development of capitalism. In this way, we are able to move past the equilibrium-fetish and rights-talk to decipher the order and rationality that has sustained the societal reproduction of displaced survival of the

working poor through the twin peaks of surplus money and excess debt that serve as our metaphorical markers of contemporary capitalism.

Compared with debates on the financialisation of housing, this alternative approach involves a deeper theorisation of the social power of surplus money wielded by states and capitalists from which the twin peaks continue to grow. It reveals the connection between this social power and the necessary survival conditions of surplus workers, who not only remain politically powerless, but also receive the least amount of material benefits from the prevailing political economic order.

After all, there are many solutions available to combat housing deficiencies and displacements: building accessible social housing, including cooperatives; implementing meaningful rent controls and other legal mechanism to protect security of tenure; guaranteeing a living wage and full-time work; and building more day-care centres and adequately funding or subsidising them. Their common denominator is political, which inevitably brings us back to an understanding of class-based power and the paradoxes on which displacements have been produced and governed over the past several decades across the various urban spaces of contemporary capitalism.

It is my hope that these observations – both empirical and theoretical – may contribute to rethinking displacements and contemporary capitalism in a manner that helps to identify the chasms and fault lines in the twin peaks that have cast a long shadow over all of us for far too long.

*Susanne Soederberg is Professor in the Department of Global Development Studies at Queen's University, Kingston, Canada. This talk was presented at the University of Sydney on 17 October, 2019. It draws on material from the author's latest book, Urban Displacements: Governing Surplus and Survival in Global Capitalism. London: Routledge, 2021.*

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# LOCK-IN AND LOCK-OUT:

## COVID-19 AND THE DYNAMICS OF THE ASSET ECONOMY

**Martijn Konings, Lisa Adkins, Gareth Bryant, Sophia Maalsen and Laurence Troy**

At the start of the COVID-19 crisis, many commented on its levelling aspect, the fact that no amount of power or wealth offered much protection. As pausing economic activity through lockdowns seemed to be the only viable way to stop the spread of the virus, hopes that the crisis might offer an opportunity for a fundamental policy 'reset' circulated widely. Fast-forward less than a year, and we receive daily updates on how many billions of dollars Jeff Bezos has been able to add to his fortune since the onset of the COVID-19 crisis. At the end of 2020, the *Washington Post* and other mainstream news outlets noted that, despite the economic damage wrought by the pandemic, the stock market had a great year. In other words, the asset-holding class will emerge as a major winner from the COVID-19 crisis.

This story fits neatly with the narrative laid out by Piketty (2014), which has put the spotlight back on inequality and in particular the role of wealth. In the wake of Piketty's findings, social scientists have become preoccupied with the the super-rich or 'the 1%' (see *e.g.* Dorling 2014; Harrington 2016; Sherman 2017; Burrows and Knowles 2019). Among sociologists, concern with runaway wealth has resulted in calls for a new focus on the ultra-rich, including on how this group might be crystallising as a social and cultural class (see *e.g.* Savage 2014; Atkinson et al. 2017; Burrows *et al.* 2017; Cunningham and Savage 2017).

**Konings, M., L. Adkins, G. Bryant, S. Maalsen and L. Troy (2021)**
**'Lock-In and Lock-Out:**
**COVID-19 and the Dynamics of the Asset Economy'**
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However, to focus primarily on the growing wealth of the top layers is to miss the broader social transformation driven by the growth of asset values. Key here is property: the neoliberal era started off with a plethora of fantasies about the many ways in which the benefits of asset ownership and capital gains could be democratised, but in all areas except for housing such projects were short-lived. The possibility of buying into a relentlessly rising property market has become a condition of middle-class membership. This is evident in many countries across the Western world, but perhaps nowhere more so than in Australia where the line between being able to afford a home or not has come to be central to the way everyday life is lived.

Even though a public discourse that depicts homeownership as being in everyone's reach remains alive and well, in large Australian cities property prices are so high that saving for a down-payment through wages is a practical impossibility for all but a few. At the same time, public policy remains fully premised on the notion that homeownership remains a possibility for the bulk of the population and that renting is a choice that people make (*e.g.* they prefer the convenience) or a transient state of affairs for young people. This prevents the emergence of any sense of concern or urgency around the growing numbers of people who are forced to rent not out of choice but out of necessity, and this in turn undermines any willingness to significantly regulate the rental sector on behalf of renters. The Australian rental sector continues to have some of the most unusual landlord-friendly rules, such as no-fault evictions. Being locked out of access to homeownership has become a way of life, and increasingly the only way out of it is offered by the possibility of inheriting or otherwise receiving wealth from one's parents.

The flipside of this lock-out is a lock-in – by which we mean that the kind of structural conditions and policy priorities that generated the problem of asset inflation in the first place are sustained by a self-reinforcing, path-dependent trajectory. Australia has created a social and political constituency with a vested interest in policies that maintain and preferably increase the value of their home. A sizeable middle class of homeowners remains a major source of political legitimacy and social stability, and this is unlikely to change until this group has contracted to such an extent that politicians view themselves as having no choice but to respond to the concerns and grievances of those locked out from homeownership.

The logic of lock-in is not, however, simply a matter of political calculation. It is also evident in the degree to which overall economic conditions have become (or are widely perceived to be) dependent on the possibility of sustaining property values. That is, the gradual reorganisation of the economic system around asset values means that rising property values have become a foundation of general economic growth. The way in which property inflation has insinuated itself into the overall fabric of Australian society and come to occupy a pivotal place in its infrastructure consistently hamstrings attempts to ameliorate its consequences and to counteract the effects of property lock-out. For instance, attempts to make property ownership more accessible by assisting first time owners into the market (*e.g.* through guaranteeing loans or providing exemptions from stamp duty) have the paradoxical effect of driving up property values and so exacerbate the affordability problem for the population as a whole.

A focus on the 'everyday life' of wealth and assets provides a useful lens through which to look at the politics of asset ownership and the question of why crises have come to function so predictably as occasions for the intensified commitment to the politics and policy of asset inflation. The focus on the super-wealthy has been accompanied by a political theory of sorts, which understands the persistence of governments with these asset-supporting policies as resulting from the extent to which the 1% has captured the key institutions of policymaking itself. This may very well be part of the broader story of neoliberalism, but such strong assumptions about the transition to a plutocracy are not needed in order to make sense of the kind of asset politics we are currently seeing. That a drearily familiar set of asset-supporting policies can persist, despite growing awareness of the problems they cause, does not have to be explained with reference to the outsized power of the very wealthiest: this disconnect is fully a feature of democratic politics and the way in which policies need to cater to particular constituencies and general economic conditions.

While the problems caused by decades of property inflation have been apparent for a long time, they have had remarkably little impact on policy priorities. Instead, there has been a consistent tendency to address problems in the housing market by doubling down on the kind of policies that were responsible for those problems in the first place. In policy terms, the majority of expenditure on housing goes towards tax incentives and payments to support entry into homeownership and accumulation of further housing assets (Pawson *et al*. 2020). The current Liberal-National

Coalition government has maintained negative gearing and capital gains tax discount arrangements for investors. The tendency to respond to economic instability by sustaining asset values has been all too evident during the COVID-19 crisis. Unlike the GFC, the current crisis did not originate in the housing market. Yet government efforts to protect 'lives and livelihoods' through lockdowns have been strongly oriented towards homeowners and the housing industry. The crisis has revealed the extent to which the rise of the asset economy has shifted the fiscal, monetary and regulatory strategies used by states when confronted by a crisis (Spies-Butcher 2020) – from trying to boost economic growth by increasing aggregate demand to supporting household liquidity in order to protect house prices. The Australian experience shows that policy action in response to the pandemic is deepening asset inequality by strategically supporting asset owners as the transmission belt for macroeconomic policy.

To explore these issues more systematically, this article is structured as follows. The next section provides an overview of the making of the Australian asset economy, showing how policies to promote and incentivise homeownership over time gave rise to a dynamic of asset inflation that works to put property ownership off-limits for a growing part of the population and produced the combination of policy lock-in and lock-out discussed above. Lock-out has a strong generational dimension, and the subsequent section takes a closer look at how this condition is lived in everyday life. It shows that the Australian asset economy also drives a structural and political indifference to the plight of the growing number of (especially young) renters, expressed as an incompatibility between existing rental laws and regulations and the ability of renters to access secure and suitable housing in an inflated rental market, causing many people to share houses as a matter of financial necessity. The subsequent section turns to the present situation, showing how the crisis triggered by COVID-19, though not emanating from the property sector, was responded to with a series of policies meant to stabilise the property market. This underscored the extent to which asset prices have come to occupy a central place in policymakers' assessment of the strength of the economy. The conclusion draws together some of these arguments, reflecting in particular on the interaction of the stratifying effects of property ownership with generational factors and the influences likely to shape the future of the Australian asset economy.

## The asset economy in Australia

Although it is clearly the case that there is a greater concentration of capital gains among the top percentiles of wealth and income distribution (Nau 2013; Robbins 2018) and that the ultra-rich have become even wealthier during the COVID-19 period (Collins *et al.* 2020), an exclusive focus on the very wealthy fails to grasp how large proportions of populations in Anglo-capitalist societies are incorporated into the asset economy. Asset price appreciation (especially real estate) has operated in tandem with, and often compensated for, wage moderation. Housing markets have been supercharged by a combination of asset-based welfare policies, the selling off of public housing, the liberalisation of consumer credit, the securitisation of mortgages, and tax settings (Schwartz and Seabrooke 2009; Rolnik 2013; Aalbers 2016). This has meant that residential property, especially in large urban centres, has appreciated faster than wages (Adkins *et al.* 2019). It has also meant that, for those with the ability to access mortgage financing, residential property has effectively been transformed into a debt-financed income and wealth generating asset, enabling participation in the capital gains or 'wealth effect' promised by asset ownership (Adkins *et al*. 2020).

Prior to the onset of neoliberalism, across Western countries we could observe a number of different models of the post-war welfare state. The Australian model was distinctive for the way in which it married a 'wage-earner' welfare state (Castles 1985) to the promise of home ownership. What Kelly (1992) called the 'Australian settlement' kept direct public income support low in return for higher wages and more secure employment, while employment conditions and policy became tethered inextricably to home ownership as the principal welfare security mechanism and a specific lifecycle model (Kemeny 1983; Troy 2012). The deep relationship between wage policies, home-ownership policy and the welfare state also cemented housing as an essential component of the retirement and pensions system. Indeed, being in the private rental market in retirement years became a major determinant of poverty rates for older Australians (Yates and Bradbury 2010).

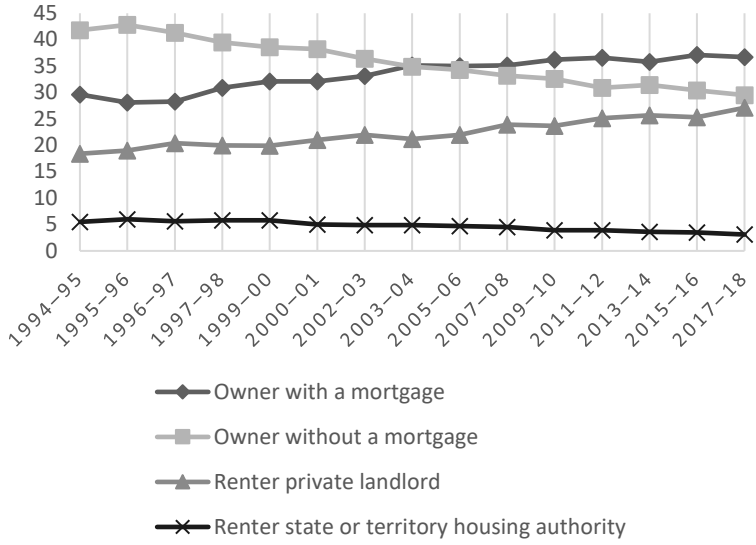
Australia's distinctive twentieth century social settlement shaped the expansion of Australian cities and, as Gleeson (2006) has suggested, is best understood as a *suburban settlement*. The 'Australian Dream' was centrally about the security of waged employment and home ownership, and the suburbs were its spatial expression (Burke and Hulse 2010: 826).

Though not without their problems or their critics (Davison 2016), the suburbs were a confident symbol of egalitarian values, where social and wealth divisions were moderated.

The neoliberal assetisation of housing was initially so successful because it started from the basis of widespread homeownership achieved via the social settlements of the Keynesian era. The promise of capital gains via asset ownership, promoted by successive governments and operating in tandem with the institutional and policy settings making such participation possible – notably credit liberalisation and low interest rates – initially saw an expansion of credit-driven home ownership (Andrews and Sanchez 2011). It also saw sustained increases in property prices, including extraordinary increases in major urban centres (Andrews *et al.* 2011; Ryan-Collins 2019). As a result, many property-owning households – and not simply the ultra-rich – achieved gains in their household wealth portfolios, which often compensated for stagnant wages (Adkins *et al*. 2019).

However, the very logic of credit-driven home purchases pushed prices up to heights where it became increasingly difficult for people to enter the market. Price inflation over time meant that, in many large cities, it became virtually impossible to enter the property market on the basis of an average wage, with growing proportions of populations effectively locked out of the housing market. A body of work both locally (Pawson *et al*. 2017) and internationally (Hoolachan 2017) points towards the emergence of a new generation of people who will never be homeowners (the so called 'Generation Rent'). Thereby, this constitutes a structural rupture in housing pathways in which renting is no longer transitory, but permanent. We can observe steadily declining rates of home ownership across Anglo-capitalist societies. Indeed, for the period 1980-2020, Anglo-capitalist societies shared broadly the same pattern with regard to rates of home ownership: increases followed by decreases (Arundel and Doling 2017; Ronald and Kadi 2017; Ronald and Lennartz 2020). They have also shared expanding residential rental markets, rising rents and increases in the proportion of households privately renting (see *e.g.* Crook and Kemp 2014; Pawson *et al*. 2017; Byrne 2020). The Australian case is paradigmatic of these trends, as illustrated in Figure 1. .

**Figure 1: Proportion of Australian households by housing tenure type, 1994-95 to 2017-18**




*Source:* Australian Bureau of Statistics (2019).

As asset prices increased, existing homeowners were encouraged to leverage their capital gains and housing equity into deposits for additional investment dwellings. Such investment has been significantly abetted by the preferential tax treatment of housing compared to other assets. This includes 'negative gearing' arrangements that provide tax credits to landlords for costs such as interest payments while they are renting out their property; and capital gains tax discounts that allow investors to pocket more of the benefits of asset price inflation when they sell. Australia has seen rapid growth in the number of households owning multiple properties, including investment and buy-to-let properties purchased by small-scale investors for the purposes of capital gains (Hulse and Yates 2017). In 2017-18, one in five (20%) of Australian households owned a residential property other than their usual residence (Australian Bureau of Statistics 2019). Similar trends can be observed in other countries like the UK (Ronald and Kadi 2018).

This has translated into shifts in how new housing is constructed and funded. At present, around 70 to 80% of new dwellings in Greater Sydney are apartments (Greater Sydney Commission 2018) and, at last census, more than 60% of all apartments in Sydney were owned by investors (Australian Bureau of Statistics 2016). Importantly, the predominant form of multi-unit 'investor grade product' – two bedroom apartments – has been linked both to changes in the provision of housing development finance since the GFC, notably the pressure to sell 'off the plan' to small scale investor landlords (Rowley *et al.* 2014; Troy 2018), as well as to the capacity to leverage existing housing wealth (Allon and Parker 2016). This 'investification' (Hulse and Reynolds 2018) is symptomatic of the deeper structural shift in Australian society where public policies privilege housing as an asset over housing as a home (Troy *et al.* 2020).

Those 'locked-out' of property ownership are increasingly forced to make trade-offs in location or security: they may continue to rent in well serviced locations, find cheaper housing in job and service poor areas, or both. The lock-out has also taken on a spatial dimension, with the last 30 years seeing a reversal of the post war socio-spatial settlement. The so called 'urban inversion' (Ehrenhalt 2012; Randolph 2017) refers to a process whereby the suburbs have become increasingly associated with concentrations of disadvantaged people who have been displaced from the now job and service rich urban core (Randolph and Tice 2017). The twin drivers of deindustrialisation and declining suburban employment, along with withdrawal or rationalisation of public services, have simultaneously intensified opportunity in the urban core, and impoverished the suburbs (Gleeson 2006; Randolph and Tice 2017). Moreover, there is now increasing evidence that disadvantaged areas of the city are being explicitly targeted by investors who are able to extract larger gains in percentage terms compared with high value areas (Pawson and Martin 2020). Not only are disadvantaged communities being displaced from the job and service rich core, but they are also having to compete with rising tide of investors and rising rents in lower value areas.

This is not just about housing in and of itself: property inflation is also a significant redistributor of life chances because wages have not followed a similar inflationary trajectory. Following several decades of wage stagnation and labour market deregulation, now the rise of the 'gig economy' (Friedman 2014; Stanford 2017) signifies a further shift to more 'flexible' work arrangements in which employment is undertaken on a temporary, time-limited, and/or 'zero-hours' contract-basis (Pennycook *et*

*al*. 2013). 'Non-standard employment' now accounts for nearly half of all jobs, with a bigger impact on women and the young (Melbourne Institute 2019). The resurgence of flexible or 'non-standard' working practices has been crystallised in the concept of the 'precariat', capturing the idea that employees characterised by economic insecurity are class-like in formation and the fact that such insecurity is being experienced across a range of advanced economies (Standing 2014). Insecurity and low wage inflation has resulted in wages declining in real terms, especially for younger cohorts compared to earlier generations (Bagshaw 2018; Rahman and Tomlinson 2018).

In the major cities, the cost of home ownership has become prohibitive for most young people and job security is increasingly elusive. As asset prices rise faster than wages, the deposit requirement increases relative to income. Combined with the precarious conditions of employment, these features make it virtually impossible to accumulate enough savings for a house deposit through wages alone (Pawson *et al.* 2020). Short term lease agreements and lack of rental security is matched with short term employment contracts and lack of job security. Precarity in employment and precarity in housing increasingly go hand-in-hand.

## Asset-based exclusion and Generation Rent

There is growing lock-out from the opportunities of wealth accumulation that home ownership generates and, in sociological terms, this appears as the growing difficulty of gaining access to a 'middle-class' existence in the way it has generally come to be understood. That is, a rift has opened out between those with and without housing assets, entailing differences in opportunities for wealth accumulation as well as in life chances. The reshaping of the social structure has become particularly apparent among younger generations. In 1986, the rate of home ownership for the bottom fifth of income earners in the key household-formation demographic of 25-34 year olds was about 60% but, by 2011, this had dropped to around 20% (Daley and Coates 2018). Now, for the first time since WWII, many young Australians face the prospect of a lifetime of renting, re-opening old terrains of structural inequalities in housing and wealth. Home ownership in major cities is now almost completely off limits to younger generations and those on low incomes (Christophers 2018; Forrest and Yip 2013; Stebbing and Spies-Butcher 2016).

In recent years there has been an outpouring of academic, policy and popular publications reflecting on the generational dimension of this lock-out from asset ownership (*e.g.* Resolution Foundation 2018; Shaw 2018; Wood and Griffiths 2019). These perspectives emphasise how the 'millennial generation' (those born between 1981 and 2000) has been priced out of home ownership – and hence from the benefits of asset appreciation, while at the same time they are faced with increasingly precarious labour markets and the stretched-out burdens of student debt (especially apparent in the USA) (Bryant and Spies-Butcher 2020; Spies-Butcher and Bryant 2018). Millennials are, for example, earning less than their immediate Generation X predecessors at the same stage of the life course (Gardiner 2016); and this shift has taken place in an institutional context where defined benefit pension provision has been actively phased out, social housing stocks have been drastically reduced, and investments in human capital (especially in education) are not yielding the returns they once did (Sternberg 2019). In this context of ever rising house prices and stagnant wages, millennials typically find themselves unable to leverage their wages to access sufficient mortgage credit to enter the housing market, even when they have the kind of jobs that would heve previously enabled home-ownership. With the costs of private renting also rising, many find themselves also priced out of the rental market, especially in large urban centres (Parkinson *et al*. 2019). As a consequence, the share of younger adults living with their parents is increasing (Clapham *et al*. 2014; Flynn and Schwartz 2017).

The social significance of this faultline can be gauged by looking at how it affects those locked out of home ownership. How does it affect people both in their current status as renters – Generation Rent – and what are the implications of this across their life course? First, and most obviously, as home ownership declines there is a corresponding influx into the private rental sector. This has significant implications for both rental and retirement policies, as well as the type of housing models that the market supplies. In societies that privilege home ownership, renters face additional challenges across the life course. This has moral dimensions as well as the structural social and economic dimensions we have emphasised so far. In Australia, home ownership is entangled with notions of morality and good citizenship and is rewarded by a suite of policies that benefit homeowners and investors. Many of the policies that affect ordinary Australians across the course of their life are premised on the belief that most people are homeowners or that home ownership is within everyone's

reach. As a consequence, those locked out of home ownership do not receive the support that is tied up with it, which has significant implications as they age.

Renting is characterised by an increasingly diverse cohort across class and age. While for many it is still driven by financial motives, research also shows that, for those who are not low income, renting is a form of constructive coping and, for a minority, it is a lifestyle choice (Hulse *et al*. 2019). However, regardless of motivating factors, renting does not afford the same level of security as homeownership. No-grounds evictions, blanket bans on pets, and a host of other restricted actions, are either legislated or written into contracts, despite being at odds with clauses pertaining to unnecessary interference of a tenants' peace, comfort and privacy by landlords (TUNSW & Marrickville Legal Centre 2019: 13). Further, many renters live in sub-standard rental properties and are reluctant to request necessary repairs and assert their rights for fear of being evicted or receiving a rent increase (TUNSW & Marrickville Legal Centre 2019: 5). While tenancy laws vary by state, and some have seen reforms to reflect changing rental trends, the power imbalance between landlords and tenants predominantly remains. Such laws are the flip side of rising asset prices, since they increase the relative advantages of homeownership over renting (Christophers 2021).

Housing inequity is also being reproduced within the private rental sector itself. The rise of 'Generation Rent', characterised by more people renting later into life (Hoolachan *et al*. 2017) has created a competitive rental market and produced rent inflation, leaving a growing number of renters unable to afford to rent on a sole income. As a result, tenants are increasingly turning to sharing housing as an affordable housing option (Maalsen 2020). Although there are many forms of shared living – for example cooperatives, co-housing and co-living – the distinctive form we are now seeing is share housing as 'a living arrangement where a number of people share a house, split the rent and general living costs' (Redfern Legal Centre n.d.).

Research has shown that, while many people who share a house enjoy the social nature of their shared household, their primary motivation for sharing is financial (Maalsen 2018). In the context of an unaffordable rental market and increased property prices, the demographics typically associated with share housing are shifting. When we think of share housing, we often think of student households, but share housing is

growing in all age groups from professionals in their 30s and 40s, to 65s and older. The growth of share housing is reflected in the census data which showed a 15 percent increase across the state of NSW across a five year period (ABS 2011, 2016). Unsurprisingly, in Sydney, where housing costs are high, share housing has increased across all groups aged 15 and above, with the largest growth being in the 55-64 age group (Maalsen 2019; ABS 2011, 2016). This trend is confirmed in data from online platforms that connect flatmates and shared houses: Flatmates.com.au cited a 20 percent growth of people aged over 40 looking for share accommodation during the first two months of 2016 compared with the same period in 2015, with the highest increase being in the 60-64 age group (Wischusen 2016).

Share housing arrangements are often informal, which presents additional challenges. Research conducted by the Tenants Union of New South Wales (TUNSW) showed that the majority of people they surveyed who had lived in a shared house in the last five years had done so without being added to the lease or had been in a situation where other flatmates were not added to the lease (TUNSW 2017: 2). While this provides a certain degree of flexibility, it does limit legal protections for tenants if there is a dispute with flatmates. More than half of those surveyed had experienced disputes while living in a shared house with no sub-tenancy agreement, and nearly 70% had been unable to satisfactorily resolve the dispute (TUNSW 2017: 2). If a tenant is not on the lease or there is no official sub-let arrangement, then the tenant has very little legal protection in responding to eviction and disputes.

Renting and share housing therefore can significantly impact on an individual's ability to find secure housing, to remain in their rental property long-term and to exercise agency over their rental property and living arrangements. In short, current rental regulations make it difficult for renters to feel 'at home' in their rental, while an inflated property market simultaneously makes it more difficult for renters to save a deposit for their own home. But there are also significant impacts longer term. Retirement policies are based on the assumption that people own their own home and that the home is an asset to support them in old age (Doling and Ronald 2010). Power (2017) identifies three significant ways in which housing and 'ideal ageing' are connected: as a site of active ageing; as an individual responsibility and choice; and as a site of productivity and consumption. Older renters, particularly those receiving the public pension or who are underemployed face particular hurdles in trying to secure long-

term, appropriate and affordable housing. They are more likely to experience mobility-based disadvantage which can exacerbate social and spatial disadvantage, in the form of involuntary moves into less adequate housing (Power 2020; Wiesel 2013). Moving is costly across many dimensions – economic, material, embodied, affective and ontological (Power 2020: 3). Thus, those who are already disadvantaged continue to be penalised and the existing inequalities intensify.

This amplification of long-term structural inequalities has been evident in the impact of COVID-19 on the experience of renting. The pandemic heightened visibility of the existing precarity of renting and at the same time it caused new issues (Maalsen *et al.* 2020; Rogers and Power 2020; Atkinson and Jacobs 2020). The positioning of housing and home as a secure place to shelter from the pandemic laid bare the housing precarity and poverty that was being experienced by many. For renters, there were fears that job losses caused by the pandemic would lead to missed rental payments, eviction and a possible increase in homelessness. COVID particularly impacted industries in which many renters work – hospitality, tourism, retail and the tertiary education sectors (TUNSW 2020: 3). For those able to work from home, the inadequacies of rental properties – including poor maintenance, mould problems and environmental conditions such as extreme heat and cold – were increasingly apparent. Those in share housing faced additional challenges, with shared common spaces hindering the ability to socially distance or quarantine, as well as having to cover more rent or dissolving the household as one or more flatmate suffered job losses because of the crisis (Wood 2020).

The effects of COVID-19 in the private rental sector reinforce the lock-in lock-out dynamic. Moves to protect tenants were seen by housing advocates as an opportunity to advocate for long-term structural reform. But even when such moves appear significant in the context of the current fiscal and ideological climate (for instance, Victoria's $5.4 billion commitment to building 12 000 new dwellings as part of their economic recovery, 9,300 of which will be social housing), their impact will be limited. Projections show at least 166,000 additional social and affordable dwellings will be required to meet housing needs by 2036 (Lawson *et al.* 2018: 4). State and Federal governments have delivered policy measures primarily aimed at protecting the housing market, investors and homeowners, and have so far generally refrained from enacting long-term protections for tenants (Maalsen *et al*. 2020).

## Policy lock-in during the COVID-19 crisis

In early March 2020, before the full extent of the crisis was evident, the Australian government announced two $750 payments to pensioners and other income support recipients, including the unemployed. These payments were characterised as conventional economic stimulus by the federal government, encouraging the recipients to 'spend up' to support the economy (Bagshaw *et al*. 2020). However, as large portions of the economy were closed down in an attempt to slow the spread of the coronavirus, the government's focus on consumer spending quickly gave way to a different kind of policy response for two key reasons. First, it became clear that standard Keynesian-style efforts to boost demand were not appropriate in an economy that governments were deliberately contracting for public health reasons. Second, the scale, scope and sharpness of the COVID-19 economic shock was far greater than in any crisis that had occurred since the Great Depression.

Rather than stimulating demand, governments shifted to shoring up the asset economy during the lockdown by implementing emergency measures to keep households liquid and solvent. The Australian government pursued this, firstly, through a fiscal strategy that provided income support for households by boosting unemployment payments and subsidising wages. These measures supported those who had lost their jobs or had their hours reduced, enabling them to continue paying mortgages on their own homes or rent to their landlords. Fortnightly unemployment payments – JobSeeker and related programs – were doubled from $550 to $1100, and eligibility requirements, including means testing for asset holdings, waiting periods and 'workfare' obligations, were waived. The government also implemented a JobKeeper wage subsidy program worth $1,500 per fortnight for employees working in businesses that had sustained more than a specified level of impact to their turnover, which acted as an income floor for eligible employees regardless of their hours worked.

Secondly, the Australian government sought to keep households liquid and solvent by implementing regulatory and monetary policy measures to allow temporary mortgage deferrals. These measures were responding to the high numbers of households in rental and mortgage stress. By May 2020, 17 per cent of mortgage holders were unable to pay their mortgages on time (Biddle *et al*. 2020: 5). Mortgage deferrals were secured through negotiations between the banking industry and the regulator, the Australian

Prudential Regulation Authority (APRA). Crucially, APRA temporarily changed the definition of a loan 'default', advising banks that COVID-19 mortgage repayment holidays should not be treated as being in arrears or a loan restructure (APRA 2020; Willams 2020). This enabled banks to avoid making provisions for more bad loans on their balance sheets, which usually requires recapitalisation. These policies partly took the place of the conventional monetary policy response of reducing interest rates, as the already low cash rate of 0.75% coming into the crisis meant the Reserve Bank was only able to marginally reduce interest rates, dropping the cash rate to 0.1% by November 2020.

Mortgage deferrals were widely used by Australian households and mark a major shift in the treatment of housing during a crisis. In June 2020, 11 per cent of Australian mortgages, representing about half a million loans with a total value of $196 billion, were deferred. Deferrals were more likely to be extended to loans with higher loan to value ratios, indicating more recent owner occupiers and highly leveraged investors (APRA 2020). Under any other circumstances, that number of households not meeting their mortgage repayments would be indicative of a housing crisis. By way of comparison, at the height of the GFC in the United States, the rate of defaulting mortgages reached the exact same number of 11 per cent (Stanga *et al*. 2019: 42). Australian government authorities have enabled households to maintain positions that would normally be considered defaulting in order to prevent forced sales and sharper declines in house prices.

Government policies to support renters were not as forthcoming as those directed at homeowners. Globally, a common response to the pandemic was a moratorium on evictions and rental payment reductions or deferments (Maalsen *et al.* 2020). In Australia, in contrast to the swift implementation of the mortgage deferral system, political negotiations over rent deferrals or reductions were more drawn out. After multiple meetings where the issue was on the agenda but not resolved, the National Cabinet, comprising the federal Prime Minister and the state Premiers, announced a moratorium on evictions for those with a 25% or more loss in weekly household income, excluding those in social housing. Other measures for tenants were also enacted, including rent control and financial assistance for tenants facing hardship, at state and federal levels (AHURI 2020). A series of measures was also directed towards landlords with the intention that they would limit financial stress and enable landlords to reduce rent, including land tax relief (AHURI 2020).

However, tenants' rights to access the rental payment deferrals or reductions were significantly weaker than homeowners' rights to access mortgages deferrals. The power of investors was preserved by leaving any such arrangements to negotiations between tenants and landlords, with some new mechanisms for mediation (Prime Minister of Australia 2020; AHURI 2020).

Even these limited measures were enacted unevenly and haphazardly. For example, the Tenants Union of NSW (TUNSW) reports that even though some landlords agreed to rent reductions, the typical response appeared to be an offer of a rent deferral rather than a rent waiver (TUNSW 2020). Rent deferrals often lacked clarity around repayment timeframes and failed to recognise the additional financial hardship that would result from accumulated debts arising from rental arrears. Many tenants reported that such arrangements forced them to vacate, breaking their lease and accruing additional fees in the process (TUNSW 2020: 6). Tenants who tried to negotiate with their landlords in 'good faith' frequently reported receiving either no response or significantly delayed responses to their requests, intimidation from their real estate agent or landlord, or pressure to withdraw funds from their superannuation. The nature of the eviction moratorium eligibility requirements meant that many renters who were struggling financially were unable to access the protection. This was particularly the case in shared households where tenants were unable to cover the rent difference arising when one or more flatmates lost a job or had a significant reduction in income (TUNSW 2020: 6-9).

The bias towards homeowners and investors over renters in these emergency policy responses to COVID-19 is a reflection of the extent to which policymaking is locked in to supporting house prices. Rather than securing housing as shelter for homeowners and renters alike, the policy makers indicated that their aim was to achieve a stabilisation of house prices. This is not to deny that the public income support provided during the COVID crisis has played a significant role in reducing poverty and improving the well-being of lower-income groups. Indeed, progressive advocates of public income support were quick to point out that the effectiveness of COVID-era measures in addressing poverty gave the lie to time-honoured conservative arguments that the sources of poverty are just too complex to be successfully targeted through policy. What we are arguing is that these outcomes, welcome as they are, should be seen as largely derivative with respect to the way the broader stabilising purpose of the COVID measures were conceived.

In a different welfare system, assistance would have been made available conditional on means-testing: prior to qualifying for public assistance, one would be expected to dig into one's savings and sell one's assets. Such harsh means-testing is rare, and especially in Australia the home is systematically excluded from means-testing. Yet, it is not just that the COVID measures have been particularly forgiving in this regard; rather, *their very point was to prevent people from having to sell their assets*. The objective rationale of public income support was to keep afloat middle-class, property-owning households with substantial net worth and to make sure they would not be forced to liquidate their assets. In the middle-class asset economy, as in the sphere of high finance, crisis management is only effective if it actually prevents households from having to sell their assets and triggering a downward price spiral. Bailouts can only work effectively on the basis of substantial payments provided with minimal questions asked and few conditions set. Further, once this logic of relatively generous public assistance is in train, for reasons of democratic legitimacy it needs to be applied on a relatively universal basis, which is why poorer constituencies have been able to benefit. Any levelling effects of public income assistance are likely to be short-lived, whereas the further entrenchment through public support of the lock-in/lock-out dynamics of the asset economy will have much more structural effects. Indeed, and as the special measures are being rolled back, non-asset owners in Australia have found themselves in a relatively worse position, not least because of house price increases during and after the immediate crisis period.

Comments from both Treasury and the Reserve Bank emphasised the role of policy settings in enabling 'forbearance' by banks toward struggling borrowers to mitigate house price falls, and to avoid forced sales (Irvine 2020; Reserve Bank of Australia 2020a: 4). Reserve Bank internal publications reveal that its own emergency measures, such as providing cheap loans, quantitative easing and reducing interest rates were aimed at 'supporting asset prices and balance sheets' (Reserve Bank of Australia 2020b). This illustrates the extent to which residential property prices are viewed as central to the Reserve Bank's macroeconomic management goals. Instead of seeking to manage demand by using monetary policy to change mortgage repayment costs, monetary policy now, in effect, seeks to actively manage house prices as a transmission belt to overall spending levels. For the Reserve Bank, the macroeconomic logic is represented as a simple equation: '↑ asset prices → ↑ wealth → ↑ household spending' (Reserve Bank of Australia 2020b). Correspondence between Reserve

Bank staff showed they were even concerned about avoiding the *perception* of possible house price falls due to flow on negative 'wealth effects' in the macroeconomy (Reserve Bank of Australia 2020a). In early 2021, reflecting on the experience of the last year, Reserve Bank Govenor Phillip Lowe (2021) stated:

> the housing market has been more resilient than expected and this has been helpful in terms of the overall economy. The past year would have been even more complicated if there had been large and widespread falls in housing prices.

Despite unevenness in impacts between geographies and property types, Australian house prices were kept relatively stable in the period when the emergency policy response was in place. Overall, in 2020, Australian capital city average dwelling pricing actually *increased* by 2 per cent, making residential property the best performing asset class in Australia for the year. In the most acute phase of the crisis, from March to September 2020, the peak to trough decline was only 2.8 per cent, far lower than predictions made by many commentators (Joye 2021). The value of new housing loans issued in 2020 was also the third highest on record, behind only 2015 and 2017 (ABS 2021).

The dynamics of the asset economy lock-in that shaped the Australian government's emergency response to COVID-19 are also evident in two other initiatives announced by the Australian government: the 'Homebuilder' policy and repeal of 'responsible lending' laws. Homebuilder, announced in June 2020, was notable because it was the government's first major stimulus policy – as opposed to emergency liquidity support. It provides $25,000 grants for major renovations or new build homes and was framed as a way of providing support to construction jobs. This reflects the fact that the recent decades of house price inflation have resulted in an economy that is especially dependent on the construction industry: construction is the third-biggest employer in Australia and the only industry outside the services sector to have had significant job growth in recent years (Department of Employment, Skills, Small and Family Business 2019). The government's decision to provide stimulus for the construction industry through Homebuilder, rather than for instance new social housing, meant that it was in effect assisting already asset-wealthy households to add value to their homes through renovations and expanding private housing ownership through new builds. By the end of December 2020, both the number of new dwelling approvals

and the value of residential alterations and additions had reached record highs (Duke 2021).

The Australian government's plans to repeal 'responsible lending' laws, announced in September 2020, are likely to have further on-going consequences. The government argued that the change was needed in order for households to secure 'timely access to credit, particularly as the economy recovers following the COVID crisis' (Australian Government 2020). Significantly, responsible lending laws, which placed greater onus on lenders in assessing the credit risk of borrowers, had been implemented in 2009 in response to the role that sub-prime lending played in triggering the GFC. Their repeal would allow banks to shift their lending criteria away from the capacity of borrowers to service their debts and towards the expectations of housing price increases, underpinned by assumptions that mortgaged home-owners will do everything in their powers to hold on to their assets in times of economic stress, with the backing of government policy. The government's plans in this area go against some of the findings of the Banking Royal Commission of 2017 and have not gone uncontested. But, whatever the outcome of this particular proposal will be, the fact that mortgage lending liberalisation consistently features as the go-to option for stimulating economic growth is evidence of the extent to which the rise of the asset economy has locked in a mode of governing that prioritises rising asset prices.

## Conclusion

The prominence of the housing market in COVID-19 emergency responses and stimulus plans reveals the structural centrality of asset politics. As the Australian government has sought to stabilise house prices, the structural drivers of the asset economy and its distinctive combination of property inflation and wage stagnation, have deepened during the pandemic. Treasury (which has been prone to make optimistic wage price forecasts) is forecasting the COVID-19 shock to drive real wage growth to zero for the next few years (Commonwealth of Australia 2020: 1–8). At the same time, the Governor of the Reserve Bank, having reduced the cash rate to almost zero, has provided forward guidance that monetary policy will continue to support asset prices, stating 'we do not expect [interest rate rises] before 2024, and it is possible that it will be later than this. So interest rates are going to be low for quite a while yet' (Lowe 2021).

Therefore, the combined effect of the economic impact of the COVID-19 shock and policy responses to it has been to increase the relative advantage of asset owners who have benefited most from the asset economy and have been least affected by job losses.

The implementation of the new fiscal, monetary and regulatory responses to the crisis also creates expectations that governments will shore up housing markets when the next crisis hits, driving further asset price appreciation as the pandemic recedes. At the time of writing (May 2021), property prices in Australia are again rising at record speed. This means that those members of 'Generation Rent' discussed above will be yet further locked out of the asset economy. The labour market effects of the COVID-19 crisis have not been equally distributed, with job losses and emerging long-term unemployment disproportionately concentrated among young and precarious workers (Tattersall *et al*. 2020), who are also most likely to be renters and the least likely to become homeowners (unless they can benefit from inheritance or other transfers from their parents). The structural inequalities of the asset economy have become further locked in.

Several decades of asset inflation and wage stagnation have fundamentally reworked the social structure, or what sociologists refer to as patterns of class or social stratification (Adkins *et al.* 2019; 2020). In a context where property prices continue to rise faster than wages, this reworking of the social structure is expressed in the fact that even where people have similar jobs or earn the same wages, deep inequalities can exist between those who own housing assets and those who do not. This marks a major shift in the ordering of Anglo-capitalist societies, given that during the Keynesian era life chances and socio-economic positions were tied to jobs and occupations. One plausible theoretical framing of this dynamic is in terms of generational inequality. We have drawn on such a perspective in this article to highlight the growth of a 'Generation Rent' – a generation for which renting is not a temporary affair but a lifelong predicament. We have also emphasised that this structural disadvantage coincides with other sources of inequality, particularly precarious employment. The obvious contrast is with the furtunes of the 'baby boomer' generation (those born from 1946 to 1964) who, having enjoyed stable income flow from labour and much lower house prices, are seen as having been the prime beneficiaries from asset price appreciation (Gardiner 2016; Willetts 2010).

However, it is crucial to recognise that this generational dimension has no independent status: asset holdings pass from one generation to the next. What a simple generational interpretation misses is the logic of inter-generational dynamics. While older baby boomer generations were in a better position to buy property through savings from wage incomes, this option has become less accessible to younger generations who instead are increasingly dependent on the ability and willingness of their parents to lend or give them money for a deposit in order to enter the housing market, as well as on the preparedness of parents to provide equity fuelled mortgage guarantees (Adkins *et al.* 2019). Indeed, there has been a sharp increase in inter-vivos intergenerational transfers of wealth for the purposes of home purchasing in Anglo-capitalist countries (Flynn and Schwartz 2017; Köppe 2018; Ronald and Lennartz 2018), including transfers raised through equity releases from the family home (Udagawa and Sanderson 2017).

Inheritance has historically served as a critical mechanism for the transfer of private wealth from one generation to the next and has done so especially for the very wealthiest (Beckert 2008). In the asset economy, however, where asset holding is a key determinant of life chances and has spread well beyond the ultra-rich 1%, inheritance and inter-vivos transfers take on a new significance. They are becoming an important variable in the reproduction of wealth-based inequalities and asset-based class positions across the socio-economic spectrum. Receiving a cash transfer from parents for a deposit on a property or having parents who are willing to put up their own property as security on the purchase of another can be decisive for the ability of young adults to enter the property market. In the Australian case, for example, young adults are significantly more likely to purchase a home if they receive financial help from their parents (Barrett *et al.* 2015). There is then a major rift emerging in younger cohorts coalescing around inheritance and wealth transfers, with those whose access to parental wealth offers a route into home ownership enjoying a distinct advantage. Through the mechanisms of inheritance and wealth transfers, these cohorts are offered participation in property-based asset inflation and capital gains. In this context, it certainly cannot be said that the millennial generation is united in a shared experience of lock-out. Instead, the millennial phenomenon is significant precisely because it is in this generation that the fault lines engendered by the asset economy have become clearly visible.

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# HOW ECONOMIC PARADIGMS SHAPE INCOME GROWTH FOR THE RICH AND THE REST IN LIBERAL MARKET ECONOMIES

**David Peetz and Georgina Murray**

'We must', said British politician Margaret Thatcher, in a press conference during her victorious 1979 election campaign, 'increase the slice of the cake before we can decide how that extra shall be sliced up' (Thatcher 1979a). Two months later, she said 'in Britain, we spent too much time dividing up the cake' (Thatcher 1979b). This 'cake' (or sometimes 'pie') has been commonly used as a metaphor by the advocates of neoliberalism (or at least 'free markets') to argue that neoliberal policies have promoted economic growth and made everyone better off. The implication is that giving the rich a bigger slice of the cake is not a problem if the cake is bigger anyway.

An opposing view is that the core value of neoliberalism, individualism (Bloom and Rhodes 2018), is antithetical to 'universalistic, affectively-led forms of solidarity' and therefore has adverse effects on the social production and reproduction necessary to long-term capitalist production (Lynch and Kalaitzake 2020). Other critics have argued that, because neoliberalism has increased inequality, the resulting tendency to underconsumption leads to a crisis of capitalist accumulation (Clarke 1991) and slows economic growth (Kotz 2008).

Yet, if lower rates of economic growth were a consequence of neoliberalism – if the cake got smaller – would it not be irrational for capital to support neoliberalism? Or is it the case that capital maintains its

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support of neoliberalism because it actually enhances growth of the incomes of the rich, even while slowing income growth for the rest?

Trying to cast further light on these unresolved questions, this article analyses new data about what has actually happened to inequality and income growth in five industrialised countries – the USA, Canada, the UK, Australia and New Zealand. We divide the population of each into three unequally sized groups – the richest one percent, the next richest four percent and the 95% majority. We compare two time periods, 1952-1980 and 1981-2016. The former was a period during which Keynesian economic views constituted the dominant macroeconomic policy paradigm (the 'Keynesian era', for short), whereas neoliberal views have generally held sway in the latter period (the 'neoliberal era', for short). We use a relatively new international database on incomes to see what happened to income growth for the three different groups. We investigate whether the average annual real income growth of each group before neoliberalism was lower or higher than that during the neoliberal era. Thus, the focus is both on income growth and inequality. As the dynamics of capitalism create constant technological change and productivity growth, growth in real incomes is the norm, but the issue is: in which period do incomes rise more – and for whom?

The answers to these questions have implications for democratic processes because the neoliberal project has dominated public policy in many countries over the past three decades, allegedly because its efficiency gains are in the interests of most people. Indeed, both its proponents and critics recognise that neoliberalism affects both income distribution and the dynamics of capitalism that shape economic growth. The question is therefore an empirical one: how do these effects actually play out in practice? There are enormous political economic implications, including for the relationship of neoliberalism to democracy (Phelan and Dawes 2018; Robinson 2014; DuRand 2019). This matter was considered at length in the previous issue of this journal and, while we do not canvass it in detail here, we touch upon the implications of the empirical evidence in the concluding section of this article.

## Background

In 2016, a short but significant contribution to understanding the link between inequality and public policy was made by global inequality

researcher Branko Milanovic (2016). He examined the range of plausible intra-national income distributions, based on (and hence defined as) those that had existed to date in different countries and periods. He concluded that the rich have an incentive to prioritise policies that change the distribution of income in their favour, as plausible changes to patterns of income distribution could deliver substantial gains for them. By comparison, middle income earners would tend to prioritise policies that promote economic growth, as most plausible income distributions make little difference to them. But what if the rich not only had their way in public policy, but the distributional policies that benefited them also impeded economic growth? One example of how this might work could be: cuts in tax on the rich (something observed in most liberal market economies) ultimately lead to the imposition of restrictive fiscal policy, which then slows down economic growth because it restrains the productive capacity of the economy through limiting demand. In this scenario, the rich may be better off, but the rest of society are worse off.

Neoliberalism is a term used, often pejoratively, to describe a set of *public policy* settings, in place since roughly 1980, that prioritise participants in private markets over individual workers or citizens. It commonly features policies for privatisation of public services or assets, deregulation of product or labour markets, and the running of public sector agencies along 'corporate' lines. While outwardly promoting 'free market' solutions to economic problems in any circumstance, this depiction is contested, as sometimes the policies that promote the interests of capital run against market philosophies (Bloom and Rhodes 2018, 19). Although a dominant philosophy amongst policy makers, neoliberalism (once referred to in Australia as 'economic rationalism' [Pusey 2003]) has never attained widespread acceptance in the community at large (Pusey and Turnbull 2005; Wilson, Meagher, and Breusch 2005; Murray and Peetz 2010; Peetz 2018a).

There is a substantial body of research claiming that neoliberalism has increased inequality in a range of areas and facilitated acceptance of inequality (Alvaredo *et al.* 2018; Galvin 2020; Mays 2020; Bettache, Chiu, and Beattie 2020). Indeed, the current inequalities are increasingly in the news. Consider, for example, the stark contrast between Australian mining magnate Andrew Forrest's personal wealth of $8 billion, or the amassed $1 trillion wealth of the twelve American tech billionaires, and the fate of the 8,500 Qantas workers losing their jobs in 2020 during the COVID-19 pandemic. An Oxfam report identified 2153 billionaires as having more

wealth than 4.6 billion people who constitute 60 percent of the global population (Oxfam 2020).

Tightly intertwined with neoliberalism has been the financialisation of capitalist economies. This concept refers to a 'process whereby financial markets, financial institutions, and financial elites gain greater influence over economic policy and economic outcomes' (Palley 2007). Its implications extend beyond the depictions of financiers as 'noncompetitive and clubbish' rent seekers (Zingales 2015). Households have become increasingly indebted (Kotz 2008). Large corporations have acquired financial capacities that have changed the financial sector, allowing the emergence of a (hardly regulated) banking sector and a shift to investment banking/fee generating business. The behaviour of non-financial businesses has also changed, becoming orientated to shareholder value rather than long-term growth (Lapavitsas 2011; Carroll and Sapinski 2016; Stockhammer 2012). Elsewhere, we have shown how, for Australia since the 1980s, financialisation has been associated with a shift in the economic surplus from labour and capital in other industries to finance capital (Peetz 2018b). In this article, we do not seek to disentangle the separate effects of financialisation and neoliberalism. Rather, we treat financialisation as a market process that has been facilitated or even caused by the shift in economic policies between the Keynesian and neoliberal eras. We compare the patterns of growth in incomes during these two periods, rather than seeking to dissect what part of the outcomes under neoliberalism is attributable to financialisation and what part to some other aspect of neoliberalism, such as changes in tax rates, health policy or education policy, all of which may play some role in explaining developments.

## Methodology

Data for this article come from the World Inequality Database (WID) (at *https://wid.world).* This is the more extensive and sophisticated successor to the World Top Income Database (Alvaredo *et al.* 2013), used by researchers such as Saez, Atkinson, and Piketty (2014) to undertake their path-breaking research into inequality. This database enables comparisons to be made between the income levels of various decile or percentile groups within a country, albeit with some variations in data availability between countries. It allows us to look at not only changes in the

distribution of income but, more importantly, at the distribution of changes in rates of real income growth between different groups in the population.

A major advantage of this database over previous ways of seeing inequality is that WID makes use of administrative data (such as tax returns) in combination with national accounts. Earlier estimates of income distributions relied on sample surveys which suffered from incomplete coverage, the imprecision of top-end truncated grouped data and no auditing of truth. Severe under-reporting of the incomes of the rich was a pervasive feature. It is likely that incomes of very high income-earners are still underestimated in the WID databases, but by not as much. Their growth may also be underestimated if the use of tax 'shelters' has increased in recent years, which appears to have happened in several countries (Alvaredo *et al.* 2018). As argued by the WID researchers, 'surveys provide useful information and cover many countries, but they do not inform adequately on income and wealth levels of the richest individuals'. Yet this is a group in which we have a particular interest.

The starting point is national accounts data from the relevant countries, and so the collation of real (as opposed to nominal) income data is undertaken by each nation's statistical agencies. Full details of the methodology of the WID are on its website (*https://wid.world/methodology*). Previous studies have analysed growth pathways or quantified distributional patterns, but using WID enables us to quantify the combined effects of two simultaneous forces (affecting distribution and productive capacity) in ways that previous studies did not allow.

In the analysis here, the main comparisons are between those in three unequally sized and mutually exclusive groups that, together, cover the population: the top one percent, the bottom 95 percent, and those on incomes between the 95$^{th}$ and 99$^{th}$ percentiles. These three groups can be conceived of, respectively, as the 'highest income', 'middle and lower income', and 'intermediate-high income' groups. Estimates for the first and last categories above directly appear in the database (as 'p99p100' and 'p95p99'), and those for the other category ('p0p95') are easily calculated by subtracting the estimated total incomes of the 'p99p100' and 'p95p99' groups from the total income of the whole population ('p0p100'). No imputation is necessary, as the database contains information on real incomes for the above groups as described.

Our core interest is in the differing experiences of the highest income group (p99p100) and the great majority that makes up the lowest 95

percent (p0p95). We want to investigate 'the rich' and 'the rest'. For that reason, we do not break down the latter group into deciles or quintiles; we are not concerned with the nuance of differences in outcomes between the third and fourth quintiles, but with differences between outcomes for the highest income group and the rest. The 'intermediate-high income group' (p95p99) lies between the other two. In many earlier studies it would have simply been part of the top 5 percent or the top 10 percent, but our study separates this group out because, as we shall see, its experiences are very different to those of either of the other two groups. It is a high-income group but its members have not enjoyed the same rewards from the effects of neoliberalism as have the top 1 percent. Separating the two groups is therefore important for highlighting the concentration of the income gains at the very top.

Our focus is on five countries – the USA, Canada, Australia, New Zealand and the United Kingdom – that are Anglophone countries with liberal market economies. They most embody the fruits of the neoliberal project (Hall and Soskice 2001). We also refer to a sixth such country, Ireland, although the information in the WID for it does not cover a long enough period for its full inclusion here. The data for each of these countries in the WID varies both in terms of exactly what they cover and the period covered. Our aim is to look at the roughly three decades before and after the introduction of neoliberalism. As the WID does not have the relevant data for each year for each country, we only included the five Anglophone liberal market economies where there was a long enough period of time before and after the introduction of neoliberalism to wash out 'noise' from the data (Silver 2012). We defined that period as a minimum of 15 years in each direction.

Defining the commencement of neoliberalism is no easy task, as it is not marked by a single event or a single policy measure. Indeed, each country has experienced its own variant of neoliberalism. Although some date its beginning to the imposition of the Pinochet government in Chile in 1973 (Connell 2010; Connell and Dados 2014), amongst industrialised nations, and especially in the Anglophone world, it is typically associated with the Thatcher and Reagan administrations. These governments were elected in the UK in 1979 and in the USA in 1980, respectively. Australians, however, may date neoliberalism to the deregulation of financial markets and foreign exchange in December 1983 (Humphrys 2019), or the response to the currency crisis of mid-1985, and even then it was constrained (Peetz and Bailey 2011). New Zealanders may attribute it to

Roger Douglas becoming the Finance Minister in 1984, commencing one of the largest privatisation programs (relative to the economy's overall modest size) in the industrialised world (Readron and Gray 2007). In light of these histories, the general benchmark date we use to separate the 'Keynesian period' and the 'period of neoliberalism' is 1980, but we also conduct a sensitivity analysis of the effects of using 1984 as the cut off, as well as, in the UK, 1979, Mrs. Thatcher's election year.

The main data item we use is referred to as average 'pre-tax national income' in WID. This is the benchmark distributional income concept in that database. It includes social insurance benefits (and removes corresponding contributions) but excludes other forms of redistribution (such as income tax and social assistance benefits). In some countries, however, we must use average 'fiscal income', which is close to the concept of taxable income (aside from the removal of basic deductions or taxable minimums). In the UK, we have to use both series. In all cases below, we identify which indicator we use and the periods covered; and the numbers we cite are the per capita averages of real incomes in the relevant income groups (for example, average real income in the highest percentile group).

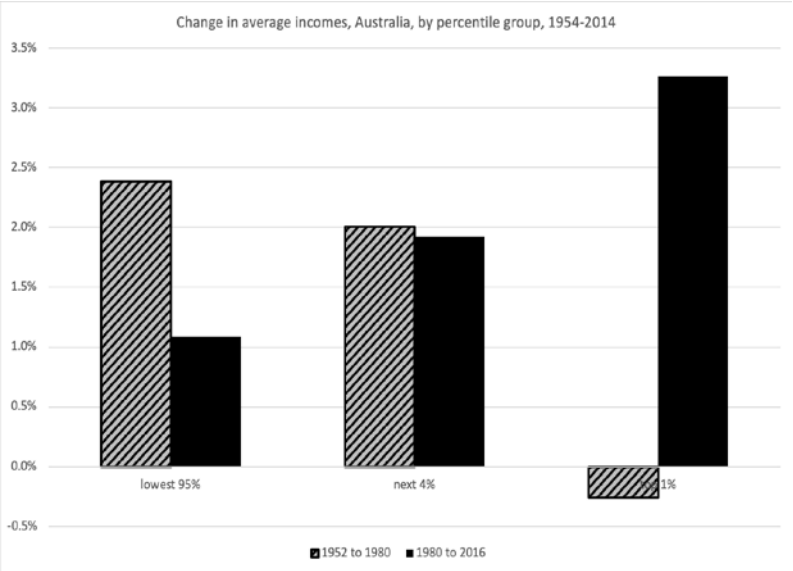
## Results: Country-by-country

We consider *Australia* first. As shown in Figure 1, pre-tax income growth amongst middle- and lower income groups in this country was greater than it was for the highest income groups during the 1953-1980 period. The average annual real income growth within the bottom 95 percent of the population was 2.4 percent, compared to 2.0 percent per annum in the group comprising the 95$^{th}$ to 99$^{th}$ percentiles, while it was stagnant (at minus 0.3 percent per annum) amongst the top one percent. After 1980, the rankings reversed. For the top one percent, real income growth turned strongly positive, at 3.3 percent per annum. For the lower 95 percent – that is, the great majority of the population – real income growth more than halved, to 1.1 percent per annum. For the 'intermediate-high income' group, real income growth remained little changed at 1.9 percent per annum.

A 1.3 percentage point drop in real income growth (from 2.4 to 1.1 percent) for the lower 95 percent might not sound like much, but it compounds over time. Had the rates of income growth for the 95% group during the

Keynesian era continued for the years after 1980, by 2016, the average incomes in that group would have been 58 percent higher (that is, AUD $39,000 higher) than they actually were.

**Figure 1: Change in average incomes, Australia, by percentile groups, 1952-1980 and 1980-2016**



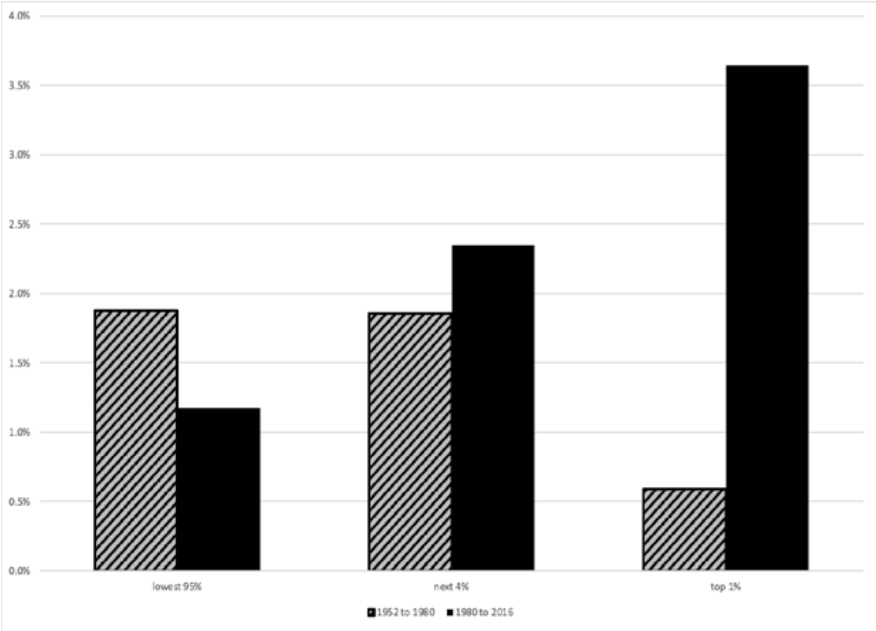

*Source*: Calculated from World Inequality Database

The sensitivity of the results to changes in the cut-off date are shown in the top part of the table in the Appendix to this article. Changing the cut-off date from 1980 to 1984 changes the numbers but not the rankings or the story. For the bottom 95 percent, annual real income growth, previously dropping from 2.4 to 1.1 percent in the two periods when 1980 is the cut-off, now drops from 2.2 to 1.3 percent when 1984 is the cut-off. For the top one percent, annual real income growth numbers shift from -0.3 and +3.3 percent respectively to -0.3 and +4.0 in the two periods. The 'intermediate-high income' group shifts from a very small decline in

growth (2.0 and 1.9 percent in the two periods) to a very small increase (1.8 and 2.3).

The picture that emerges is that, regardless of the precise cut-off date, income growth for the top one percent was restrained during the Keynesian era, whereas income growth for the top one percent greatly increased during the neoliberal era. However, between the two periods, income growth for most people has slowed.

**Figure 2: Change in average incomes, USA, by percentile groups, 1952-1980 and 1980-2016**




*Source*: Calculated from World Inequality Database

The *USA* followed a broadly similar pattern. As shown in Figure 2, between 1952 and 1980 (the Keynesian period), average annual real growth in pre-tax income amongst middle and low-income earners was 1.9 percent, similar to the 1.9 percent per annum in the 'intermediate-high income' 95 to 99 percentile group, and above the just 0.6 percent per annum amongst the top one percent. After 1980, in the neoliberal period

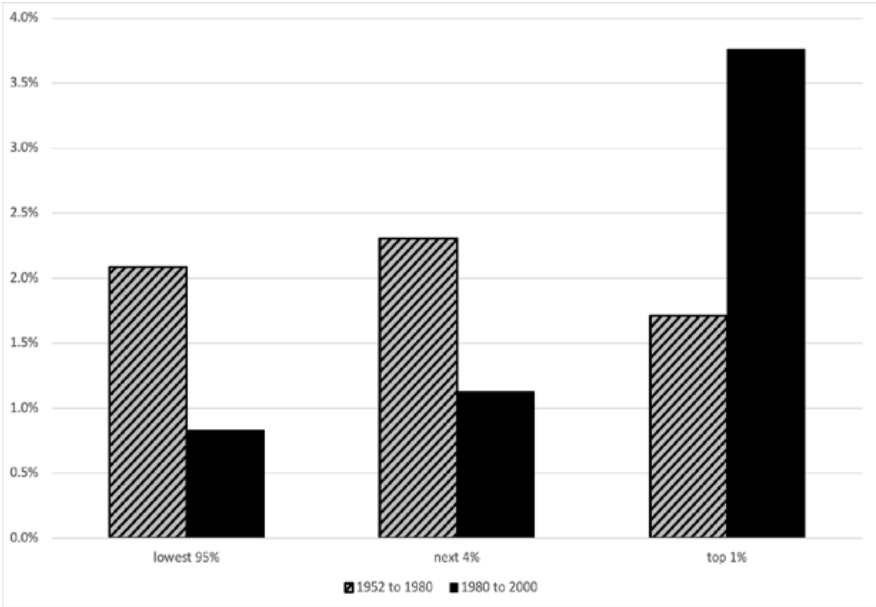
to 2016, average real income growth in the lower 95 percent fell from 1.9 to 1.2 percent (similar to the Australian rate). In the top one percent, however, growth rose six-fold to 3.6 percent, now triple the rate amongst the lower 95 percent. For the 'intermediate-high income' 95$^{th}$ to 99$^{th}$ percentile group, it rose slightly to 2.3 percent.

Again, changing the cut-off date to 1984 makes little difference, as shown by the data in the Appendix. It slightly increases the drop in the lower 95 percent (Keynesian era growth shifts from 1.9 to 2.0 percent, and the neoliberal era growth shifts from 1.2 to 1.1). It slightly reduces the increase for the top one percent (Keynesian era growth shifts from 0.6 to 1.2 percent, neoliberal growth from 3.6 to 3.0). It also evens out the pattern for the 'intermediate-high income' group (it becomes 2.1 percent per annum in both periods). These are quite minor effects.

For *Canada*, data on pre-tax national income was only available in the WID to 2000, so Figure 3 covers the period until then. For the lower 95 percent, real income growth more than halved from 2.1 percent per annum in the Keynesian period to 0.8 percent in the neoliberal period. For the top one percent, real income growth more than doubled from 1.7 percent per annum in the Keynesian period to 3.8 percent in the neoliberal period. For the 'intermediate-high income' group, real income growth also halved, from 2.3 percent to 1.1 percent per annum between the two periods.

Changing the cut-off to 1984 did not materially alter the rankings for the lower 95 percent or the top one percent, but it smoothed out the movement for the 'intermediate-high income' group. As in Australia, using the rather shorter time period for the neoliberal era ameliorates the decline for the middle and lower income earners (it becomes 0.8 percentage points instead of 1.3) and increases the improvement for very high-income earners (up from 2.0 to 3.5 percentage points). However, with a 1984 cut-off, annual real income growth for the 95$^{th}$ to 99$^{th}$ percentile group remains at 1.8 percent in both periods.

**Figure 3: Change in average incomes, Canada, by percentile groups, 1952-1980 and 1980-2000**



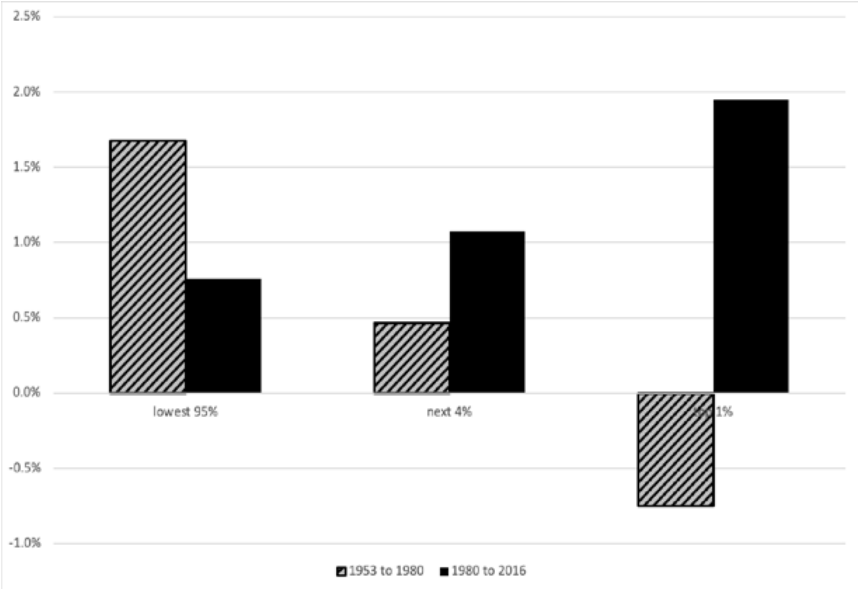

*Source*: Calculated from World Inequality Database

Regarding *New Zealand*, only fiscal income data is available for the long period on either side of the cut-off date. The overall picture, as shown in Figure 4, is similar to the other countries but with slightly lower average income growth in both periods. For the bulk of middle and lower-income earners, annual real income growth halved between the two time periods, from 1.7 percent in the 1953-1980 period to 0.8 percent in the 1980-2016 period. However, the top one percent of households experienced a major improvement in their circumstances: turning around from negative 0.8 percent annual real income growth in the Keynesian period to plus 1.9 percent annual growth in the neoliberal period. For those in the 'intermediate-high income' group, real annual income growth increased from 0.5 to 1.0 percent.

Changing the cut-off date to 1984 (thereby aligning it more closely with the ascension of Roger Douglas and the impact of his 'Rogernomics' on economic policy) again changed the numbers but not the rankings nor the core story. By that definition, middle and lower-income earners

experienced growth of 1.4 percent in the Keynesian period but only 0.9 percent in the neoliberal period, while the very high-income group went from 0.8 percent annual decline under Keynesianism to 2.3 percent annual growth under neoliberalism. The 'intermediate-high income' earners had a big improvement in fortunes, up from 0.2 percent growth in the Keynesian period to 1.4 percent in the neoliberal period, though this was again well below the growth enjoyed by the top one percent.

**Figure 4: Change in average incomes, New Zealand, by percentile groups, 1953-1980 and 1980-2016**

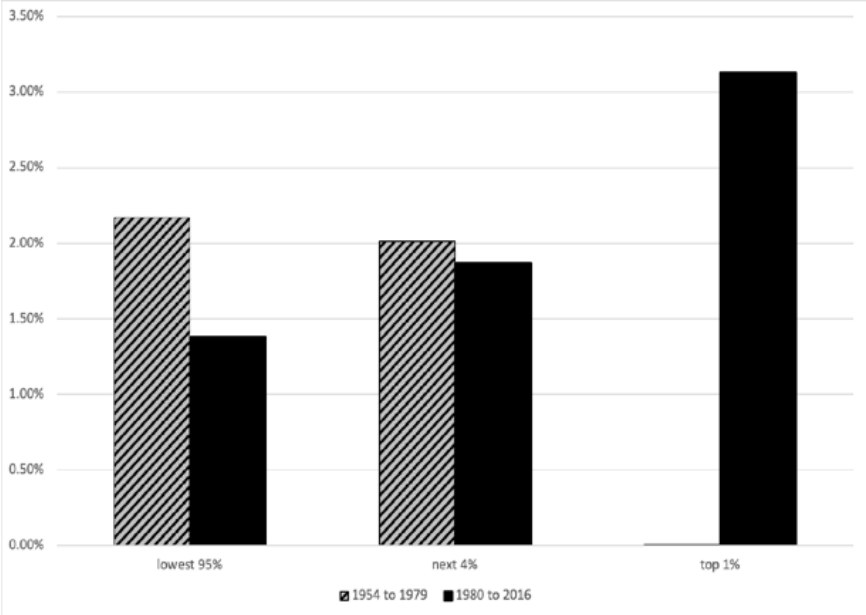



*Source:* Calculated from World Inequality Database

In the *United Kingdom*, the data is most problematic, in that data on pre-tax income was only available after 1980 but fiscal income data was available for decades before 1990 (but not in 1980). We decided to use those two series as separate sources for the pre- and post-neoliberalism data, as this was cleaner than attempting to splice the series, which would have required discretion about which dates to use. Because fiscal income data are not available for 1980, we use 1979 (the year Ms Thatcher was

elected) as the cut-off year. Using this method, real annual income growth for most people falls - from 2.2 percent per annum in the Keynesian period to 1.4 percent in the neoliberal period. In striking contrast, for the top one percent, annual real income growth goes from 0.01 percent to 3.1 percent. For the 'intermediate-high income' group, there is little difference, with growth of 2.0 percent and 1.9 percent in the two periods respectively.

**Figure 5: Change in average incomes, United Kingdom, by percentile groups, 1954-1979 and 1980-2016**




Source: Calculated from World Inequality Database

For the United Kingdom, unlike the other countries, however, the choice of cut-off makes quite a substantial difference, mainly because of the recession experienced by UK workers during 1980 and 1981. In those first two full years of the Thatcher government, average net national income fell by 3.1 percent and 2.0 percent respectively. While the different cut-off date makes little difference to the outcomes for the top one percent or the 'intermediate-high income' group, switching to a 1984 cut-off (and using the 'fiscal income' measure for the whole pre-1984 period) means

that average real income growth for the lower 95 percent becomes 1.4 percent in both the pre- and post-cut-off periods. The implication would be that, taking 1984 as the cut-off date, the top one percent captured almost all the benefits of income growth during the neoliberal era, while other groups' positions were only slightly changed; whereas, when using the 1980 cut-off, the implication is that the top one percent captured all the benefits of income growth but the lower 95 percent group were substantially worse off as a result. It is questionable as to whether, for the UK, the later date would be an appropriate cut-off for determining the start of neoliberalism, given the role the Thatcher government played, from the beginning, in neoliberalism in both the UK and internationally. Nonetheless, the statistical result is presented for completeness.

In the other industrialised Anglophone country, *Ireland*, the only data that are available (on fiscal income) cover the period after 1980; and, consistent with the data for all countries discussed already, they show annual real income growth for the top one percent in the neoliberal period, at 2.5 percent, above the 1.7 percent growth for the lower 95 percent group (with the 'intermediate-high income' group, at 1.9 percent, in between). We cannot tell whether this represented a fall in income, compared to the pre-neoliberal period, for the lower 95 percent, but the difference between that group and the top one percent was smaller here during the neoliberal period than in the other Anglophone countries discussed above. It is likely that the neoliberal agenda was not advanced as aggressively in Ireland as elsewhere. For example, its industrial relations policies in the 1980s were less anti-union and had fewer effects on union density than in the neighbouring UK (Freeman and Pelletier 1990).

Overall, the results across those liberal market economies for which we have data indicate that the shift from the Keynesian era to the neoliberal period was associated with an increase in real income growth for the top one percent, but a *fall* in real income growth for the majority of the population, that is those people in the bottom 95 percentiles of income. It therefore seems appropriate to conclude that, under neoliberalism, income growth for most people has slowed, while greatly increasing for the highest income recipients. In other words, though neoliberalism was premised on the promise of improved economic prosperity, it has actually delivered reduced economic prosperity for the majority of the population, while the prosperity of the very wealthy has surged. The experiences of people in the 'intermediate-high income' group, between the 95$^{th}$ to 99$^{th}$ percentiles, have been more mixed and varied between countries. That latter variability

should be hardly surprising, as each country has had its own variety of neoliberalism, characterised by different clusters of policies introduced at different times.

Despite the differences, the most striking feature of the country-by-country analysis is the overall consistency of the results. On average, the annual real income growth for the majority of the population halved from around two percent per year to around one percent per year between the Keynesian and neoliberal eras. The beneficiaries of the shift to neoliberal policies were the top one percent, who typically saw their annual real income growth rise to around three percent per year, usually more than doubling the rate during the earlier Keynesian period. It is also pertinent to recall that, if the scope for tax evasion has increased (which is highly likely), then the foregoing analysis understates the accelerated income growth at the top end.

## Overall economic losses

This is not just a zero-sum game, which is how issues of redistribution are commonly depicted. The losses for the majority outweigh the gains for the minority at the top, so it has become a negative-sum game. The shaded rows in the Appendix to this article show, for each country, what proportion of the losses experienced by those in the lower 95 percent were experienced as gains by the top one percent. That is, we projected what average incomes would have been if Keynesian rates of income growth had continued, and then compared that with actual average incomes in 2016 (or that latest earlier date, if 2016 was not available). We undertook those projections for both the lower 95 percent and the top one percent, and then calculated the ratio between the two. We found that, in almost all cases, the loss of income for all those in the lower 95 percent was greater that the gain in income accruing to the top one percent.

This result is substantially because there are so many people in the majority group, compared to the small minority who benefit, even though the proportionate gain to individuals in that minority is greater than the proportionate loss of people in the majority group. So, it is not just a matter of neoliberalism creating an environment in which the rich can acquire the resources that would otherwise accrue to the middle and the poor. Rather, the implication is that the neoliberal policies lead to the destruction of opportunity for resource creation because they ultimately hamper the

ability of the economy to generate productivity growth. As mentioned earlier, the fiscal policy response to tax cuts for the rich is one way that growth may be retarded, but others may include:

- cross-subsidies from productive, renewable energy sectors to fossil fuel-based corporations
- privatisation of technical education that increases returns to capital but hampers skill formation
- subsidisation of private health insurance at the expense of efficient universal health care
- enabling share buy-backs that reduce the investment funds available to corporations
- liberating financiers to develop collateralised debt obligations that absorb financial resources that could otherwise be more productively used.

Some of these factors can be strongly linked to financialisation, others less so.

Not surprisingly, the empirical evidence on the effects of the switch to a neoliberal approach in the Anglophone countries varies between them and also according to the choice of cut-off year. The latter choice had only a small impact on average growth rates but, when compounded over three and a half decades, those small initial differences can end up quite large. We hesitate to claim a precise estimate of the ratio of top income group gains to lower income group losses for each country. However, looking at the five countries for which we have data and taking the preferred 1980 cut-off, the switch to neoliberalism resulted in a median ratio of the gain for the top one percent to the loss for the bottom 95 percent of about a quarter. When we applied the 1984 cut-off, the median was only slightly more. If we want to work out how much of the loss of income growth for the majority is due to redistribution to the rich (the ‘zero-sum game’ component) then it would be equal to the gain for the top one percent. That means that, of the loss of potential income for those in the majority (the lower 95 percent), roughly one-quarter can be attributed to redistribution to the top one percent, and roughly three quarters to non-redistributive effects, that is to the slowing of growth or the loss of productive capacity in the economy.

## Conclusions

Another common metaphor publicly used by advocates of neoliberalism is that a 'rising tide lifts all boats' (Nugent 2006) — though in private they refer to 'rising tides lifting yachts' (Kapur *et al.* 2006). A more accurate metaphor might be of the yachtsmen boosting their speed by discarding fishing gear, which then gets tangled in the propellers of the tinnies behind. The evidence reviewed in this article shows that neoliberal economic regimes have an impact on both distribution (widening inequality) and growth (slowing the rate). Furthermore, it appears that this combination adversely affects all but the highest income earners within a country. As Chang (2012) commented, 'the rich got the bigger slice of the pie all right, but they have actually reduced the pace at which the pie is growing'. And why should it be any other way? The ideological centrepieces of neoliberalism - individualism and competition - are not about baking a bigger wheat-based product, they are about grabbing the biggest slices.

It is common to see the rise of neoliberalism as associated with the economic crises of the 1970s that created stagflation — simultaneous unemployment and inflation (Centeno and Cohen 2012). The analysis here highlights the importance of the shift to neoliberalism for the rich in reversing the relative losses (and in some places, the stagnation in absolute terms) of income growth they had experienced during the era of the Keynesian compromise. While stagflation might have been used as hook by the rich to persuade policy-makers of the need for change, the effects of this change were to redistribute income and reduce the growth it was meant to boost.

So, it is not irrational for the rich to support neoliberalism, even though it slows economic growth compared to its predecessor economic policy regime. This is because, quite simply, it increases their income growth, even while slowing it for the rest.

Milanovic's (2016) interpretation appears accurate, but it invites adaptation. To Milanovic, the rich will favour policies that redistribute towards them, ahead of policies that favour economic growth. The middle will favour policies of economic growth and be indifferent towards distributional policies because they do not affect them much. In reality, however, they are affected. The choice of policy approach not only influences income distribution but also rates of income growth for the middle and lower-income groups. Middle income groups may not see

themselves as having a strong interest in distributional policy, but in fact it is strongly in their interests to be concerned.

This analysis my also cast light on the nature of the support given to neoliberal policies by the richest section of society – the group with the most political influence. The neoliberal regime, which generates what economists would consider to be sub-optimal outcomes, is reproduced because it generates benefits for the very rich. These highest income earners promote policies that reduce the progressivity of the tax system and/or increase the surplus generated by labour that can be transformed into profit. They do not, on average, promote growth: rather, put simply, the public policy approach that they support retards growth.

The increasing inequality of income understates the inequality of power. This is because even those with zero power must receive a subsistence wage to enable the reproduction of labour. When wealth and power are more concentrated in a small group, the more likely it is that the rich have a very strong say in policy, and this increases the likelihood that public policy will retard growth. As inequality of income increases, the inequality of power increases as well, probably even more so. If democracy is about equality of agency, such that 'the laws are made by the same people to whom they apply' (Post 2006), then widening inequality of power weakens democracy. As neoliberal policies slow down income growth for the majority of people (even if not in a consistent way), there is also a growing tension between claims about the efficacy of neoliberal policies and people's lived experiences. If this leads to an increasingly widespread perception that government is run by an elite that acts against the interests of the people, then democracy can become dangerous for the beneficiaries of neoliberalism.

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# APPENDIX

## Sensitivity analysis of indicators and ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles

| Country | Indicator | With 1980 cut-off | With 1984 cut-off |
|---|---|---|---|
| **Australia** | real income growth, Keynesian period, 0-95th percentile | 2.4% | 2.2% |
| | real income growth, neoliberal period, 0-95th percentiles | 1.1% | 1.3% |
| | difference, 0-95th percentiles | **-1.3%** | **-0.9%** |
| | real income growth, Keynesian period, 99-100th percentile | -0.3% | -0.3% |
| | real income growth, neoliberal period, 99-100th percentiles | 3.3% | 4.0% |
| | difference, 99-100th percentiles | **3.5%** | **4.3%** |
| | ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016 | 14% | 23% |
| **USA** | real income growth, Keynesian period, 0-95th percentile | 1.9% | 2.0% |
| | real income growth, neoliberal period, 0-95th percentiles | 1.2% | 1.1% |
| | difference, 0-95th percentiles | **-0.7%** | **-0.9%** |
| | real income growth, Keynesian period, 99-100th percentile | 0.6% | 1.2% |
| | real income growth, neoliberal period, 99-100th percentiles | 3.6% | 3.0% |
| | difference, 99-100th percentiles | **3.1%** | **1.7%** |

| | | | |
|---|---|---|---|
| | ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016 | 47% | 33% |
| **Canada** | real income growth, Keynesian period, 0-95th percentile | 2.1% | 1.8% |
| | real income growth, neoliberal period, 0-95th percentiles | 0.8% | 1.0% |
| | difference, 0-95th percentiles | **-1.3%** | **-0.8%** |
| | real income growth, Keynesian period, 99-100th percentile | 1.7% | 1.4% |
| | real income growth, neoliberal period, 99-100th percentiles | 3.8% | 4.9% |
| | difference, 99-100th percentiles | **2.0%** | **3.5%** |
| | ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2000 | 24% | 85% |
| **New Zealand** | real income growth, Keynesian period, 0-95th percentile | 1.7% | 1.4% |
| | real income growth, neoliberal period, 0-95th percentiles | 0.8% | 0.9% |
| | difference, 0-95th percentiles | **-0.9%** | **-0.4%** |
| | real income growth, Keynesian period, 99-100th percentile | -0.8% | -0.8% |
| | real income growth, neoliberal period, 99-100th percentiles | 1.9% | 2.3% |
| | difference, 99-100th percentiles | **2.7%** | **3.1%** |
| | ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016 | 17% | 25% |
| **UK** | real income growth, Keynesian period, 0-95th percentile | 2.2% | 1.4% |
| | real income growth, neoliberal period, 0-95th percentiles | 1.4% | 1.4% |

| | | | |
|---|---|---|---|
| | difference, 0-95th percentiles | **-0.8%** | **0.1%** |
| | real income growth, Keynesian period, 99-100th percentile | 0.0% | 0.3% |
| | real income growth, neoliberal period, 99-100th percentiles | 3.1% | 3.2% |
| | difference, 99-100th percentiles | **3.1%** | **2.9%** |
| | ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016 | 32% | na |

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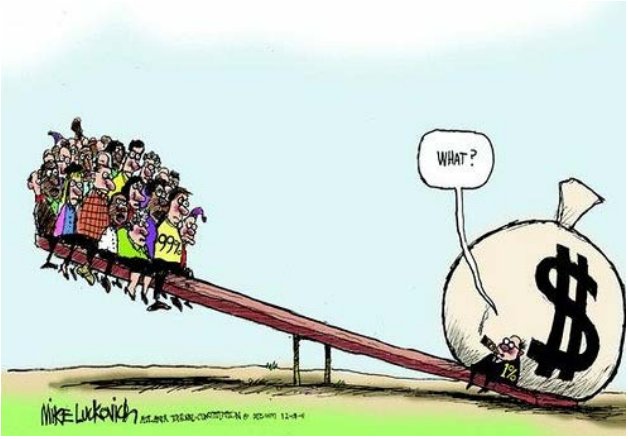

# WHAT WENT WRONG WITH SUPER?

## FINANCIALISATION AND AUSTRALIA'S RETIREMENT INCOME SYSTEM

**Ray Broomhill, Monica Costa, Siobhan Austen and Rhonda Sharp**

In this article we examine the impact of the Australian retirement income system on retirees, the existing evidence for which remains limited and contested. Over the past few decades, Australia's system has experienced major restructuring through a shift to a more individualised and privatised form of retirement provision. This shift has been part of a global trend. Internationally, policy 'reforms' described as pension financialisation have changed the way in which the retirement incomes of older citizens are now provided. Pension financialisation can be summarised as the shift towards a retirement income provision system that is managed primarily by private financial institutions. The ILO has identified thirty countries that privatised fully or partially their public pensions between 1981 and 2014 (ILO 2018:36). Following the end of the post-war Keynesian era, pension privatisation and financialisation were driven by a coalition of global institutional actors, including in particular the World Bank, that spread the reforms 'as part of a well-organised campaign' (Orenstein 2008:71-3; Minns 1996). These efforts coincided with the rise of pressures on governments worldwide to unlock state investments for the benefit of financial capital. The shift to pension financialisation was influenced also by the global spread of neoliberal ideological principles that promoted individualism over collectivism and reliance on private markets over public management in pension provision (Orenstein 2008:14).

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The supposed benefits of the shift to pension privatisation have been questioned from the outset. Since the global financial crisis (GFC), doubts about increasing poverty, inequality and insecurity amongst older populations, especially older women, have only grown (ILO 2018; De Deken 2017; Betti *et al.* 2015; Martin and Xiang 2015; Orenstein 2008). Mass worker protests about pension privatisation have occurred in France, Spain, Russia, Chile and elsewhere. Critics have argued that the major benefits have been accumulated by a minority of wealthy individuals and private pension fund institutions rather than the majority of older citizens whose retirement incomes remain inadequate. Governments have been criticised for shifting the risks involved in retirement provision from employers and the public sector to individuals. Bryan and Rafferty argue that 'the shift from defined benefit old-age pensions to self-funded, defined contribution superannuation is one of the starkest expressions of the risk shift from states to citizens' (2017:104). The transition to private pension provision has resulted in reductions in governments' commitment to the funding of universal pension provision.

Australia's restructuring of its retirement income regime was both similar and different from elsewhere in both the form that it took and the process by which it occurred. As in other western market economies, the 'reform' process was underpinned by the increasing influence both of neoliberal ideology on policymakers and of the financialisation of the economy. However, it also was influenced by the embeddedness, or path-dependency, of Australia's male breadwinner wage-earner welfare state institutions and in particular by the key roles historically of trade unions and the Labor Party (Kelly 1997). The way in which these dual forces of embedded institutions and disruptive globalisation interacted is critical to understanding and evaluating outcomes from the retirement income regime that has emerged in Australia.

Our analysis of the impact of the retirement income system on Australian retirees is organised around three questions. Firstly, does the system, in its current form, deliver an adequate standard of living for most older Australians throughout retirement? Secondly, does the system improve or worsen income equality including between men and women? Thirdly, does the system provide income security in retirement or are retirees' livelihoods subjected to risks resulting from a dependence on financial institutions and market fluctuations. In other words, post-employment, are retirees facing a process of re-commodification through ongoing dependence on market forces for their retirement income? Initially,

however, a brief discussion of the history of the emergence of the present Australian retirement income system provides an important contextual base for evaluating the impact of the Australian retirement income system in terms of its adequacy, equality and risk for retirees. Finally, the article provides a discussion of the possibility of a future shift away from privatised retirement income systems.

## Financialisation and the evolution of Australia's retirement income policy

Until the 1980s in Australia, the state-funded Age Pension was the primary form of retirement income available to the majority of retirees. Defined-benefit superannuation schemes were provided for some public service workers, although women were far less likely to benefit, and a minority of, mostly elite male, private sector employees had access to employer-funded defined-benefit superannuation schemes. This now has transitioned into a 'three-pillars' system in which the major components are based in the private sector and are closely integrated with financial capital. The Age Pension remains as a state provided benefit and is a vital component of the system but its value is as a safety net rather than itself providing anything close to an adequate retirement income (Per Capita 2016:5). The second pillar, the Superannuation Guarantee (SG), is based upon 1992 legislation that mandates that employers contribute into employees' private superannuation funds. The third pillar comprises other forms of individual private superannuation savings, including particularly Self-Managed Superannuation Funds (SMSFs), supported by generous government taxation concessions, within the private financial sector. The retirement income system therefore is highly financialised and Australia now has one of the largest privately funded superannuation industries per population in the world. In June 2020 the total assets of Australian superannuation (pension) funds were valued at $2.9 trillion (ASFA 2020). The Australian Federal Treasury has forecast that by 2040 private superannuation assets will reach $8.6 trillion or 185% of GDP (ASFA 2020). While overall, pension funds represent 53.3% of total GDP in OECD countries, they represent more than 100% of GDP in only a few countries, including Australia (OECD 2019).

The expansion of superannuation began in the 1970s when unions pushed, with some success, within the industrial relations award system for the

inclusion of occupational superannuation within industrial awards. This process was accelerated with the election of a Labor government in 1983 which negotiated a Prices and Incomes Accord with the Australian Council of Trade Unions (ACTU) whereby wage restraint was agreed by unions in return for the advancement of certain social wage progressions, including superannuation. The unions had a longer-term vision for the introduction of a non-discriminatory national superannuation system – a principle that initially was incorporated in the Accord framework but which soon faded away. In 1992 a major development occurred when the Labor government introduced the Superannuation Guarantee (SG). The then Treasurer, later Prime Minister, Paul Keating argued that its introduction represented a major reform that would in future provide a more secure and comfortable retirement for all working people, beyond that which the publicly funded age pension could possibly provide.

In reality, the retirement income system that has evolved since was forged under the influence of many competing agendas and pressures and appears dramatically different from that which was envisaged by unions and embedded in the Accord (see Sharp 2009). Paul Kelly (1992:283) has argued that Hawke and Keating were reluctant to initiate a government funded universal national scheme which was perceived to be politically fraught and anathema to the dominant neoliberal principles of individual responsibility for peoples' own well-being and the positive virtues of individualism and choice generally in society. The Labor government also was forced to respond to fiscal, macroeconomic and demographic pressures that were being experienced in most countries and which were driving governments everywhere towards pension privatisation. Of course, the proposal for an expanded privatised superannuation industry, rather than a state provided universal system, was looked upon with considerable enthusiasm by many institutions in the financial sector that saw the spread of award-based superannuation as providing potentially huge opportunities for new business (Kelly 1997). Keating himself was focussed particularly on the macroeconomic benefits of the expansion of superannuation which he argued was a way of relieving perceived pressures on the fiscal sustainability of the publicly funded age pension but also provided an enormous potential source of new investment funds in the economy. In addition, although the unions initially perceived the push for superannuation as part of a wider retirement incomes strategy that might ultimately become a universal system, through a series of trade-offs

superannuation came to be seen by unions more as a *de facto* wage increase.

It is frequently claimed in current policy debates that Australia has one of the most successful systems of retirement income provision in the world (Bateman *et al.* 2017; Clare 2017). The 2019 Melbourne Mercer Global Pension Index awarded Australia's retirement system third place in the world behind the Netherlands and Denmark (Knox *et al.* 2019). On the other hand, it also recently has been criticised for lacking sustainability (Dunn & Webb 2019), having ineffective management and regulation (Morris 2019) and failing individual retirees in a variety of ways (Martin and Xiang 2015). Many critics have argued that retirement income provision is far from adequate and that it is highly inequitable (Denniss 2020a; Martin and Xiang 2015), especially for women (Riach *et al.* 2018; Jericho 2018; Olsberg 2004). Others have criticised financialisation for subjecting older Australians to high levels of risk as a result of the vicissitudes and instabilities embedded in the financial markets that they are now required to engage with in order to manage their retirement incomes (Webb 2018; Fallick 2016; Borowski 2013).

The contested nature of the claims made about the Australian retirement system, as well as the sheer size of the private superannuation sector, makes it imperative that ongoing evaluations of its performance take place. In the remainder of this article we aim to contribute to this effort by reviewing the available current evidence on the adequacy, equity and security of the Australian system of retirement income provision, and by addressing questions about the impact of financialisation on the lives of older Australians

## The impact of financialisation: adequacy, equity and security for retiree incomes?

### Adequacy

The question of whether the three pillars retirement income system provides an adequate standard of living for older Australians remains contentious amongst stakeholders and researchers. One of the influential contributions to the debate about the adequacy of the retirement incomes

system has been the development by the Association of Superannuation Funds of Australia (ASFA) of the ASFA Retirement Standard – a benchmark for categorising what can be regarded as both 'comfortable' and 'modest' standards of living (ASFA 2019). ASFA's definition of a comfortable retirement lifestyle is that it 'enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel'. The estimated income required by older Australians to achieve such a comfortable living standard is adjusted quarterly by ASFA but in December 2019 this was $44,146 for singles and $62,269 for couples, assuming outright homeownership in each case. ASFA also constructed a separate category of a 'modest' living standard in which older individuals and couples were marginally better off than those solely on the Age Pension but still only able to afford fairly basic daily needs, services and activities. The estimated income required to achieve such a modest living standard was $28,165 for singles and $40,560 for couples, again assuming outright homeownership in each case (ASFA 2019).

CEPAR, the ARC Centre of Excellence in Population Ageing Research, in 2018 argued that the Australian retirement income system will deliver an adequate income for future retirees. Similarly, in 2018 John Daley and other researchers from the Grattan Institute published a report that argued that the 'vast majority of retirees today and in future are likely to be financially comfortable' (Daley *et al*. 2018: 3). They also argued that the 'retirees of tomorrow are likely to be even better off due to a combination of compulsory super contributions, non-super savings, and the Age Pension' (Daley *et al*. 2018: 3). However, such optimistic predictions for the future are not reflected in CEPAR's own analysis of current incomes achieved by retirees, in particular by single retirees and those who do not own their homes. Using a variation of the ASFA Retirement Standard benchmarks, CEPAR classifies retirees into those currently achieving a comfortable, modest, or below modest, income based on household expenditure data. CEPAR doesn't provide a description of a 'below-modest' living standard, although it is clearly below the poverty line since a modest standard is only marginally above. Table 1, which summarises the results of this, reveals that only 21% of retirees overall in 2016 could afford a comfortable lifestyle. Approximately 41% could afford only a

modest lifestyle and 37% received income and provided them with a below modest standard of living.

## Table 1: Estimates of standards of living in retirement, CEPAR 2016

| | Below modest | Modest | Comfortable |
|---|---|---|---|
| **Retired couple homeowners** | 19% | 49% | 32% |
| **Retired single homeowners** | 41% | 43% | 16% |
| **Retired couple renters** | 84% | 13% | 3% |
| **Retired single renters** | 84% | 12% | 4% |
| **All retirees** | 37% | 41% | 21% |

*Source:* CEPAR 2018: 8.

The data produced by CEPAR reveals how important homeownership is in determining the living standards of retirees. Homeowners are much more likely to enjoy a comfortable lifestyle than non-homeowners. It also shows the advantage that couple homeowners may have if they share resources and/or benefit from economies of scale. As the table shows, 32% of couples who are homeowners can enjoy a 'comfortable' standard while only 19% should experience a 'below modest' standard. Single homeowners do much less well and only 16% are 'comfortable', while 41% are in the 'below modest' category. Retirees who are non-homeowners fare far worse whether they are partnered or not, with only 3-4% being 'comfortable' while 84% are living at a 'below-modest' level. This data clearly suggests that the three pillars retirement income system is falling well short of providing a 'comfortable' standard of living for all older Australians as defined by ASFA's definition of 'comfortable'.

On the other hand, the 'comfortable' level, as defined by ASFA, is regarded by some, including the Grattan Institute researchers, as being set too high.

While a number of studies accepts the ASFA standards as realistic (Burnett *et al.* 2014; Actuaries Institute 2015; Committee for Sustainable Retirement Incomes 2016; Industry Super Australia 2015; CEPAR 2018), the Grattan Institute takes the view that the income level identified in ASFA's comfortable standard (around $62,000 in 2019) is 'more luxurious than the living standard of most working-age households' (Daley *et al* 2018: 34). As we have seen from the available income data for older Australians, almost 70% of retirees have incomes below this level: so, even if the Grattan Institute is correct that the ASFA standard is too high, it is evident that at least a majority of retirees are well below any modified definition of a 'comfortable' living standard.

So why is it that, in spite of a mandated employer scheme providing seemingly generous superannuation contributions and an Age Pension available to all subject to a means test, there are so many retirees whose retirement savings appear to be less than adequate to provide a comfortable standard of living? A number of reasons why this is the case can be identified. The Grattan analysis has been severely criticised for basing their modelling on a number of questionable assumptions (Mercer 2019) as well as failing to acknowledge many factors that undermine its conclusion that the current system provides a comfortable living standard for most retirees (Industry Super 2018, Jericho 2018, Connoly 2018). Of most importance in our view, Daley and colleagues' modelling falsely assumes that the 'vast majority' of workers fully benefit from the SG system (Daley *et al.*: 3, 87). In reality, many older persons fail to receive an adequate income in retirement simply as a result of a failure to accumulate sufficient superannuation savings prior to retirement. First, there are large numbers of 'employed' persons who miss out on employer superannuation contributions. Prior to the 2021 Federal Budget, workers earning less than $450 per month, a large percentage of whom are women, did not receive the SG. Very large numbers of employees are regarded as individual contractors by employers and are thereby excluded. The OECD reported that only 27% of the self-employed in Australia made superannuation contributions in 2016-17 (OECD 2019). There is also evidence of widespread avoidance of payment of superannuation entitlements by employers (Industry Super 2016-17). An Australian Senate study in 2017 revealed that 34.6% of women and 26.1% of men had no superannuation at all (Hartnell 2017). Short work hours, periods of unemployment, time out of the labour force due to caring roles or ill-health, and low wages are further reasons why people can (and do) arrive

at retirement with low superannuation under the Superannuation Guarantee system.

Because many older Australians arrive at retirement age without adequate superannuation savings, large numbers rely on the Age Pension. The low income provided by the Age Pension is one of the main reasons why a large percentage of retirees have inadequate incomes (Per Capita 2017). At this stage of the development of the three-pillars system, 66% of those over 65 years still receive an Age Pension, with 41% on a full pension and 25% on a part pension (Hall 2019). While the Age Pension plays a very important role in acting as a safety net for those older Australians who otherwise lack the savings to be able to generate an adequate income, the standard of living it provides remains modest. One study estimated that one third of pensioners have incomes below the Melbourne Institute of Applied Economic and Social Research's poverty line (Per Capita 2016). The OECD reports that poverty rates for older Australians, which it estimates to be 23%, are 10 percentage points above the OECD average (OECD 2019). As noted earlier, couples are generally better off than single age pensioners and those who do not own their own home are much worse off than those who do. In 2019 a couple on a full pension could receive a maximum combined payment of $33,332 (Superguide 2019). For those who own their own home the poverty line at that time was $21,728. However, for those who did not own their own home the poverty line was $31,628 – which meant that their pension payment placed them only marginally above the poverty line. Australia's expenditure on the Age Pension compares poorly with other OECD countries. In 2015 expenditure on the Age Pension was 11.4% of total Australian government expenditure compared to 18.4% for the OECD average and 4.3% of Australia's GDP compared to 8.0% for the OECD average (OECD 2019:199).

## Equality

One of the major sources of inequality amongst older Australians is the occupational nature of the superannuation system itself which effectively ensures that inequalities in the wage system are reproduced or actually exacerbated in retirement. The following data (Table 3) from the Australian Taxation Office shows the size of the gap in superannuation savings between high and low-income earners for all taxpayers in 2016-17. The median superannuation savings held by those earning $180,000 or

more was over fourteen times greater than those earning less than $37,000. Those whose incomes were between $80,000 and $180,000 had superannuation savings more than seven times greater than those earning less than $37,000. The average superannuation account balance of those earning more than $180,000 was more than double the median account figure, which shows that amongst this group there were some whose superannuation balances were considerably greater than the median figure of $279,587.

## Table 3: Individuals' super balances, by taxable income, 2016-17 financial year

| Taxable income | Individuals (Number) | Average account balance | Median account balance |
|---|---|---|---|
| **Less than $18,201** | 2,025,162 | $122,506 | $17,468 |
| **$18,201-$37,000** | 2,786,488 | $89,241 | $19,788 |
| **$37,001-$80,000** | 5,399,194 | $114,316 | $56,159 |
| **$80,001-$180,000** | 2,025,970 | $241,342 | $139,902 |
| **$180,000 or more** | 409,033 | $582,420 | $279,587 |
| **No tax return** | 4,028,609 | $72,752 | $10,237 |
| **Total** | 16,674,456 | $128,194 | $41,731 |

*Source:* ATO, Taxation statistics 2016-17.

The Australian Treasury has concluded that this gap in superannuation savings between high and low-income earners will continue to grow and widen in coming decades (Australian Treasury 2019c).

## Table 4: Estimates of tax concessions related to superannuation

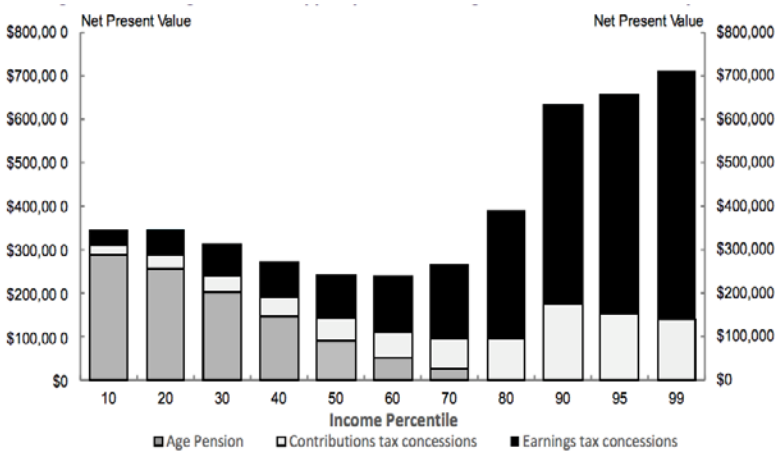
| | 2014-15 $ million | 2018-19 $ million | 2021-22 $ million |
|---|---|---|---|
| **Concessional taxation of capital gains for superannuation funds** | 470 | 1700 | 2150 |
| **Concessional taxation of employer superannuation contributions** | 15,500 | 17,750 | 22,700 |
| **Concessional taxation or personal superannuation contributions** | 790 | 1450 | 1750 |
| **Concessional taxation of superannuation entity earnings** | 11,600 | 19,550 | 22,650 |
| **Concessional taxation of unfunded superannuation** | 540 | 560 | 630 |
| **Deductibility of life and total permanent disability insurance premiums provided inside of superannuation** | 1800 | 2540 | 2870 |
| **Small business capital gains retirement exemption** | 410 | 610 | 700 |
| **Superannuation measures for low income earners** | 300 | 200 | 220 |
| **Exemption for small business assets held for more than 15 years** | 205 | 490 | 565 |
| **Total taxation concessions related to Superannuation** | **31,615** | **44,850** | **54,235** |

*Source:* Australian Treasury (2019a).

This gap between low and high-income earners is hugely exacerbated by the range of taxation concessions that are available mostly to better-off individuals in both the accumulation and decumulation phases of retirement savings. In 2014-15 Treasury estimates of super tax concessions represented foregone revenue of $31.6 billion, rising to $44.9 billion in 2018-19 and then $54.2 billion in 2021-22 (Table 4).

The largest component of these concessions is the concession on super fund earnings, which is estimated to be valued at $19.6 billion in 2018-19 while the concession on employer superannuation contributions is worth $17.8 billion. The size of superannuation related tax concessions is growing three times faster than spending on the Age Pension. At this rate the value of super tax concession for contributions and fund earnings will soon exceed the cost of the Age Pension. In 2018-19 the Age Pension is estimated to cost $46.7 billion and is projected to cost $52.3 billion in 2021-22 by which time the cost of superannuation tax concessions will have exceeded it (Australian Government 2019-20: 5-23).

**Figure 1: Lifetime government support provided through the retirement income system**




*Source:* Reproduced from the publication: Australian Treasury (2019b) Retirement Income Review: Consultation Paper. November. p 18

As shown in Figure 1, households in the lower income deciles primarily benefit from government support through the Age Pension in their retirement years and have little access to the tax concessions available in the post retirement phase and even less access to the tax concessions available in the superannuation accumulation phase. Those in the middle-income groups, while receiving somewhat more support through tax concessions, overall receive even less government assistance as a result of having less access to the Age Pension. In stark contrast, those in the upper income deciles, while having little or no access to the Pension, receive far more government welfare in the form of extremely generous tax concessions available on superannuation contributions and even more on tax concessions on their retirement incomes.

It has been estimated that women receive only one-third of the tax concessions provided through the retirement incomes system (Women and Super undated). Austen *et al* (2015) identify significant gender impacts of the tax expenditures on superannuation. The negative gender impact of the expenditures on superannuation tax concessions increases further when account is taken of individuals (more commonly women) who are not in the paid workforce and, thus, are generally not liable for income tax.

It has long been recognised that the lack of gender equity is a key shortcoming of the Australian retirement income system (Olsberg 2004: 164-70). Women's disadvantaged labour market position, lower wages, higher levels of part-time work and broken work patterns all contribute to ensuring that a high percentage accumulate a significantly lower level of retirement savings from mandated employer superannuation contributions (Austen and Mavisakalyan 2018; Riach *et al.* 2018; Sharp and Austen 2007; Preston and Austen 2001). In 2015-16 women held only 39% of total superannuation savings (Clare 2017). Similarly, a key explanation for the gender gap in lifetime earnings and superannuation is the gendered division of unpaid work associated with parenting and other care roles. Austen and Mavisakalyan (2018) found that women with a child under the age of 2 in 2001 recorded 77.5% less earnings over the subsequent 15 years compared to women with no children.

Although couples, at least those who are homeowners, are generally better off than single retirees, it does not automatically follow that women in these households do equally well as their male partners. Many older women in couple relationships also are adversely affected by the shift towards privatised superannuation. The redirection of fiscal resources

away from the Age Pension and towards tax expenditures on superannuation has the effect of concentrating the money and thus power in couple households in the hands of the primary 'earner'. The vulnerability of older partnered women to their partner's decisions about superannuation and other financial assets are taken up in recent research by the Women in Social and Economic Research (WiSER) group at Curtin University (Costa *et al* 2020). This research has shown that the predominance of defined-contribution accounts in Australia's superannuation system creates particularly large risks for older women. In a recent WiSER working paper, Mavisakalyan, Austen and Himmelweit note that the issues about unequal access to decision-making on household superannuation wealth is especially consequential for women because they will typically outlive their partner and will be adversely affected if household resources are not allocated in a way that 'covers' their expected longevity. Austen, Sharp and Hodgson (2015) show that the shift in focus toward superannuation, and especially the large tax expenditures on superannuation, are key sources of heightened levels of inequality and gender inequality in particular. They identify older single women as a particularly vulnerable group under current policy settings.

In summary, the retirement income system reproduces the class and gender inequalities that exist in the general population and to some degree exaggerates those inequities, particularly through the generous taxation provisions that are available and which overwhelmingly favour the better-off amongst older males.

## Risk

Bryan and Rafferty (2017: 108) have argued that pension financialisation potentially re-commodifies retirees' lives, shifting the financial risks of retirement income provisioning away from governments and employers onto employees and retirees who now have been drawn into the role of 'active (if reluctant) investors and risk takers' (see also Clark 2000; De Deken 2014; Ebbinghaus 2015; Natali 2017). A major issue of concern with Australia's privatised defined-contribution superannuation system is that it provides a high level of retirement income insecurity and risk. The shift to a privatised retirement incomes system has been presented as providing increased choice both for those saving for retirement and those in retirement. The potential for increased individual control over

retirement savings certainly makes it possible to realise higher rates of return given the right circumstances, adequate resources, good information and advice and a certain amount of luck. However, with defined contribution schemes the degree of financial risk for retirees also increases as their retirement incomes become less secure and predictable. Financial and other risks are transferred primarily to the individual or household, creating vulnerability to any losses that accrue to their savings or investments depending upon market circumstances and other factors.

At the point of retirement all retirees with accumulated superannuation savings now face decisions that involve risks in choosing how to turn whatever superannuation savings they have into an income that, either by itself or in conjunction with the Age Pension, will determine the living standard for the rest of their life. The list of uncertainties and risk factors they face can be very daunting. Many of the options available contain unknowns. Are their superannuation savings going to be adequate? What annual income will they need to live comfortably? How long can they expect to live? Many retirees find themselves having to negotiate the complexities and risks of the world of financial investment markets in order to find a way of providing an adequate and sustainable income.

Some retirees opt for a strategy that minimises their direct interaction with financial markets. For example, many choose to leave their retirement savings in their existing superannuation fund or transfer their accumulated superannuation savings into another retail or industry fund to be managed on their behalf. This strategy involves making some critical choices about how to convert their accumulated funds into a long-term retirement income. One possible choice involves purchasing an annuity, effectively a pension available usually from retail funds, that provides a guaranteed income for a fixed length of time and effectively transfers the risks of funding the pension to the institutional fund. However, this path involves making a judgement about how long they think they are going to live. Annuities are also relatively expensive and this market is currently poorly developed (see Davidoff *et al.* 2005). More commonly, those who choose to leave their savings in a retail or industry fund opt for an allocated pension which involves drawing a regular payment from their superannuation account. This strategy involves a degree of risk firstly because it involves making a judgement about how much to draw down while still ensuring that the balance will serve to provide an income for the longer-term. Secondly, allocated pensions do not provide a guaranteed income and share market fluctuations can negatively affect the balance of

the superannuation account. In each case the risk remains entirely with the retiree. The uncertainties associated with these decisions become particularly acute for women whose life expectancy is generally longer than for men.

Many retirees adopt a strategy that involves a potentially higher degree of risk by choosing to more directly interact with the financial world through various forms of self-management, usually with the assistance of a financial advisor or company. One high-risk form occurs when retirees take their superannuation as a lump sum and invest it in a self-managed superannuation fund (SMSF). SMSFs have grown enormously in numbers in recent years as they provide particularly attractive opportunities for individuals and small businesspeople to take advantage of available tax benefits. Self-managed funds amount to a very substantial $742 billion of investments or approximately 30% of all superannuation funds (ASFA 2019). Most of the 596,000 SMSFs have relatively modest levels of assets but a minority hold extremely high assets. These funds also appeal because of the perceived opportunity they provide for individuals to control their own investment strategies – something that sometimes results in spectacular success but they also provide the highest level of risk for less wealthy retirees and sometimes result in disastrous outcomes. Other self-management strategies involve using individual financial advisors or institutions to establish portfolios of superannuation investments. Each of these private financial forms of retirement savings are subject to government regulation, although critics have argued that they are under-regulated (Morris 2018; Bolza 2016).

The retirement income system contains a variety of other inbuilt risks both for the economic system and for current and future individual retirees. These include 'malfeasance and incompetence in the management of superannuation funds' (Borowski 2013: 74). The extent of malfeasance was confirmed by evidence presented to the 2018-19 Royal Commission into Misconduct in the Banking, Superannuation and Services Industry, especially regarding the roles of the banks and other 'for-profit' financial institutions operating in the superannuation industry (Australian Government 2019). The Royal Commission had been established after numerous revelations emerged in the media of a 'culture of greed' in the industry as well as a failure of regulation by the relevant government authorities. The Royal Commission report concluded that amongst the avalanche of examples of misbehaviour and corruption identified:

> In almost every case, the conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' pursuit of gain, whether in the form of remuneration for the individual or profit for the individual's business. Providing a service to customers was relegated to second place (Australian Government 2019, Vol. 1: 1-2).

In particular, the Royal Commission provided a litany of examples of gross misbehaviour by financial advisors – especially those operating within large financial institutions.

One of the sources of insecurity most commonly expressed by retirees is what Borowski refers to as political risk, which he defines as policy changes that can subvert retirees' efforts to successfully achieve the living standard that they anticipated (Borowski 2013: 752-4). Often these changes have advantaged some retirees, but policy changes have also disadvantaged certain other groups of retirees. For example, the decision of successive governments to progressively increase the age at which both men and women are able to access the Age Pension potentially impacts negatively on those retirees for whom the pension will be a significant part of their retirement income. Other studies have shown that the Coalition Government's extension of the cashless card payment system for the NewStart unemployment system raised fears amongst some who receive the Age Pension that this eventually would apply to their payments as well (Shetler 2019; Della Bosca 2019). Furthermore, the potential risks that older Australians are likely to face in the future are becoming increasingly uncertain as the costs of aged care escalate dramatically.

Of most significance amongst the many risks facing retirees with superannuation savings, their future income now depends on the unpredictable fluctuations that are endemic to the share market. Whereas in the accumulation stage short-term fluctuations in the share market tend to even out over time, for those in retirement even short-term losses can be worrying, let alone the ever present risk of a major share market collapse such as was experienced at the time of the global financial crisis in 2008-09 and again in the sharemarket collapse in 2020 when the global coronavirus pandemic sent world share markets into freefall.

## Conclusion

The Australian retirement income system is generally regarded as being one of the more generous systems internationally and has substantially

improved the retirement incomes of many older Australians who in the past would have been reliant on the state-provided Age Pension. However, the Australian three pillars system has serious shortcomings deriving from its financialised structure and possesses similar inadequacies, inequities and risks for retirees as other financialised retirement incomes systems globally. Although the state continues to play a positive role in the Australian system through the ongoing provision of the Age Pension and the state-mandated employer funded Superannuation Guarantee, the outcome for large numbers of retirees is problematic. A major flaw is that it is largely dependent on individuals' capacity to accumulate sufficient superannuation savings while in employment and then to successfully manage the risks involved in sustaining an adequate retirement living standard. The occupational nature of the Superannuation Guarantee results in the reproduction and also the exacerbation of existing labour market inequalities into retirement. Large numbers of Australians are not able to generate an adequate retirement income from their superannuation savings alone. Women are particularly disadvantaged.

These inadequacies are reflected in the fact that over 50% of current retirees still obtain all of their income from the Age Pension which only provides a living standard close to the poverty line. Even those fortunate enough to acquire an adequate level of retirement savings are required to individually bear full responsibility for the risks provided by the, often extreme, volatilities in financial markets and the other challenges and uncertainties associated with managing retirement and the ageing process itself. We can expect that the financial impact of the global pandemic that began in 2020 will cause further re-evaluations of the capacity of the existing pension policies to function effectively in a privatised framework.

Since we have argued that many of the problems that have been identified with Australia's retirement income system are linked to the financialised nature of the system, it might be argued that these problems can most effectively be addressed by initiating a fundamental shift in responsibility for retirement incomes from the private to the public sphere. A major constraint in doing this, however, is the extent to which financialisation has determined the likely future path for the evolution of the Australian retirement income system. A plethora of vested interests have been created through financialisation, ranging from the massive investments held by the private superannuation industry, the financial adviser industry and associated lobby organisations and those, particularly better-off, retirees themselves who perceive themselves benefitting from the generous

taxation advantages attached to the system. These well-resourced interests can be expected to resist any large-scale winding back of the current, financialised aspects of the system.

While the structural embeddedness of financialisation in the retirement income system remains a constraint on radical change, nevertheless there certainly exists the possibility for new ideas to reform the way retirement incomes are provided for in Australia. The potential areas of focus for further research and policy development are numerous. These might include policies to ensure the benefits of the existing Superannuation Guarantee are made more generous, fairer and available to all. They might also include strategies to redirect the excessive tax concessions currently available for superannuation for the wealthy towards more socially responsibly and equitable programs for all older Australians. An obvious area of benefit for the majority of retirees would be to substantially increase the Age Pension in order to provide a genuinely adequate living standard (Della Bosca 2020; Grudnoff 2020). These savings could even fund a universal living wage (Stanford 2019b; Quiggin 2019). New policy ideas are needed for ways to ensure women are able to accumulate entitlements to retirement income equally with men no matter whether their work is paid or unpaid. Ways also need to be identified to enable policymakers to apply much stricter management, regulation and transparency requirements on the private institutions that currently dominate the superannuation industry (see Morris 2018). Greater regulation can not only provide less risk for retirees exposed to the fluctuations of volatile financial markets but also, as has been noted by the Australia Institute, can promote more sustainable economic and social development (Denniss 2020b).

Finally, it may not be totally unrealistic to believe that a fundamental shift away from financialisation might still be achievable. Here, Australian researchers and policymakers might look to emerging trends in Europe and elsewhere where some countries have actually rethought, and substantially reversed, the pension privatisations that were implemented at the end of the Twentieth century' (Natali 2017: 269). Similarly, the Nordic countries and the Netherlands offer models of more collective, defined-benefit approaches to retirement income provision (Anderson 2019; De Deken 2017). While, globally, pension schemes are changing in a variety of ways (Hassel *et al* 2019; Natali ed 2017), lessons from these trends may help to address the serious problems associated with financialisation that we have identified in Australia's retirement income system.

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# RECONCEPTUALISING WASTE:
## AUSTRALIA'S NATIONAL WASTE POLICIES

**Antonia Flowers**

Waste is often overlooked in climate policy agendas. This all changed when China implemented what was effectively a ban on foreign waste imports in 2018, sending shockwaves throughout the global waste exporting industry and shifting waste management to the forefront of global climate debates. It is often underappreciated that transitioning to renewable energy can only address 55% of current global greenhouse gas emissions. The remaining 45% will require a transformation in the volume and method of resource extraction, production and disposal (Ellen MacArthur Foundation 2019).

In a world with finite resources and a limited capacity for waste absorption, infinite growth in waste generation is incompatible with ecological limits. The global extraction of resources has tripled since 1970, and at current rates is predicted to reach levels far beyond the Earth's biophysical capacity by 2060 (IRP 2019). With 100 billion tonnes of produced material entering the global economy every year (Circle Economy 2021), there is an urgent need to transform the way we extract, produce and dispose our material throughput.

This is particularly the case in Australia, where annual waste generation is growing at double the rate of population growth (Spring 2017). Australia first took a national policy approach to waste in 1992. It renewed the policy in 2009 to take account of rapidly changing waste streams. In 2018 the policy was changed once again as a crisis response to China's waste import ban which sparked national political debate and industry discontent. This article critically analyses these three successive national waste policies. The analysis is informed by an ecological political economy perspective

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that combines ideas from Clive Spash's social ecological economics and Jason Moore's world-ecology approach, which are outlined in the opening section. A critical analysis of each Australian policy stage then follows. The implications for future waste governance are presented in the conclusion in an attempt to contribute to changing the discourse and policy approach affecting waste management.

## Framing the issue

What is waste? Historically, an abstract understanding of its political economic character has derived from, among others, Karl Marx, Thorstein Veblen, Paul Sweezy, Paul Baran and Zygmunt Bauman. These scholars conceptualised waste in terms of the way capitalism values or disregards both things and people based on capital accumulation rather than social need or happiness (O'Brien 2008). In the context of the growing urgency of climate change, research has more recently turned to a physical view of waste as material rubbish and is an increasingly popular topic of study in both the physical and social sciences. The study of waste has also featured more prominently in popular literature and media, with a strong focus on the international waste trade and the global social inequity that has accompanied growing waste volumes.

This article seeks to re-frame debates around waste management through an analysis of the strategies employed by Australia's national waste policies with a focus on municipal solid waste, organic waste, e-waste and the concept of the circular economy. Embedded in the policies is an ontological perspective that primarily treats waste as a moment of disposal with no prior history. In other words, the policies have framed waste as the 'disposed' as opposed to the 'produced'. It is difficult to reduce the volume of disposed waste, however, without also reducing its moment of *production*. This link may seem obvious, yet environmental governance overwhelmingly treats waste and products as ontologically separate.

Focusing on the production of waste shifts attention to the current imperative for infinite economic growth. The connection between waste and overall economic growth is not fixed. Sustainable production methods can – and have – resulted in a *relative* decline in the waste generation associated with economic growth, i.e. the dematerialisation of production. Yet, it is an *absolute* decline that is needed to stay within ecological limits, and these efficiency improvements are yet to achieve an absolute reduction

in waste which remains coupled to economic growth (Jackson 2017). This article calls for a holistic understanding of waste as embedded within the production process, recognising that it is impossible to infinitely continue extracting, producing and disposing material at current rates (IRP 2019).

Framing an analysis of waste policies can usefully draw on four theories; neoclassical environmental economics, new environmental pragmatism, Spash's social ecological economics and Moore's world-ecology perspective. The former two can be seen as influencing Australia's national waste policies, while the latter two provide the basis for a critique and inspire the central message in this article – that waste should not be abstracted as a separate entity to production.

## Environmental economics and new environmental pragmatism

Environmental economics is a branch of mainstream neoclassical economics that developed in the 1960s with the emerging concern for the environment. It conceptualises the environment as a separate sphere to the economy in which environmental pollution is described as a negative externality to the market, given the cost of pollution is traditionally not included in market prices (Cato 2011).

Environmental economists frame environmental problems as market aberrations, for example describing climate change as 'the biggest market failure the world has seen' (Stern 2008: 1). Casting environmental problems as market failures has resulted in prescribing market solutions where the logic of market economics is not interrogated, as pollution is considered *external* to otherwise well-functioning markets. The standard policy response is to internalise negative externalities by including social costs of pollution in market prices, for example through carbon pricing mechanisms such as a carbon tax or emissions trading scheme (Cato 2011).

However, these market-based solutions must be framed in the context of an environment on the brink of collapse. While many economists claim scientific authority on the theory of carbon pricing mechanisms, relying on price signals and voluntary market action has not delivered *absolute* emissions reductions on a meaningful scale in practice (Bryant 2019). Despite the growing number of carbon pricing initiatives being introduced as key policy tools to limit global warming to 1.5 degrees Celsius above pre-industrial levels, greenhouse gas emissions have continued to rapidly rise. Annual global emissions have risen from 53 billion tonnes to 55

billion tonnes of carbon dioxide equivalent during the past five years since the establishment of the Paris Agreement (Systemiq 2020).

Australia's national waste policies have not applied such traditional carbon pricing mechanisms to waste, yet they are similarly underpinned by an environmental economic faith in the market that does not challenge ever growing volumes of waste. Seeking relative declines in the continual growth of waste does not reflect the urgency of environmental degradation. While climate policy typically targets the energy transition, 45% of global emissions reductions will need to come from the way we make, use and dispose of products (Ellen MacArthur Foundation 2019). The volume and method of material extraction, production and disposal therefore play a key role in addressing climate change.

'New environmental pragmatism', although not synonymous with environmental economics, shares similar limitations. It differs from the philosophical school of American pragmatism based on empirical validation. Rather, the basic principle is that 'success is to be measured by political reaction': questioning the physical outcomes of politically acceptable actions is dismissed as idealist, utopian or unrealistic (Spash 2013: 354). This approach can be seen to have partly influenced Australia's national waste policies which guarantee economic growth over absolute waste reductions. New environmental pragmatism embraces simple discourse without deeper philosophical foundations (Spash 2013), mirroring the policies' emphasis on waste management after the fact at disposal without deeper interrogation of reducing material throughput from the point of production.

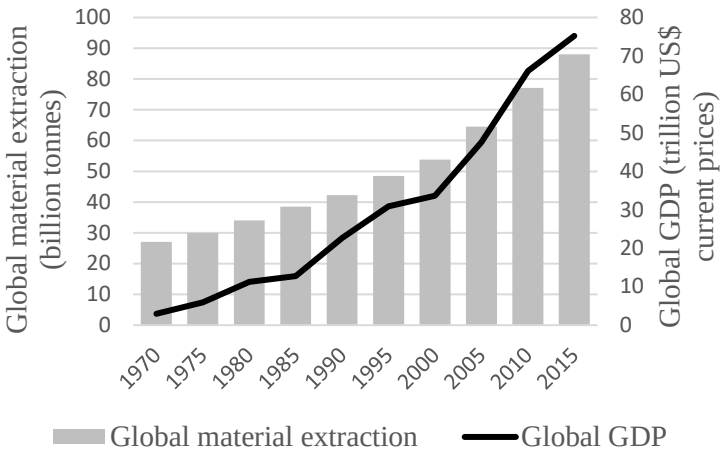
## Social ecological economics

What is the alternative? A political economy approach can usefully draw on *ecological* economics as a powerful alternative to the mainstream *environmental* economic theories currently underlying the policies. Ecological economics has its foundations in physical ecology rather than market economics. In contrast to mainstream environmental economics, it places the economy as embedded *within* the environment rather than a separate sphere in which pollution is considered an externality. It is concerned with ensuring that the economy's energy and material throughput remain within a level that respects the Earth's finite *biophysical* limits, rather than internalising environmental pollution into

*abstract* market logic (Costanza *et al.* 2014). It regards infinite economic growth as incompatible with a materially finite Earth.

Mainstream economists argue that GDP refers to growth in monetary value and hence does not necessarily entail growth in material throughput (Krugman 2014). Indeed, the dematerialisation of production processes is gaining traction and, over time, each unit of economic output has required less energy input: global energy intensity has decreased by about 25% since 1980 (Jackson 2017: 88). However, from an ecological economic perspective, what matters is whether these improvements in production efficiencies translate into an *absolute* rather than *relative* decline in material throughput. The debate over the relative versus absolute decoupling of economic growth from material throughput is long lived. In the 1970s, Kenneth Boulding, a pioneer in ecological economics, famously testified before the U.S. Congress that 'anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist' (U.S. Congress 1973: 248).

**Figure 1: Global extraction of materials and global economic growth, 1970 – 2015**




*Source:* IRP (2019), World Bank (2019).

In terms of Australia's national waste policies, advances in waste recovery and sustainable production methods have not reduced absolute waste volumes. An absolute decline would require the rate of material production efficiency gains to be greater than the rate of growth in production itself. This has neither occurred on a global, nor national level (Jackson 2017). Globally, the rate of extraction, production and consumption of resources has rapidly grown alongside economic growth. Figure 1 above shows this relationship, indicating that economic growth is yet to be decoupled from growth in material extraction.

The extraction of resources has tripled since 1970 and is predicted to reach levels that far surpass the Earth's ecological capacity by 2060 at current rates (IRP 2019). As the material requirements of economic growth continue to grow, the Earth's capacity to absorb waste is diminishing (Spash 2017). Responding to this mounting crisis, many ecological economists advocate a 'steady-state economy', limiting energy and material throughput to a level that respects the environment's finite biophysical limits (Spash 2017). However, many are reluctant to reject mainstream market economics while pursuing a steady state economy, given its pervasiveness in policy making. Differentiating between positions like these, leading ecological economist and former CSIRO climate scientist Clive Spash coined the term *social* ecological economics to define the stream that is unapologetically oriented to unorthodox heterodox economics.

The notion of the 'circular economy' illustrates the distinctly different positions of mainstream and social ecological economists. On its surface, a circular economy represents the ecological economic principle of a steady state economy. It posits an end to the linear flow of materials ('take-make-use-dispose') and a transition to a circular material flow in which repairing, re-using, re-manufacturing and sharing keeps products in use as long as is materially possible, in the attempt to design out waste and pollution. The circular economy concept emerged in academia in the 1960s and has more recently been incorporated into policy making, as will be explained in analysing Australia's 2018 waste policy. While mainstream ecological economists embrace its political popularity, *social* ecological economists caution against its co-option and watering down by industry and government. It has in some cases led to superficial rhetoric with an emphasis on commodifying waste as cheap input for further increased production volumes.

### World-ecology

Social ecological economics can usefully be combined with the heterodox analysis of ecological Marxist scholar Jason Moore. Most ecological Marxists characterise capitalism as having a destructive impact on nature, but Moore opposes this dominant narrative. Instead, he argues that nature does not exist as a singular object external to society or economic activity (2015). In challenging the dichotomy of *the environment* and *the economy*, he argues that capitalism and nature are not ontologically separate and are in fact 'world-ecology' (2015). Economic activities are themselves ecological in that they use and produce the environment, as opposed to negatively acting upon it. In other words, cities are no less 'the environment' than is a national park.

This world-ecology viewpoint has implications for the social ecological economic focus on material throughput. Rather than a view of material throughput being a linear process from resource extraction to waste disposal, the emphasis is extraction and disposal necessarily being embedded within one another. Moore's dismantling of the dichotomy between nature and the economy informs this article's dismantling of the dichotomy between waste and product. It challenges the common view that products are part of daily life, while waste is somewhere 'out there'. Just as sociologist Phillip McMichael says that we have 'food from nowhere' (2010: 612), in that we are alienated from – and oblivious to – the origin of ingredients within processed food products, our waste also 'goes to nowhere' as we are similarly alienated from the fate of our waste after it is disposed of – out of sight and out of mind.

Reconceptualising waste as the production process itself leads to a reimagining of waste management. It raises questions over where to draw the line between when a product becomes classified as waste, illuminating the inherent connection between production and disposal. The combination of *social* ecological economics and this world-ecology perspective provide the theoretical lens for this article's conception that the production of products *is* in fact the production of waste.

## The 1992 Waste Strategy

The *1992 National Waste Minimisation and Recycling Strategy* was Australia's first national approach to waste. It was part of the *1992*

*National Strategy for Ecologically Sustainable Development*, which was developed at a time when sustainable development was becoming increasingly popular in international environmental governance. Sustainable development had by that time been transformed from its original 1970s anti-growth intent to a pro-growth decarbonisation approach that has been described as allowing corporate leaders and politicians to claim green credentials for economic growth agendas (Paton 2008: 95).

The term sustainability had its roots in the steady-state economy, with its focus on reducing material throughput to *respect* the Earth's limits, before it was gradually embraced by government and industry to signal *conquering* the Earth's limits through technical innovations that *sustain* economic growth and its associated consumption patterns (Paton 2008). In the context of limited local council kerbside recycling systems, the *1992 Waste Strategy* focused on recycling as the solution to overcoming the environment's finite capacity for waste assimilation while maintaining growing consumption.

One of its key targets was to divert 50% of landfill waste (on 1991 levels) to recycling facilities by 2000 (CEPA 1992: 4), a target that proved unsuccessful in practice as the landfill diversion rate reached 52% only as late as 2006-07 (EPHC 2010). Improving kerbside recycling was certainly an important development for waste management. Yet, targeting consumer disposal behaviour offered a straightforward policy approach, being the most commonly visible part of the waste process and least challenging to sustained growth in production. The strategy of isolating waste policy at the point of consumer disposal had major shortcomings, as the following two examples of packaging and consumer education show.

## The National Packaging Covenant

The *1992 Waste Strategy* set a target to reduce packaging waste by 50 kg per capita by 2000 on 1991 levels (CEPA 1992: 32). This involved voluntary agreements with packaging industry associations which developed into the National Packaging Covenant (NPC). The NPC, now known as the Australian Packaging Covenant, is a public-private partnership that aims to share the responsibility of reducing environmental impacts from packaging. It was established in 1999 as the target year of 2000 was nearing and little had been achieved.

The governance structure of the NPC did not promote industry action. An NPC Council oversaw the management and implementation of its operations, with unanimous Council agreement required to make any amendments. The NPC Council was disproportionately made up of powerful industry representatives, including only two local government members (Boomerang Alliance 2004). Furthermore, half of the Council membership was made up of industry members who had a history of campaigning against producer responsibility reform as part of an industry group that had collectively been labelled the 'Waste Club' by environmental activists (Boomerang Alliance 2004). These Council members included the Beverage Industry Environment Council, the Australian Retailers Association and the Australian Food and Grocery Council (Boomerang Alliance 2004). For example, the Beverage Industry Environment Council stalled the New South Wales State Government's attempts to introduce a beverage container deposit scheme for three decades in exchange for modest funding for litter reduction campaigns (White 2015). This type of behaviour was representative of the NPC Council membership, which strategically excluded consumers and environmental groups (Boomerang Alliance 2004). Its industry-dominated structure allowed it to target packaging waste at its point of disposal at the expense of taking responsibility at its point of production.

Drawing on Moore's world-ecology perspective helps to illuminate the NPC's conception of packaging waste as consumer litter rather than industry-produced waste. One of the core foundations of the NPC was the notion of 'shared responsibility', as opposed to industry responsibility (NPC 2005), resulting in a shifting of accountability away from industry and onto consumers. This can largely be attributed to the *1992 Waste Strategy's* conception of waste as a moment of disposal abstracted from production. Moore (2015) argues that framing pollution as separate to the economy entrenches the singular abstractions between the economy and the environment. This ontological separation results in detaching environmental actions from infinite economic growth.

A link can be made between this framing of pollution and the NPC's framing of packaging waste as consumer litter. It resulted in the principle of 'shared responsibility' being implemented as 'consumer responsibility'. Action plans and targets were left to producer discretion, which meant that producers who set harsher targets risked being put at a commercial disadvantage relative to other NPC members. Therefore, producers strategically set action plans that provided vague commitments, using

unspecific language such as 'encourage', 'promote' and 'as appropriate', and focused on encouraging consumer recycling instead (Boomerang Alliance 2004: 26). This has been a long-standing approach of the packaging industry – for example, the *Do the Right Thing* campaign of the 1980s which targeted consumer littering behaviour. Ironically, that campaign was launched by the packaging industry that was responsible for the ever-increasing production of excessive packaging it was encouraging consumers to reduce (Four Corners 2003).

## Education campaigns

In its strategy to address municipal solid waste, the *1992 Waste Strategy* deployed government-led consumer education campaigns. It was asserted that a 'lack of consumer information about waste minimisation and recycling' was one of the key barriers to waste reduction (CEPA 1992: 14), which can be seen as underpinned by a mainstream environmental economic approach. The solution prescribed was consumer behavioural change campaigns. While this was a valuable action in itself, its overemphasis on consumer responsibility sidelined the importance of addressing the supply-side of waste generation, such as the staggering growth in production of single-use products emerging at the time.

From an environmental economic perspective, demand signals in the market are seen as the most efficient way to reach sustainable outcomes, assuming there are correct price signals and sovereign consumers have full information. The *1992 Waste Strategy's* education campaigns aimed to passively manipulate consumer demand for recyclable products and thereby influence producers to alter supply. This is often referred to as consumer 'nudging'. Nudging is a method favoured by environmental economists as it attempts to change consumer behaviour without 'command and control' government intervention (Spash and Dobernig 2017).

However, neoclassical environmental economists fail to see the 'sovereign' consumer in the context of institutional power and societal norms. From a *social* ecological economic perspective, producer power can generate demand often more powerfully than consumer demand can generate supply. Business 'nudging' has historically been more powerful than government 'nudging' because businesses occupy a culturally dominant position in consumer behaviour. This position includes large

marketing and consumer research departments dedicated to consumer 'nudging', with far reaching tactics such as subtle product placements in media entertainment (Spash and Dobernig 2017). While government-led consumption campaigns did have an impact, passively competing with highly funded industry campaigns alone did not address the rapidly increasing production, consumption and disposal of municipal solid waste.

The education campaigns were executed in the manner of 'new environmental pragmatism' that presented recycling as a simple solution. For example, suburban Sydney's local government Kogarah Municipal Council implemented the *1992 Waste Strategy's* education campaigns with its new waste service in 1999. The new service included fortnightly bin collection of co-mingled recycling, which replaced the previous recycling crates that were one quarter the size. The education campaign came in the form of a video delivered to 14,000 households featuring famous Australian actor Michael Caton (Planet Ark 2005). The campaign used simple and entertaining messaging intended to raise awareness, thereby framing growing municipal solid waste as a problem to be fixed through consumer behavioural change. The annual collection of recyclable waste per person in the Municipality of Kogarah increased from 75 kg in 1998 to 108 kg in 2000, which the Council attributed to the 'success of the multi-media campaign' (Kogarah Municipal Council 2005: 3). What was not widely communicated was the fact that increased recycling rates were offset by increased total municipal waste generation.

This local case study reflects the broader national impact of the *1992 Waste Strategy's* education campaigns. In spite of the increase in landfill waste diverted to recycling facilities, absolute waste generation rose over the policy's lifespan, with a particularly rapid increase in single-use material consumption. The first *National Waste Report* found that by 2006-07 municipal solid waste was contributing more to landfill than commercial and industrial, or construction and demolition waste (EPHC 2010).

## The 2009 National Waste Policy

The *2009 National Waste Policy: Less Waste, More Resources* was established in an effort to renew the momentum in taking a national approach to waste. The *1992 Waste Strategy* had contributed to the establishment of local, State and Territory waste legislation which amounted to a patchwork of various approaches lacking national cohesion.

The 2009 policy aimed to set a clear 10-year national direction for waste management. However, it did not set a specific waste reduction target and, over the policy's lifespan, absolute waste volumes increased from 53.7 Mt in 2009-10 to 74.1 Mt in 2018-19 (ABS 2013; BEC 2020).

This second iteration of national waste policy took into account the material changes of Australia's waste stream. Two types of waste that were targeted were e-waste and organic waste. E-waste had become Australia's fastest growing waste stream, growing three times faster than the rate of standard municipal solid waste (EPHC 2010), while organic waste presented an opportunity to incorporate waste management into climate policy (EPHC 2009).

Despite the new momentum, there was a continuity with the previous policy in targeting waste at its point of disposal. The title of the policy signalled its reluctance to reduce the ever-increasing material throughput; 'Less Waste, More Resources' (EPHC 2009) implied that waste was to be reduced (less waste) while sustaining growth in production volumes (more resources) via material recovery and recycling for re-manufacturing. The following two examples of the policy's approach to e-waste and organic waste demonstrate this ontological continuity in the policies from 1992 to 2009.

## The Mobile Muster product stewardship scheme

Product stewardship was the key strategy employed to target e-waste. It is an approach which relies on all actors involved in the entire lifespan of a product taking shared responsibility for its environmental impact. Just like the NPC, this took the form of shifting responsibility away from producers and onto consumers. The outcome of this strategy was the *2011 Product Stewardship Act*, which had three types of product stewardship arrangements: mandatory, co-regulatory and voluntary. To date, there are no mandatory arrangements (DAWE 2021), demonstrating a lack of enforced producer responsibility.

Mobile Muster is an accredited voluntary arrangement for mobile phone recycling (DAWE 2021). It is managed and funded by the Australian Mobile Telecommunications Association, which is made up of major handset manufacturers, service providers and retail outlets such as Optus, Telstra, Samsung and Apple (Mobile Muster 2018). It provides recycling boxes for used mobile phones with about 3,500 drop-off points across the

country. Once the mobile phones are collected, they are recycled by Mobile Muster's partner True End to End IT Lifecycle Solutions, a global e-waste recycling company with facilities across Asia, Europe, the United States and Oceania.

Mobile Muster increased its number of collected mobile phones and batteries from 250,000 in 1998 to 1.2 million in 2018, which seems like a clear-cut success (Mobile Muster 2018: 7). However, when framing e-waste as production itself, it becomes evident that these collection rates were synonymous with larger volumes of mobile phone production and purchases. For example, mobile phone penetration in Australia's population jumped from 76% to 91% from 2014 to 2019 (Deloitte 2019). Mobile Muster cites that there are currently about 25 million unused mobile phones being stored in homes across Australia, and of that, only 5 million are actually broken and no longer functional (Mobile Muster 2020).

Rather than exploring why 20 million functioning mobile phones are not being used, criticism is levelled only at the fact they have not been delivered for recycling. This does not challenge the underlying cause of millions of functioning mobile phones remaining stored and unused, which can largely be attributed to the high turnover rate in mobile phone consumption encouraged by Mobile Muster members. For example, the strategic regular release of newer models often with slight upgrades or new charging cables, or Apple openly admitting to deliberately decreasing mobile phone lifespans by slowing down the processors in older iPhone models as their batteries wore out (McMahon 2017).

Not only is increased mobile phone recycling connected to increased mobile phone production, but the former may actually encourage the latter. By drawing on Moore's emphasis on how nature works *for* capitalism rather than what capitalism does *to* nature (2015), a link can be made to the way e-waste works *for* mobile phone production rather than simply being its by-product. Mobile Muster's recycling drop-off points may actually increase sales, and hence work *for* mobile phone production. Drop-off boxes are spread across 2,000 retail stores and 400 local councils (Mobile Muster 2018) – a strategic disproportionate placement that is conducive to increasing store sales.

Mobile Muster's advertising is centred on romanticising consumer recycling, thereby negating feelings of guilt associated with new mobile phone purchases. This is demonstrated by its website heading; 'Do good

for tomorrow, recycle your old mobile today' and the accompanying introductory video that closes with: 'so next time you're getting a new phone, don't forget the old one' (Mobile Muster 2020). This overtly encourages people to dispose of old mobile phones on their way to purchasing new ones. The simple messaging represents 'new environmental pragmatism' in its approach to e-waste which does not consider the environmental implications of simultaneously increasing recycling rates with production and sales rates.

Consumer psychology experiments have demonstrated the causal link between increased access to recycling and increased wastefulness due to reduced feelings of guilt. For example, one well-known experiment found the average daily usage of restroom hand paper towels increased by half a paper towel per person within the presence of a recycling bin (Catlin and Wang 2013). Behavioural findings like these caution against initiatives that solely emphasise the benefits of recycling without also addressing the need for absolute reductions in consumption.

## The Landfill Gas Method

In 2009, organic waste accounted for almost two thirds of all waste sent to landfill (EPHC 2009), raising concerns over its effect on greenhouse gas emissions, given its release of methane when decomposing in the anaerobic environment of landfills. The *2009 Waste Policy* combined organic waste management with climate policy in its strategy to include landfill emissions in the then-proposed Carbon Pollution Reduction Scheme (EPHC 2009). Although the scheme did not eventuate, the 2009 policy created the momentum for the *Landfill Gas Method* in 2015.

The *Landfill Gas Method* sits under the Emissions Reduction Fund which developed in 2015 as a voluntary scheme providing incentives for industry to reduce emissions. Fund participants earn Australian Carbon Credit Units (ACCUs) per tonne of carbon dioxide equivalent reduced or stored, which can then be sold to generate income or meet environmental compliance requirements. The *Landfill Gas Method* credits projects that eliminate methane gas generated by the anaerobic decomposition of organic waste in landfills. These projects collect and transport methane gas to combustion devices via a system of embedded landfill pipes. There are currently over 130 landfills in Australia capturing and combusting

methane to generate electricity for sale in the grid (Clarke and McCabe 2017).

From the physical perspective of social ecological economics, it is important to note that these landfill capture and combustion projects result in the generation of carbon dioxide. The combustion of methane does not eliminate greenhouse gases but converts methane into carbon dioxide. Indeed, methane has 25 times the global warming potential of carbon dioxide (EPHC 2010) and its emissions from landfill have led to some countries such as Sweden and Finland banning organic waste from landfills all together (KPMG 2018).

However, the *Landfill Gas Method* rewards the generation of energy from landfill methane and does not include incentives for reducing absolute organic waste to begin with. Registered projects can claim ACCUs for their abatement and earn income in a policy tactic that has commonly been described as paying polluters to pollute less. Abatement assumes the waste already exists and merely seeks a relative decline in emissions. This approach arises from abstracting waste from its moment of production and reducing it to a moment of disposal with no prior history.

In the absence of measures to reduce absolute volumes of organic waste, landfill capture and combustion projects achieve a *relative* decline in the growth of emissions from organic waste. Solely scaling up the number of landfill capture and combustion projects alone does not require any reduction in total organic waste (Boomerang Alliance 2019). It may even secure continued rates of organic waste being disposed at landfills, as projects must secure long-term feedstock contracts which require ongoing access to large amounts of organic waste to maintain viability. Meanwhile, one fifth of bought food continues to be thrown out in Australia each year (Food Bank 2021).

## The 2018 National Waste Policy

The third iteration of national waste policy, the *2018 National Waste Policy: Less Waste, More Resources*, was largely a crisis response to China's ban on its waste imports. After previously importing and recycling about half of the world's total paper and plastic waste (de Freytas-Tamura 2018), China announced its *National Sword Policy* comprising a set of strict contamination thresholds on imported waste (Downes 2018). Given the difficulty in meeting the new thresholds, they materialised as bans. For

example, the contamination threshold for paper and plastic was reduced to 0.5% which is a level of purity that is currently almost impossible to achieve, requiring every plastic bottle to be lid- and label-free prior to export (Downes 2018).

The ban affected the annual 1.27 Mt of waste Australia was exporting to China, including 29% of kerbside collected recyclable paper and 36% of kerbside collected recyclable plastic (BEC 2018a). It resulted in the mass stockpiling of waste by recycling operators who lacked sufficient physical capacity and funds to process or sell the waste (BEC 2018b). Many operators closed their doors to local councils such as Queensland's suburban Ipswich City Council that temporarily diverted all of its collected kerbside recyclable content to landfill (Hyam and Roe 2018).

In response to the changing global waste trade, the *2018 Waste Policy* and the subsequent *2019 Waste Action Plan* provide a guiding waste management framework up to 2030 and signal a policy shift that 'embodies a circular economy, shifting away from take-make-use-dispose material flows' (COAG 2018: 3). Unlike the preceding national waste policies, the 2018 policy can be viewed as a step in the right direction in taking a more holistic approach to waste, i.e. applying circular designed products and methods of consumption that involve extending the material longevity of products, and introducing business models that shift away from single-use ownership to sharing platforms. While it is too soon to assess the policy's outcomes, it is important to develop an analysis of the policy's use of the circular economy concept, recognising that its adoption without clearly defined environmental goals or scientific foundations can lead to the risk of superficial rhetoric without substantive action (de Jesus and Mendonça 2018). The following sub-sections of this article probe these concerns.

## The circular economy as the international waste trade

The framing of China's waste trade has important implications for waste policy. A popular narrative that has prevailed is that official waste exports were being dumped onto an unwilling China. For example, media reactions to China's ban included *The New York Times* referring to China as 'the world's garbage dump' (de Freytas-Tamura 2018) and *Al Jazeera* observing that it 'has left nations scrambling to find new dumping grounds' (Thomas 2018).

Notwithstanding its environmental and ethical consequences, the entire waste trade should not be regarded 'dumping' as this dismisses the fact it is a *trade* that has an intimate connection with the trade of products. The physical flow of materials - as both goods *and* waste - crosses geographical boundaries. An illustrative example of this comes from Donald Trump blaming China for waste that floated into the west coast of the United States (Parker 2018). Solely assigning responsibility to China for this waste generation overlooks the fact that the U.S. is the largest importer of goods *from* China and the largest exporter of waste *to* China (Minter 2013: 8). This circular flow of materials is no coincidence.

The circular economy can ironically be seen as the international waste trade from which the *2018 Waste Policy,* with its new waste export ban, is ostensibly trying to become independent (COAG 2019). The history of China's waste trade embodies an international circular material flow that utilises waste recovery as an input for expanding production and further waste flows. China's waste imports grew in tandem with its manufactured exports in the 1980s, serving as more cost-effective production inputs than virgin material imports (Minter 2013). For example, imported waste metal accounted for 22% of China's copper production in 1980, 38% in 1990 and 74% in 2000 (Minter 2013: 78). Over time, increasing volumes of China's exports came back in the form of waste imports that were in domestic demand for recycling and re-manufacturing.

This circular movement of waste and products is further illustrated by the location of manufacturing and recycling hubs within China. Some of the world's largest manufacturing hubs are strategically located near some of the world's largest recycling hubs in Guangdong Province. For example, the cities of Shenzhen, Guiyu and Mayong have been described, respectively, as the 'world's factory', one of the biggest e-waste recycling hubs, and one of the biggest manufacturing hubs for recycled cardboard (Minter 2013). This spatial proximity enables efficient transportation from recycling facilities to factories for re-manufacturing in a circular material flow. In fact, Australia's recyclable waste exports were already shifting away from China before the implementation of its ban, as they were moving in tandem with the shift of many manufacturing hubs outside of China (Greenpeace East Asia 2019).

As Australia's top trading partner, China accounted for 24.5% of Australia's total imports in 2018-19. (DFAT 2019). Being a major importer of manufactured products, simply banning the export of recyclable waste

without addressing imported material will not reduce Australia's absolute waste volumes. In order to achieve truly circular material flows policy attention should also be paid to imported material, for example through minimum standards and specific material prohibitions.

## The physical limits of recycling

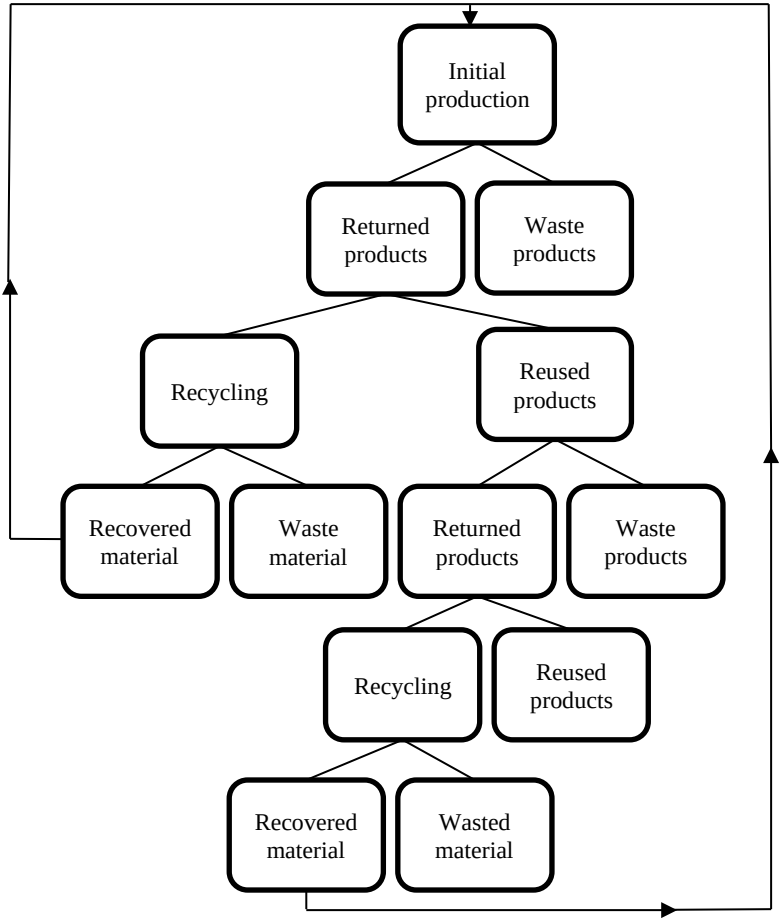
The *2018 Waste Policy* positions recycling as a key component in its circular economy approach. While recycling has come to signal environmental sustainability, its non-environmental origins still remain present today and have contributed to its common over-emphasis as a sole solution. Expanding recycling is certainly a valuable policy tool, yet it is critical to simultaneously pay attention to the overall material throughput of the economy. Historically, recycling has largely been economically driven (Minter 2013). The *2018 Waste Policy* can be seen to adopt the circular economy in a way that connects production and waste via profit, through seeking to commodify recycled waste as input for increased production volumes. In this way, the historical roots of recycling continue today.

The recycling industry did not originally have an environmental image. In fact, the word *recycling* was only invented in the 1920s, although its history stems much further back (Minter 2013). Its origins lie in the actions of waste pickers driven by an economic motive for income, and factories driven by the cost savings offered from recycled inputs used in manufacturing. In the British colonial economy of nineteenth century Australia, leftover waste was often dumped at sea or in dumping grounds such as Sydney's now Moore Park, the city's first communal dumping ground (EPHC 2010). Waste pickers went through dumping grounds and offered recovered waste material to factories for re-use in what was known as 'grubbing' rather than recycling (EPHC 2010). This practice continues today, particularly but not exclusively in waste importing countries. Self-employed waste pickers were, and are, mostly driven by a need for income rather than environmental concern.

Perpetuating a solely 'green' account of recycling misses some significant grey areas in terms of how effective recycling actually is. Firstly, almost nothing is 100% recyclable (Minter 2013). Almost all recycling results in some amount of waste; valuable parts of products are recycled while non-valuable parts are discarded, for example specific valuable materials in

electronic devices. This is downplayed in the *2018 Waste Policy* which refers to a 'circular economy that eliminates waste' (COAG 2018: 7).

**Figure 2: Realistic representation of a circular economy**




*Source:* Figge and Thorpe (2019: 64).

From an ecological economic perspective, what matters is the resulting total material waste in the ecosystem. Figure 2 above represents a more accurate representation of a circular economy, with wasted material occurring throughout the circular flow. For a circular economy to reduce absolute waste, a simultaneous reduction in the initial production stage of the economy would need to occur.

Secondly, most materials cannot be recycled infinitely. For example, most paper can be recycled up to six times and most plastic up to three times (Minter 2013) due to the occurrence of polymer degradation causing long fibres to break down into shorter and less useful fibres (Göpferich 1996). In this way, recycling can be considered a form of 'down-cycling' into less and less recyclable material. The finite recycling of resources is emphasised by ecological economics. Kenneth Boulding famously said that 'we cannot turn pots back into clay' (Cato 2011: 75). This is not to disregard the benefits of recycling, but to caution against its exaggeration as a fix-all solution.

With its grounding in the physical outcomes of environmental policy, social ecological economics draws on thermodynamics, which is a branch of physics that deals directly with the transformation of energy and matter. The key implications of thermodynamic laws for waste management and the circular economy are that the environment's natural resources are finite, that what has already been extracted and produced cannot be removed from existence, and that all real processes cannot be reversed (Mayumi 2017). With 100 billion tonnes of material entering the global economy every year and only 8.6% of it being cycled back into production processes for a finite number of times (Circle Economy 2021), increased circular material flows must be coupled with absolute declines in excessive production in order to respect ecological limits.

However, the 'new environmental pragmatism' implicit in the way that the *2018 Waste Policy* adopts the circular economy seems to ensure the sustainability of infinite growth in production and consumption. The policy proposes that a 5% increase in the material efficiency of production could contribute $24 billion to Australia's GDP (COAG 2018). This prioritises political validation over significant waste reductions, connecting production and waste in a way that, in fact, supports sustained growth in accumulation. Evidence suggests that increases in the material efficiency of production are unable to outpace the material growth in production required for an absolute decline in waste (Jackson 2017). For

example, the increased recycling rate from 52% in 2006-07 to 60% in 2018-19 was swamped by the increase in absolute waste generation from 43.8 Mt in 2006-07 to 74.1 Mt 2018-19 (EPHC 2010; BEC 2020).

While it is true that circular economy principles may achieve a *relative* decoupling of resource consumption from economic growth, they do not aim for an *absolute* decoupling. The Australian Government's position on decoupling has been articulated by current Prime Minister Scott Morrison who claimed that 'we don't believe we have to choose between our environment and our economy' (Mason and Butson 2019). In fact, the lack of evidence for absolute decoupling suggests that not prioritising policies' environmental outcomes over physical economic growth leads to ever-increasing volumes of waste.

While the circular economy is a step in the right direction towards unifying production and waste, it is often co-opted by governments as a 'workable' approach emphasising waste recovery as a means for sustaining economic growth, rather than a 'disruptive' approach that challenges the increasing material growth of the economy (de Jesus and Mendonça 2018: 75). Just as carbon trading markets provide profit-making opportunities and have been described as 'accumulation by decarbonisation' (Bumpus and Liverman 2008: 142), the Australian waste policy's circular economy rhetoric may be described as 'accumulation by recycling'.

## Conclusion

Environmental governance too often targets waste after the fact at its point of disposal, rather than addressing producers at the point of production. Within a materially finite environment, infinite growth in resource extraction and waste generation is incompatible with ecological limits. Domestic waste volumes have grown rapidly over the course of Australia's three national waste policies, from 32.4 Mt in 2002-03 to 74.1 Mt in 2018-19, which is enough physical waste to fill over 130,000 Olympic swimming pools (EPHC 2010; BEC 2020).

The policies have sought a relative rather than absolute decoupling of economic growth from waste generation. Historical evidence shows that the relative dematerialisation of production alone has not led to absolute declines in material throughput on any meaningful scale in practice (Jackson 2017). Reckoning with this has political implications for the pursuit of infinite economic growth. Reconceptualising the production of

valued products as the simultaneous production of what will eventually become waste will inevitably generate opposition from within the structures of capitalism that create its economic growth imperative.

Calls to end the pursuit of infinite economic growth are commonly labelled utopian. Mainstream economists readily admit the environmental shortcomings of the current model of growth, yet often argue there are no viable alternatives and offer relative decoupling as a solution. However, this would be the equivalent of 'an engineer who admitted their bridge was clearly defective, and also prone to collapse, but argued you should still use it because there is nothing better available' (Spash 2017: 7). The absence of evidence for absolute decoupling in practice implies that absolute waste reductions are incompatible with what environmental activist Greta Thunberg has called the 'fairytale of eternal economic growth' (Chasan and Wainer 2019).

As the resources required for continued economic growth become scarcer, the Earth's capacity to absorb and withstand waste is diminishing. This article has offered an alternative conceptualisation of waste as an act of production as opposed to an act of disposal, thereby attempting to dismantle the ontological separation between waste and product. This holistic understanding of waste as embedded within the production process is grounded in the understanding that it is impossible to infinitely continue extracting, producing and disposing material at current rates.

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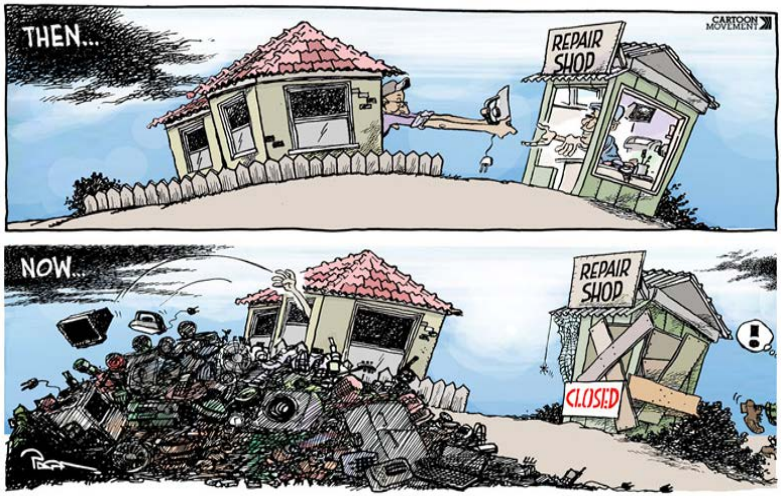

# PERSISTENCE OR CHANGE?

## EVOLUTION OF THE KOREAN DEVELOPMENTAL STATE

**Kyung Mi Kim**

State-led developmentalism has attracted the attention of comparative political economists, as well as policy makers who search for a more effective way to compete in globalised markets. In particular, the developmental state of the Republic of Korea (hereafter, Korea) has been an archetype and test case for the effectiveness of state-led developmentalism under globalisation. Neoliberals hold that the developmental state in Korea no longer works in the era of globalisation. Even some developmental statists, including Kim (2014) and Shin and Chang (2003), maintain that the Korean developmental state cannot work due to the dissolution of policy instruments following financial and trade liberalisation. Yet many institutionalists of comparative political economy argue for the persistence of the Korean developmental state (Witt 2014; Kim *et al.* 2008a; Chu 2009; Hundt 2005; Thurbon 2016; Thurbon and Weiss 2019; Weiss and Thurbon 2020; Yoon 2012).

Does the developmental state no longer work in the era of globalisation? Does liberalisation mean the retreat of the state? As a test case, has the Korean developmental state been dismantled and changed to a neoliberal 'free-market' system? Or does it persist in its original form?

By analysing the evolution of Korean state-led capitalism, this paper holds that Korean capitalism maintains its state-led developmentalism, rather than retreating from its earlier state leadership and opting for a more hands-off approach. The Korean state is still growth-oriented and uses its selective industrial policies to improve its corporations' international competitiveness, reflecting upon the economic national rivalry. However,

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this paper emphasises that, in contrast to the institutionalists' emphasis on path dependency, the continuity of state-led developmentalism in Korea is due neither to remaining institutional legacies of old-style developmental state, nor to Koreans unreflexively taking the developmental state for granted. Rather, Korea's state-led developmentalism has continued due to key actors' significant efforts to adapt their practices and institutions to the changed context of international market competition. We will examine how Korea's state-led developmentalism has been sustained through changes in its existing growth strategy, for instance, from input-oriented to innovation-oriented development, and from a traditional method of mobilising and funneling massive capital into a few corporations to a new developmentalism of nurturing innovative capabilities and building innovative networks. The continuity of state-led developmentalism is not exclusive of changes, but is due to its changes.

The primary data presented here include extensive personal interviews with key people in government, government-affiliated research institutes, lead firms, and Korean trade associations. Preliminary interviews were conducted from May 2010 to March 2011, with deeper research from April 2013 to June 2016. Interviews include 28 individuals in government and government-affiliated research organisations, 27 in private companies, and 17 in trade and labour associations. This paper also uses extensive quantitative data from the Organisation for Economic Cooperation and Development (OECD) and government reports, as well as comparative economic literature.

This paper first critically reviews prevalent views related to changes in the Korean economic development model, and presents theoretical alternatives. It then studies where recent changes in the Korean developmental state fit into the taxonomy of capitalism from a comparative perspective. Finally, we examine how the Korean developmental system has been reconstructed through intentional changes in strategies and policy governance. In the conclusion we ask what the story of the changed developmental state of Korea may imply for a more avowedly neoliberal state such as Australia.

## Critical review of prevalent theories

This section critically examines the two dominant views – the dismantling of the developmental state and the persistence of the developmental state

of the late twentieth century – regarding the evolution of the Korean development model, and suggests alternative arguments.

The first of these views, the demise thesis, holds that the Korean developmental state has been dismantled and has changed to the post-developmental-cum-regulatory state, as proposed by neoliberals, proponents of the old-style developmental state, and Marxist-oriented globalists (Jayasuriya 2005; Ji 2011; Painter *et al.* 2019; Pirie 2008). Neoliberals maintain that the developmental state does not work in the era of globalisation and has retreated. Although proponents of the developmental state, along with Marxist-oriented scholars, evaluate the developmental state differently, they agree that Korean capitalism has changed to a neoliberal free-market system through liberalised trade, finance, and labour markets. In particular, they focus on the liberalisation of finance, accelerated in the mid-1990s, and the dismantling of state policy instruments such as control over banks (Ji 2011; Pirie 2008). In addition, many proponents of global production networks hold that as domestic firms, nurtured by the state, become mature and globalise, state-led developmentalism lost its effectiveness and capability to discipline private firms (Yeung 2016; Wong 2011).

However, these 'disorganisation' views overlook the state's new methods and functional equivalents of the old to implement strategic industrial policies. The Korean state maintains many instruments for industrial policy, including policy funds, tax incentives, and subsidies. More importantly, the Korean state has changed its developmental strategy from the classical method of mobilisation of massive capital and labour to a new developmentalism promoting knowledge-intensive and innovation-oriented systems. For that changed strategy it has not needed traditional methods, such as direct control over banks and exclusive allocation of credit to a few large corporations. In addition, contrary to the proponents of industrial maturity thesis that the developmental state (DS) is effective only in its early catch-up phase, the maturity and high uncertainty in the high-tech industries do not necessarily diminish the state's active role in upgrading its industrial competitiveness (Thurbon and Weiss 2019). By adopting new methods for developmentalism, such as nurturing decentralised innovative networks, the Korean state continues its active role in developing industrial competitiveness even in high-tech and high-value industries, rather than retreating and opting for a more hands-off and regulatory approach.

On the other hand, many path-dependency institutionalists argue for persistence of the developmental state, underestimating significant changes in Korean capitalism in the last thirty years. Whereas proponents of the demise thesis focus on destruction of authoritarian means and policy instruments, proponents of its persistence emphasise the continuity of state-led growth-oriented policies, interventionist institutional structure, developmental coalitions with *chaebols*, and the persistence of a taken-for-granted developmental mindset (Witt 2014; Walter and Zhang 2014; Yoon 2012; Thurbon 2016; Lim and Lee 2009; Kim *et al.* 2008a; Chu 2009; Hundt 2005; Kim 2012). These latter views tend to overlook recent changes and key players' significant efforts to adjust to changed contexts in the Korean developmental regime, such as financial liberalisation and changes in developmental strategy and governance. To refute the convergence theory, these path-dependent institutionalists emphasise 'sticky' institutions' resistance to change as reasons for continuity of the developmental state.

In regard to financial liberalisation, Lim and Lee (2009) argue that despite formal changes in the financial system, Korea continues to operate much as it did in the past. They insist that the Bank of Korea's independence is insufficient and the state's influence over the financial sector continues through the Financial Supervisory Commission. Kim (2012) notes that industrial policies continue despite the dismantling of the Economic Planning Board (EPB), a key pilot economic planning agency. Witt (2014) also observes that the Ministry of Finance and Economy and the Ministry of Strategy and Budget, divided in 1998, were reintegrated into the Ministry of Strategy and Finance in 2008, signaling the reunion of finance and budget planning (Witt 2014: 216-9). Many persistence theorists note that the Korean state maintains the upper hand over private actors even after democratisation (Witt 2014: 219, 231; Kim *et al.* 2008).

Fields (2014) argues for the 'stickiness' of institutional legacies and resistance to change to account for the persistence of the developmental state. He holds that '[in] all three cases [Japan, Korea, and Taiwan], path dependencies have prolonged the life of the DS' (Fields 2014: 60), despite the challenges of globalisation and financialisation. However, in each instance (Japan, Taiwan and Korea),

> *sticky institutional* arrangements constituting the respective DS [developmental state] have proven difficult to dislodge, even in the face of unprecedented economic crises, recessions, long-term structural changes, and prevailing global norms […] *Path dependency,*

> *institutional inertia*, *vested interests*, and no small degree of rational retention have kept Japan's DS relatively coherent in spite of increasing calls for change and significant remodeling. Likewise […] both parties [Korea and Taiwan] continued to benefit from their collaborative ties and institutional networks binding them together (Fields 2014: 48-9; emphasis added).

However, the continuity of Korea's state-led developmentalism has been realised through key actors' significant efforts to adapt and change their developmental practices in order to meet new challenges of globalisation and evolving international competition, as we explore below. Continuity and changes are complementary, not mutually exclusive.

## Continuity in Korean capitalism

Regarding the extent to which Korean capitalism had changed since the 1990s, to better account for changes and continuity we emphasise a historical-comparative perspective on the evolution of the Korean developmental state. Based on the comparative political economic literature, we use conventional broad classifications of national economies, such as the Anglo-Saxon liberal market economy, the European corporatist coordination system, and state-led capitalism.[1]

A key criterion to differentiate these types of national economic systems is the type of state intervention in economy – whether a neutral and regulatory state, or strategic interventionist. In the sense of ideal types, the neoliberal state, focused on the playing field, is more neutral to private actors in the market. The developmental state is more likely to strategically target specific industries. Thus, the DS demise proponents point the rise of the regulatory state as evidence of DS demise, as Levi-Faur says:

> The age of the rise of the regulatory state, so the argument goes, is therefore the age of the decline of the positive-developmental state. The rise of the first and the decline of the second, it is now widely held, are in turn causally associated with the rise of neoliberalism and the belief

[1] This classification is relatively old-style and may be too broad to explore detailed changes. Nevertheless, it is understandable to various comparatists and serves our case of compatible coexistence of changes and continuity. This typology presents ideal types in a Weberian sense, rather than reality itself.

> in the superiority of markets as mechanisms for maximizing the public good (Levi-Faur 2013: 239).

Demise thesis proponents state that the Korean government has strengthened its neutral regulatory role by liberalising banks and strengthening the free market system, rather than pursuing strategic state intervention (Jayasuriya 2005; Pirie 2008). In comparative political economic literature, adjustments in liberal market economies, such as the United States and the United Kingdom, are left to market competition, while the state limits its role to legal regulation and forgoes its strategic and selective intervention in the economy. Neoliberal states use more general and horisontal policies available to all players in the market, while DS industrial policies are more selective and vertical, targeting specific firms and industries (Schmidt 2002: 121-2; Hall 1986: 250; Hall 2015: 426-7).[2]

Comparatively speaking, it is difficult to acknowledge that Korea has shifted to a liberal market economy in light of its strategic and selective intervention, although not in an authoritarian form. Even in the course of liberalisation and globalisation, the Korean state continues to guide the direction of national economic development by providing a national development plan and strategically targeting specific industries, as explored below.

It is also difficult to acknowledge that Korea has transformed into a corporatist regime despite the rise of labour's voice, because the public status of labour remains weak in Korea compared to Germany (Katzenstein 1987: 58-82). In the standard literature in comparative political economy, the corporatist coordinated capitalism of Germany and the Nordic countries relies on horisontal negotiation among labour, capital, and sometimes the state, while the Anglo-Saxon market system relies on market competition (Hall 1986: 235-6; Schmidt 2002: 122-3, 125-6).

Organised labour in Korea did not achieve such parapublic status in the process of public policy decision-making as in European corporatism, where labour and capital regularly participate in public policy formulation.

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[2] Horizontal support in industrial policy includes measures that are common to all the citizenry, including education and basic R&D, without selectivity among sectors or individual firms. Vertical policy includes measures that support a specific sector or an individual firm, with some justifications for such selectivity, including economies of scale, spatial externalities, or national growth engine (Buigues and Sekkat 2009: 5-6, 30-3, 87-8).

The Tripartite Commission (*Nosajungwiwonhwoi* in Korean), which began in the Kim Dae-jung government, still has no practical power despite its formal role (Kim 2010: 254-5). Although Korean labour could have improved its organisational power since democratisation, its public voice has failed to be recognised in public policy decision-making (Lee 2009; Whitley 2016: 43). In Germany labour achieves social recognition by actively contributing to the process of proposing and implementing constructive solutions to national economic crises and enhancing national competitiveness. In Korea, labour has been excluded from important decision-making at the national, industrial, and even enterprise levels; labour focuses on advancing its organisational interests rather than presenting an alternative vision for the creation of national wealth (Kong 2012; Kim 2010; Witt 2014).

Korean capitalism still qualifies as state-led capitalism although it has changed from a traditional authoritarian DS to an enabling state focused on nurturing decentralised and innovative networks among private actors. The Korean state still strategically intervenes in the economy through selective industrial policies, although methods and governance have changed. To examine the state's role in Korean capitalism in detail, we now explore two dimensions of state-led capitalism: the state's strategic development policies and its capacities.

## Developmentalism in state policy

Despite significant changes in its intervention methods and instruments, the Korean state maintains a strong developmentalism to strategically coordinate private actors and improve national economic competitiveness. Its policies pursue long-term national interests and remedy occasional economic crises.

Since the 1990s, Korea's planning agencies have changed significantly, in some cases merging or being dismantled (Carney and Witt 2015: 548-9). The Economic Planning Board (EPB), regarded as an icon of the old Korean developmental state, was dissolved in 1994. Korea officially abolished its selective industrial policy with the *Industrial Development Act* in 1985, and ceased national economic planning at the end of the 7th Five-Year Economic Development Plan (1992-1997). Nevertheless, the roles of pilot agencies were transferred to other ministries. The Korean government merged the EPB with the Ministry of Finance (MoF) to form

the Ministry of Finance and Economy (MoFE). In addition, many mid- to long-term policies for each industry now are made and implemented by ministries including the Ministry of Trade, Industry and Energy (MoTIE), the Ministry of Science and ICT (MoICT), and the Small and Medium Business Administration (SMBA). These economic agencies, including MoTIE, MoICT, and SMBA, have developed detailed and long-term industrial development programs, including the Industrial Technology Development program (1987), the Leading Technology Development program (1992), the New Industry Promotion Strategy (1999), the Special Law for Promotion of Parts and Materials (2000), the Next Generation Growth Engine Promotion program (2003), and the Korean New Deal program (2020). Many of them remain active.

The Korean state – not individual market actors nor labour and civil society – discerns problems and presents solutions, considering the entire national economic and industrial system in the context of changing international competition. The Korean state has initiated various industrial development programs to upgrade the national economy's competitive capabilities. For example, the Korean government initiated transformation of its economic strategy, from nurturing a few national champions in final assembly products to upgrading innovative capabilities of parts and materials and building an innovative ecosystem. This transformation was accomplished during the 1997 Asian financial crisis, not by free-market private actors but by the state's intentional programs in which the Korean state addressed a chronic trade deficit,[3] and upgraded its industrial capabilities.[4]

In contrast to Mexico, which abandoned industrial policies in the liberalisation of trade and finance since the mid-1980s (Heredia 1996; Moreno-Brid 2013), Korean liberalisation of trade and finance has yielded more state-led development plans and policies. For example, since 1997 the Korean government has continuously played a strategic role in shaping a national development plan and monitoring private actors to improve national competitiveness. The Kim Dae-jung administration (1998-2002) and subsequent governments have made significant efforts to encourage

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[3] Korea had been in trade deficit from the 1960s to the mid-1990s because the import of parts and materials increased more rapidly than the export of final products did.

[4] Personal interview with former director of Ministry of Industry and Energy, 17 June 2015; interview with director general of Ministry of Trade, Industry and Energy, 26 May 2015.

strategic industries to adapt to the challenges from the liberal opening of trade and finance markets. The Kim Dae-jung government also crafted many development plans, including the Five-Year Plan for Improving SME (small- and medium-size enterprise) Technology in 2000, and the *Special Act for Promotion of Parts and Materials* in 2001. Subsequent governments, including the Roh Moo-hyun (2003-2008), Lee Myung Bak (2008-2013) and Park Geun Hye administrations (2013-2017) created similar long-term industrial development plans. For example, the Roh government initiated the Next Generation Growth Engine Development Plan in 2004, which became the New Growth Engine Development Policy during the Lee and Park governments. In particular, *the Special Act for Promotion of Parts and Materials*, established in October 2001, was extended another ten years to 2020, to construct a competitive national economic system.[5]

The Korean state's strategies and methods have significantly changed. Traditionally, the Korean state focused on mobilisation of massive amounts of capital, funneling them through its control of banks to a few corporations exclusively to realise economies of scale. Now the Korean state focuses on nurturing innovative capabilities and an 'industrial ecosystem' for a knowledge-based and innovation-oriented economy. Thus, in contrast to classical developmentalism, the current Korean state uses research and development (R&D) policy supports to build innovative networks which include more actors, rather than excluding many SMEs in allocation of credits.

Some scholars note that even neoliberal states, including the U.S. and UK, use R&D policies (Lee *et al.* 2004: 27-8). However, Korean R&D policy focuses more on commercialisation, and is targeted selectively at strategic industries, rather than focusing on more basic sciences at some remove from market competition. For example, while R&D support in the U.S. focuses on public research institutes and universities, Korean R&D support goes directly to companies which commercialise their research. In addition, the Korean government's support targets mainly strategic industries such as ICT and auto. Thus, economic development has accounted for approximately 50 percent of the Korean total R&D budget as of 2011, while in the U.S. the largest share of the budget is for health

[5] Personal interview with director at Ministry of Trade, Industry & Energy, 4 April 2015; interview with director general at Ministry of Trade, Industry and Energy, 10 June 2015.

and environment, at 60 percent, while economic development stands at about 15 percent (Ministry of Science, ICT and Future Planning and Korean Institute of S&T Evaluation and Planning 2012, 2015).

## The state's capacities

Does the Korean state have the capacity or the means to carry out its developmental policies? Proponents of the demise thesis of Korean developmentalism focus on the state's loss of institutional capability to control banks and allocate credit to strategic companies—a key institutional foundation of Korea's old developmental state. However, those institutional bases supported a specific form of growth strategy, which focused on mobilising massive capital to nurture a few national champions. However, as the national growth strategy has changed from input-oriented to innovation-driven, authoritarian control of banks and massive mobilisation of capital may no longer be needed. Further, exclusive allocation of capital to a few large corporations no longer serves developmentalism; rather, it is arguably counterproductive to the idea that development can and should be built on SMEs' innovative capabilities and collabourative networks.

The Korean government still has the institutional capabilities necessary to implement this new developmentalism, such as government subsidies, policy finance, and tax benefits. According to the *2012 OECD Factbook*, Korea's economic development expenditures in its national budget are set at 40 percent as of 2010,[6] much higher than the OECD's average of 14.2 percent, as well as those of other OECD members such as neoliberal and corporatist countries including Germany (17.5%), Finland (12.6%), Sweden (10.7%), the U.S. (6%), and the UK (5.2%) (OECD 2012).

The Korean government still mobilises policy funds for economic development through public financial institutions such as the Korean Development Bank (KDB), at approximately 25 percent of total bank loans in 2012, higher than those of other countries (such as Japan at 11%),

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[6] According to the Classification of the Functions of Government (COFOG), the OECD divides central government expenditures into ten functions: general public services; defense; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion education; and social protection (OECD 2012).

except for Germany (25%) (Thurbon 2016: 169). Even in the course of liberalising commercial banks and financial markets, Korea still used public financial institutions for its developmentalism. From 1987 to 1997, the Korean government's spending for industrial development, mobilised by the Industrial Development Fund, amounted to 1.2 trillion won. From 1998 to 2007, the Industry-based Fund invested 4 trillion won to upgrade the industrial structure and policy programs for balanced regional development and for industrial cooperation. Government subsidies for promotion of parts and materials, a representative industrial policy, amounted to 1.5 trillion won by the year 2000 (Yoon 2012: 214, 216, 130). Public subsidies for parts and materials development are worth hundreds of billions of won each year. In 2015, the Ministry of Trade, Industry and Energy (MoTIE) targeted development of innovative capabilities of material and parts companies by allocating more than 600 billion won to the Materials and Components Policy Division (Ministry of Trade, Industry and Energy 2015).

Another key instrument for industrial policy is taxation. Tax benefits are an indirect means of attracting corporate investment. The Korean government strategically uses diverse and comprehensive corporate tax credits, which have more specific industrial goals than in other countries. According to the Ministry of Strategy and Finance's *Tax Expenditure Report*, the corporate investment tax credit, which was worth 394.7 billion won in 1998, increased more than fivefold to about 2 trillion won in 2007 (Kim *et al.* 2008b). The temporary investment tax credit system in Korea allows the government to deduct the investment tax by presidential decree if this is deemed necessary for economic control. Here the state can adjust the amount of tax deductions as well as provisions relating to the object of investment from a minimum of 6 percent to a maximum of 10 percent. Interestingly, the Roh Moo-hyun administration, known to pursue policies against the *chaebol*, implemented a wide range of growth-oriented measures, including selectively expanding the limit of the temporary tax credit (Yoon 2012: 219-20).

However, do current Korean state public subsidies work to guide and coordinate private actors to follow industrial policies? In fact, Korea has successfully transformed its economic system, from traditional, input-oriented developmentalism based on mobilisation of massive amounts of capital and low wages, to high-value-added and innovation-oriented developmentalism by encouraging private companies to participate in collaborative research consortia and innovation networks. Private

companies participate in the state's R&D consortia, even with small-amount R&D incentives, not only because they receive public subsidies, but importantly, because they can develop innovation networks for current technology development and so remain competitive in the market. Korean companies participate in publicly-initiated research networks and maintain close relationships with national industrial policy agencies and research institutes because these networks provide technology trends and have the potential to expand collabourative networks for future programs.[7] The director of a midsized company that supplies core components to Samsung Electronics reports succinctly why they are interested in participating in the public consortium and expanding their research networks:

> Once we have done a policy project, they give us information when there is a new policy project related to our company. The national research institutes and related organisations have a lot of information on companies like us. So, when the government plans to localise some technology, it sends a letter to the related companies to propose that they localise the technology. In the government programs we cannot suggest what we will do, but the government usually presents ideas and we play a role in realising them. This is the case with the UHD development project we are doing now.[8]

These kinds of state-led research consortia are key to developing an innovation-oriented economy in Korea. As early as the late 1980s, the Korean government pursued large-scale national R&D projects to engage major companies in strategic industries, including semiconductor and IT industries, with high investment risks. A typical case is the development of CDMA technology, a mobile communication technology of the early- and mid-1990s (Jho 2007: 633-9). Thereafter, the Korean developmental state has expanded its consortia networks, including SMEs, to focus on nurturing intermediate components and developing the industrial ecosystem for innovation.[9]

In sum, the Korean state has sufficient capacities and has played an active role in nurturing innovation capabilities of strategic industries by initiating and coordinating research consortia and industrial networks. Korean

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[7] Personal interview with general manager at an automobile parts company, 11 November 2015; interview with section chief at an electric parts company, 29 October 2015.

[8] Interview with managing director at an electronics parts company, 12 November 2015.

[9] Personal interview with ETRI executive researchers, 18 April 2014; ETRI 2012, 52-68.

capitalism maintains the characteristics of state-led capitalism, in terms of economic intervention based on the state's strategic industrial development, various policy instruments, and expanding developmental alliances for state-initiated research consortia.

## Continuity through change

We now explore in greater detail how the characteristics of Korean state-led capitalism have continued through serious changes in developmental strategy and governance.

### Changes in developmental strategy

State-led capitalism has been confirmed by its successful economic growth. Through state-led capitalism, Korea has achieved a high rate of long-term economic growth, from the 1970s to the 2010s. From 1971 to 2012, Korean economic growth averaged 7.1 percent annually, outpacing the U.S., Japan, and Germany, as well as Asian developing countries including Taiwan and Hong Kong (Kim 2017b: 96). However, long-term economic growth is achieved not by the traditional DS, but through changes in the strategies of Korean developmentalism. These changes have allowed Korea to sustain the effectiveness of its state-led developmentalism.

The traditional Korean developmental state focused on nurturing national champions in the assembly industries to compete in international markets. In order to realise economies of scale, the state actively mobilised domestic and foreign capital, funneling it exclusively to a few large corporations through its control of banks and credit rationing. At the same time the authoritarian state provided relatively docile low-wage labour to compete internationally. By this traditional developmental strategy, the Korean state built national champions to export final products to world markets. But in doing so it repressed the democratic organisation of labour, and deterred development of SMEs which were excluded from the state's allocation of credit.

Korea's developmentalism has changed from being centered on final assembly of products by large conglomerates to parallel development of SMEs for parts and materials, although labour has still failed to achieve the parapublic status seen in Nordic corporatist countries. SMEs have led

the growth of the Korean economy in this century, in contrast to the mid-1990s when export competitiveness of SME parts suppliers (-27.7) was significantly lower than that of automakers (92.9).[10] According to a 2012 Korean government report, Korean parts and materials industries upgraded their international competitiveness, significantly increasing their trade balance from US $2.7 billion in 2001 to $77.9 billion in 2010, a growth of twenty-nine times. The share of parts and materials in Korean total exports rose from 41.2 percent in 2001 to 49.1 percent in 2010, leapfrogging from 10th ranking to 6th in world market share, surpassing Italy and France (KIET 2012: 1-65).

Why has Korea turned from its existing pattern of industrial development centered on final assembly? Particularly, why has the Korean government shifted its industrial policy from nurturing national champions in final assembly industries to developing parts and materials industries and developing its industrial ecosystem? The Korean government began to reflect upon the problems of existing developmental strategy centered on final assembly industries. Due to unbalanced industrial development, in which large corporations in the assembly industries grew rapidly while parts suppliers did not, Korea had to expend foreign exchange to import more intermediary parts and materials from Japan, as large corporations in the assembly industries exported more.[11] The Korean government recognised the severity of this problem during the financial crisis of the late 1990s. It aimed to reverse its trade deficit of parts and materials with Japan, while changing the fundamental industrial structure by promoting its parts and materials industries. A former deputy director of Industrial Planning at the Ministry of Industry, who was a main drafter of the Special Law for Parts and Materials in 1999-2000, recalls the Korean state's turning point in industrial policy:

> Facing the financial crisis, we began to think, the existing growth model based on final assembly industries by large corporations might be problematic. Of course, in the past, we were concerned with the trade deficit with Japan when Japanese yen values were up and down […] Although we had an idea to promote parts and materials in the past, the

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[10] Export competitiveness = {(export-import) / (export + import)} x 100. See table 3-1 in Park and Kim (1997: 30).

[11] Three personal interviews with former and current directors at Ministry of Trade, Industry & Energy on 10 April 2015; 27 May 2015; 17 June 2015; former Vice Minister of Knowledge Economy Department on 22 May 2015.

> idea was not so effective. However, in the crisis, gaining the president's support, we began to think it over more fundamentally. As we used the phrase 'paradigm shift' in the first draft, we thought over not just import substitution of parts but more importantly, globalisation of parts and materials industries. We thought they had to lead the industrial development when the assembly industries faced the limits of growth.[12]

Korean economic departments began to recognise the limitation of the existing growth strategy based on capital accumulation since the 1997 financial crisis. With that crisis, considering the massive insolvency of Korean corporations resulting mainly from capital concentration and input-oriented growth strategy, the Korean government began to change to a more high-value-added and innovation-oriented economy in order to continuously grow, reducing the technology gap between Korea and advanced countries. Advanced countries, including the U.S. and Japan, had reinforced nationalistic protection of technology since the mid-1980s. In addition, due to the rise of the developing economies of China and East Asia based on low-wage development, Korea's existing growth strategy, based on imported technology from advanced countries and domestic low wages, no longer worked. The Korean government began to emphasise independent development of technology and innovation (Kim 2007: 262).[13]

To improve innovation capabilities in major industries, the Korean government increased R&D expenses from 79 billion won (0.25% of total government expenditure in 1991) to 17.6 trillion won in 53,493 R&D projects (6% of government expenditure in 2014). Key government industrial departments now allot the major portion of their expenditure to R&D support programs. For example, in 2014, the Ministry of Science, ICT and Planning spent about 6.0 trillion won, or 48 percent of its total expenditure on R&D support; Ministry of Trade, Industry and Energy (MoTIE) 3.2 trillion won, or 43 percent of its total expenditure; and the Small and Medium Business Administration 9 trillion won, or 31 percent

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[12] Personal interview with a former deputy director at the Ministry of Commerce Industry and Energy on 26 May 2015.

[13] The 2007 KDI report suggested that 'as the capital growth rate slows down, we have no other ways except to increase the total factor of productivity to keep our economy growing. As Korea's technology gap with that of advanced countries narrows, the only alternative is improvement of endogenous innovation capabilities' (Kim 2007).

of its total expenditure (Ministry of Science, ICT and Future Planning and Korean Institute of S&T Evaluation and Planning 2015).

For industrial policy, Korean R&D programs are a key means to selectively target strategic industries, rather than spending universal and basic science. For example, since the 1990s, the Ministry of Trade, Industry and Energy (MoTIE) has supported future high-tech industries most notably through the G7 project, the Next-Generation Growth Engine, and the New Growth Engine Support Project. The K-ICT Nine Strategic Project, the main policy program of the Ministry of Science, ICT and Future Planning (MoICT), selects and supports nine strategic technologies such as software, contents, IoT, Big Data, cloud, 5G, and UHD, to which a total of 1.3 trillion won was allocated in 2016. As of 2016, the Industrial Growth Engine Project for Creative Economy in the Park Geun-hye administration (2013-2017) aims to realise 2 trillion US dollars of trade in 2020 by supporting 13 growth engine technologies to upgrade flagship industries and creating a new industry ecosystem. The project consists of 13 programs for promotion of similar strategic industries, including materials and components, autonomous vehicles, wearable smart devices, smart bio production systems, and supercritical CO2 generation systems. Korean administrations since 2000, across different political ideologies, have supported the R&D activities of private companies and focused on building an effective ecosystem in which private companies, government-funded research institutes, and universities collabourate to develop industrial capabilities (Kim 2007: 267). Without such changes in developmental strategies, Korea cannot sustain its economic growth and the effectiveness of its state-led capitalism.

## Changes in governance

Changes in developmental strategy have required a new governance system to keep the state's developmentalism effective. This section examines how Korea was able to continue its characteristic state-led capitalism by changing its governance system.

In the past, the Korean developmental state was an authoritarian *dirigisme* state, in that it relied on the state's direct ordering of development without an autonomous network between public and private sectors, as in Japan. In the 1970s, Korea's developmental state exerted direct command by vertically controlling specific enterprises through monopolistic

mobilisation of foreign and domestic capital based on control of state-owned banks. Korea's traditional developmental state was unique. For example, the Korean state regulated the size of factories and the specifications of products to be developed in the private sector (Kim 2017a: 106-43).

However, the authoritarian *dirigisme* of the traditional Korean developmental state has changed since the 1990s into a more inclusive and horizontal governance system, similar to Japan's, with the expansion of private participation in the whole process of forming and implementing industrial policy. The process of policy formulation, decision, and enforcement no longer depends on the discretionary order of 'the supreme ruler', but on a legal and institutional framework. In the course of formulating and implementing policy, the Korean government has established a co-governance or 'governed interdependence' system that engages all relevant stakeholders in industry, government-affiliated research institutes and academia, and government (Weiss 1995; Thurbon and Weiss 2019). Policy enforcement is a continuous feedback process, where the state neither dictates a goal unilaterally, nor enforces the achievement of the goal. If a problem occurs, the policy enforcement agency and the enterprise solve the problem together.

The most important feature of the former policy governance system in authoritarian Korea was its reliance on president-centered top-down policy decisions, excluding official decision-making bodies such as the Cabinet Meeting and the Ministers' Meeting of Economic Affairs. Systematic and competent bureaucracies such as the Ministry of Commerce and Industry (MCI) and the Ministry of Finance and Economy (MoFE) served only to enforce decisions made by the president or his nearest staff officials. Therefore, differences of opinion between the ministries were addressed vertically by the president (Ha 2006: 142-54; Jeong 1987: 509-16). However, the closed, one-sided, and arbitrary form of policy formation in the traditional Korean developmental state no longer works.

Korea has been democratised and its decision making has become legally institutionalised. More importantly, as the Korean economy became more advanced and complex, and as the growth strategy changed to nurturing innovative capabilities, the state needed private actors' innovative initiatives and mutual collabouration among large and small companies. Government agencies implementing developmental policies became more inclusive, in order to gather more information for industrial policy. Thus,

in the 1980s, the Korean state built many public research institutions, such as the Korea Institute for Industrial Economics and Trade (1981), Korea Institute of Energy Research (1986), Korea Labour Institute (1988), and Korea Economic Research Institute (1987). To narrow the technology gap with advanced countries, the Korean government also began to build public R&D institutes for industrial technologies, including the Korea Institute of Science and Technology Policy (1987), Korea Institute of Electrical and Electronic Engineers (1985), Korea Institute of Machinery and Materials (1986), Korea Institute of Electrical and Communication Engineers (1986), and Korea Institute of Science and Technology (1986). After the 1990s, more government-funded research institutes were established as Korean developmentalism focused on nurturing innovation capabilities.

The Korean government also developed the public-private consortium and 'governed interdependence' system to engage all relevant stakeholders for development of specific industries. This process of establishing and implementing policies has led to a shift in direction of the so-called 'private-led' economy. For example, in the early 1980s, the Electronic Industry Development Initiative, led by the Office of the Presidential Secretariat, gathered businessmen, experts from academia and research institutes, government officials, and presidential secretariats to present and discuss alternatives and solutions (Jeong 2003: 122-9). This initiative illustrated a new process of policy making that involved broad participation of the private sector, sparking a broader change in the process of establishing industrial policy. The Korean government dissolved the Economic Planning Board (EPB), icon of the traditional developmental state, in order to decentralise its governance system.

More important for sustained effectiveness of industrial policy, the decentralised governance system, as seen in the research consortia, has expanded to the micro level since the 1990s because Korean developmentalism needed more detailed information about complicated industries and private actors' initiatives. In the decentralised research consortia, close collabouration between government and the private sector enables continuous feedback between policy enforcement agencies and companies to solve problems together in a nonauthoritarian way.

For example, an evaluation committee for public research projects guides multiyear state-funded R&D tasks. If technology in the process of being developed is evaluated as losing marketability, the participating companies

raise the targeted technology level or speed up technology development. If the company experiences difficulties in technology development, it can receive technical assistance from government-affiliated research institutes. In a personal interview, a director of the public Technology Promotion Agency describes the evaluation process as follows:

> For example, if you have a three-year assignment, you will be assessed each year, and your performance target will be adjusted as market conditions change. The [performance target] is changed by the evaluation committee. At first we offer a Request for Proposal (RFP). Then, in the first year, we usually follow the RFP, and in the second and third years, if the market situation changes, then the evaluation committee suggests, for example, 'Japan has already developed this technology. We should raise the target or shorten the period.' The evaluation committee does not merely evaluate based on financial profits or such things, but rather judges whether the technology to be developed can be sold in the market.[14]

At the micro level, the state-sponsored research institute is adjusting the direction of national technology development and resetting the goals. Ongoing interactions between state and enterprises in the policy enforcement phase provide critical feedback for future industrial policies that can be tightly integrated with private industrial sectors. Rather than simply subsidising corporate R&D, the Korean state initiates and coordinates the process within collective research consortia. The Korean state can identify which companies belong to which strategic industries and their level of technology, thus establishing new policy programs under mid- and long-term industrial visions. At the same time, the state is a key actor in the innovation network for technological advancement. The state encourages companies to participate in and develop the state-coordinated innovation network.[15] Through adoption of this new governance system, Korea continues the effectiveness of state-led capitalism.

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[14] Interview with general director at Industrial Technology Promotion Agency, 4 June 2015.

[15] Personal interview with general manager at an automobile parts company, Nov. 10, 2015; interview with managing director at Korea Association of Machinery Industry, June 24, 2015.

## Conclusion

In the ongoing debate concerning the change of the Korean developmental state, which began seriously in the late 1990s, the dominant scholars – both neoliberals and old-style developmentalists – supported the demise thesis that the Korean developmental state was dismantled and transformed into a neoliberal free-market system. However, Korea has continued its state-led capitalism, as can be seen through the lens of comparative political economy. Although the Korean developmental framework has seen the abandonment of previous policy instruments and the transformation of governing industrial policies into a more comprehensive and democratic form, that framework still reflects state-interventionist capitalism, rather than neoliberal market capitalism. The Korean industrial innovation system continues to be coordinated by the state and the state leads selective technology development programs. The Korean state maintains selective industrial policies, expressing development direction for the entire national economy. In addition, the Korean state has sufficient institutional capacities to attract corporate participation in policies through financial support such as policy finance and tax benefits, as well as by forming and coordinating innovation networks.

Continuity of state-led capitalism in Korea is due to significant efforts to change strategies and to adopt new governing institutions to meet new challenges in the face of changing international competition. The prevalent views regarding the evolution of the Korean developmental state, whether those of proponents of the demise thesis or of institutionalists emphasising path dependency, assume that institutional changes and continuity of state leadership are mutually exclusive. Rather, such continuity in the case of Korea has relied not on absence of changes in institutions but on their being adapted and adjusted. Korea was able to maintain state-led capitalism precisely because it successfully changed its growth strategy from input-driven to innovation-based, and has successfully created a new governance system to nurture an innovation ecosystem.

This paper has presented an interpretation of developments in the Republic of Korea that have frequently been represented, in the context of what seem to many commentators to have been great advances by neoliberalism, as the demise of the developmental state of the late twentieth century. Neoliberal ideologues have boasted widely, in Australia not the least, that they have achieved a shrinkage in the size of the nation-state and a withdrawal of the state from intervention in the economy. This article has

argued otherwise. In Korea, developments in this century can be shown overall to be changes in the state and not diminishments. Nor is the endurance of Korea's state-led capitalism a sign of vestigial *dirigisme* or simply the result of stickiness in the institutions of the political economy. If the argument that the developmental state persists in Korea – albeit after some remodeling – is persuasive, analysts of other states, such as Australia, may wish to reexamine the *reshaping* of state involvement in the political economy. The Australian state is no longer a developmental state, yet it is not a neoliberal state either. State involvements in recent decades reflect the hijacking of the state by special interests in competition to disarticulate components of the economy. Yet the state can be reshaped so that, like Korea's state, it is able to achieve its national purposes.

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# REVIEW ESSAY

# AFRICA UNVEILED

**Walden Bello**

**Franklin Obeng-Odoom,**

**Property, Institutions, and Social Stratification in Africa**

*Cambridge University Press, Cambridge, 2020, 376pp., hardback, $175.*

In Franklin Obeng-Odoom's telling, Africa has been a battleground for different varieties of development economics, one where reputations are made and unmade, but where the goal - explaining the underdevelopment of the continent - remains elusive. Obeng-Odoom, currently Associate Professor at the University of Helsinki, takes us on a tour of the rise of different paradigms and how they have been found wanting, patiently but unflinchingly pointing out where they have stumbled or have been humbled by the reality of Africa.

Obeng-Odoom acknowledges that, despite exposés of their blind spots, varieties of orthodox development economics continue to veil the realities of Africa, even among African economists. He brings up as an example a conference at the University of Witwaterstrand that he helped to organize, where 'all but one paper gave the nod to a heterodox challenge, albeit a soft one: new institutional economics,' and in which 'neither institutional economics nor stratification economics, let alone Marxist economics, was even given a polite mention.' While his book is meant for a much wider audience, both in Africa and outside Africa, it is clear that he seeks mainly to critically engage 'seasoned and young African economists' such as those who attended the Witwaterstrand meeting.

More than many of these economists, the taxi driver ferrying Obeng-Odoom from the airport when he first stepped into South Africa had a

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sense of the fundamental problem. The driver compared South Africa pejoratively to Zimbabwe, where land reform had been carried out. Even if Zimbabwe was poor, it 'was far safer than South Africa, where crime, grime, and strife' was rampant. The reason for the difference, the driver told him, was land: 'We do not have any land.'

## Abundance as curse?

To the western economists who serve as mentors to the African economists at Witswaterstrand, land is also a problem, but it is not a real on-the-ground problem as it is for most Africans. Rather, it is a conundrum that has to be fitted somehow to their theories about the underdevelopment of the continent. Africa is often compared to East Asia in pejorative terms, and nowhere is this comparison more flagrantly displayed than by those proclaiming the theory of 'Africa's resource curse.' Proponents of this faddish idea theorize that Africa's misfortune is to be blessed with bountiful natural resources and land since this has brought in its train the 'Dutch disease', the appreciation of the currency resulting in massive trade deficits, and rapacious governments that try to corner royalty payments from transnational oil companies. The East Asian newly industrializing countries, on the other hand, were left with cheap labor alone, it is alleged, and they made good use of it, building up their capital painstakingly through export-led manufacturing. It is an argument with which I am familiar, since my country, the Philippines, has been unfavorably compared to South Korea and Taiwan in exactly the same manner.

Obeng-Odoom shows, however, that the mismanagement of Africa's resources is not an inexorable law of development since the ability of governments emerging from colonialism in the period 1950 to 1970 to control the use of their resources was gravely weakened by neoliberal reforms imposed on them by the World Bank and the International Monetary Fund in the 1980s, in exchange for structural adjustment loans that favored the private sector, discouraged effective regulation and government involvement in production, and provided western oil companies with the leverage to dictate the terms of extraction of oil and distribution of its profits. Moreover, the resource curse thesis is not only ahistorical but also lacks appreciation of the imperatives of the global

political economy, among which is the necessity of keeping corporate profits high, government control weak, the price of oil low, and environmental controls non-existent to sustain the prosperity of the fossil-fuel-driven capitalist economies of Europe and the United States.

In the case of the Philippines, deregulation, trade liberalisation, and privatization imposed by the World Bank and the International Monetary Fund were the price exacted for multilateral loans needed to service the country's debts to western banks after the 1982 Third World debt crisis. It was this deadly grip of the Bretton Woods institutions that deprived the country of the strong government leadership and resources for capital expenditures in infrastructure and state or state-supported enterprises that were the trademark of the East Asian 'newly industrializing countries.' These NICs deliberately got 'relative prices wrong', to use the provocative words of Alice Amsden to describe the NIC technocrats' calculated disregard for neoliberal prescriptions that produced the positive developmental outcomes that eluded the compliant Philippines.

## Land reform as commodification, not liberation

Another faddish theory that Obeng-Odoom deconstructs is the various 'lack of capital' theories – meaning Africa's move towards sustained growth or capital accumulation has been frustrated because it lacks human capital, or its capital is 'dead' or frozen in traditional communal land tenure systems in the countryside or in land without title in the slums. Coming in for withering criticism in particular is Hernando de Soto's influential theory that land can be liberated to serve as an engine of entrepreneur-led growth in the slums and the countryside if people have private rights to it. De Soto's strategy has prompted land titling schemes funded by the World Bank, but these have not lived up to the expectation that they would create thousands of bustling African entrepreneurs.

The problem lies not only in costly land registration procedures but in flaws in the idea of privatizing land itself. Titling makes land a 'fictitious commodity', writes the author, following Karl Polanyi, one that is marketable, and this triggers a process that ends, more often than not, in the accumulation of land by a few. Whether it is releasing land from communal tenure or selling rights to natural resources like oil to

transnational companies, the result of land and resource privatization is the same: the enrichment of a few at the expense of the many.

Here, again, the example of the Philippines is relevant. In 1986, one of the most ambitious land-to-the-tiller programs was initiated – one intended to transfer ownership of some 1.8 million hectares of rice land to peasants. 34 years later, the program is now widely acknowledged to be a failure, with lands titled to small farmer beneficiaries finding their way back to the hands of big landlords or to those of real estate tycoons or shopping mall conglomerates. Formal titling in the midst of mass poverty has not prevented powerful interests from gaining or regaining informal control over reformed lands. What Obeng-Odoom writes about the experience of land tenure reform in Ghana is strikingly similar to that of the Philippines:

> [I]t has not succeeded in 'protecting the rights of landowners and their descendants from becoming landless,' and not succeeded in curbing the incidence of land encroachment and multiple land sales. Consequently, real estate developers now market gated housing estates as a haven for security.

The absence of a government that can enforce the rights of land reform beneficiaries is part of the problem, in the Philippines as well as Ghana. But the bigger cause of land accumulation in the hands of a few are the dynamics of a market capitalism that is increasingly linked to the transnational market for land in a global capitalist economy.

## Paradigm curse

His analysis of the failure of land titling leads Obeng-Odoom to conclude that Africa's land and natural resources are not a curse but offer a tremendous opportunity for most Africans, given the right social and economic context, the right policies and the right institutions. The curse is a system of production and exchange that promotes the concentration of land and resources in the hands of a few. Here he follows the Nineteenth Century economist Henry George who elevated land as the main source of value, along with labor – a truth that was understood by the colonial powers in the past and by the oil giants and agribusiness interests today. It is the drive for rent, or massive unearned income from ownership and control of land, that is at the heart of the 'the new land grab' whereby the

integration of Africa into a global land market has facilitated the leasing to foreign and local corporate interests of an astounding 71 million hectares of land as of 2010.

This truth about Africa is veiled by the different varieties of neoliberal development economics which, in Obeng-Odoom's view, function objectively to keep Africa at the bottom of the global hierarchy. This structural position that neoliberal ideology conceals has been created historically and is inexorably reproduced by a global political economy driven by the needs of capital accumulation in the global North. It emerged, 'as a function of three interdependent factors, namely, slavery, colonialism, and the international financial system.'

## Slavery, colonialism, and reparations

Central to this process was slavery, and here Obeng Odoom surfaces the subliminal assumptions that today underlie western development economics, the psychological blind spots around which different theoretical fads revolve:

> Slavery has provided the framework for how Africa and Africans have been engaged to this day. A system in which Africa and Africans counted for little or nothing, the slave framework cast Africans as providers of free energy for the world and nothing for itself. The world's 'Wretched of the Earth,' […] Africans are seen as the cheap labor to be used and abused, their resources to be plundered, their spaces to be utilized for experiments and speculation, and their lands to be confiscated without compensation. That was evidently what John Locke's theory or property and slavery taught.

As 'subhumans,' Africans could not possess land, Obeng-Odoom notes, so that dispossessing Africans of their land was just because 'the slaver could put the land to better uses, including ensuring the prosperity of slave economies such as England whose economic prosperity was tied to the appropriation of slave land and the use and abuse of slaves.' In this system,

> the world was indebted to Africa for its contribution of human labor and energy. The world owed Africa the cost of its resources. The world owed Africa ideas. The world owed Africa the opportunity cost of

> enslavement. In a faux repayment, the Global North claimed to officially abolish the slave system. Yes, what it did was to blank out the debt owed to Africa and, in its place, rewrite a new code to enslave Africans and to get them indebted in a new colonial division of labor.

The structural legacy of slavery makes it imperative to provide reparations for the accumulated damage done to Africa over five centuries. Reparations are not only a moral demand. They have 'a sound economic basis,' argues Obeng-Odoom, building on the work of prominent African scholars like Sir Hilary Beckles and William Darrity, Jr. But it is not only Africans who have argued the case for reparations. Thomas Piketty argues, in his Capital and Ideology (2020), that accumulations of wealth in the past, whether amassed 'legally or illegally, morally or immorally, begin to follow an accumulative logic of their own once they attain a certain value' (p.284). Noting the 'extreme weakness of the arguments raised by those who refused to reopen the Haitian case' (p.226), he advocates France's 'paying substantial reparations to Haiti' (p.227). This is a demand of 'transnational' and 'transgenerational' justice that should have been met long ago. Few western economists, however, would go as far as Piketty, with most probably simply willing to acknowledge the immorality of slavery but dismissing the call for reparations as a no-no, as French, British, and American politicians have done.

## Towards stratification economics

Neoliberal development economics is not the only target of Obeng-Odoom's critique. Uncritical calls for the preservation of traditional forms of communal land tenure are not the answer, he says, since these have their own limitations and, under the lash of market forces, they may remain communal in form but are being stratified in reality, with chiefs taking on the power to alienate land and monopolizing the income from this. Classical Marxism, with its focus on the leading role of capital and neglect of land, is also critically assessed, as are socialist proposals that rely on statist solutions like nationalization to every problem.

Yet, it is Marxist thinkers like Frantz Fanon and Walter Rodney that receive the greatest respect from Obeng-Odoom, perhaps because theirs was a Marxism that was not doctrinaire but focused on the complexities of

power of societies in the global South that were suffering from multiple oppressions. Fanon and Rodney were the precursors of the theoretical perspective of intersectionality developed by the eminent black feminist scholar Kimberle Crenshaw, viewing identities such as race, class, and gender as parallel dimensions but also seeing their intersections or articulation over time and in space. Further developed by other black scholars, intersectionality is at the theoretical center of the new stratification economics, which goes beyond looking at linkages of identities to probing the 'interlocking connections between the geographies of development and underdevelopment on the one hand and the political economy of multiple identities on the other.' Africa's underdevelopment is the 'product of cumulative change' as well as the 'outcome of ongoing contradictions and exploitations whether through trade, through debt, or through land reforms of various kinds.'

## Africa's challenge

In terms of the policy prescriptions of the new stratification economics, Obeng-Odoom says it is time to stop looking outside and trying to indigenize 'mutations of socialism and capitalism such as dictatorships, developmental states, or Nordic welfare models.' Instead he urges the adoption of a program with four key thrusts: breaking cartels and monopolies that control Africa's land and resources, building social states, institutionalizing reparations mechanisms for past injustices, and treating land as common property. Central to this approach is the aggressive use of the power of taxation by the state – a Georgist strategy of transformation that, incidentally, is also promoted by Piketty in place of outright nationalization.

Critics may say that these general principles are fine, but that Obeng-Odoom falls short when it comes to specifying the articulation of the state and the private sector, taxes and redistribution, that would constitute a concrete program that would break away from dependency on the global North while addressing the multiple inequalities of race, gender and class.

In fact, Obeng-Odoom does something better. He provides detailed descriptions of how actually existing African societies are trying to bring

together the desired principles. What is possible can be found in Africa itself, in present-day Botswana and Mauritius.

Botswana has successfully dealt with problems of unemployment and poverty, but its policies have been much less successful when it comes to inclusiveness and the environment. Mauritius, on the other hand, is 'a fascinating case study.' In Africa, it is this country whose policies come closest to having a Georgist program focused on taxing rents and redistributing the proceeds to society, says Obeng-Odoom. An export-led economy, Mauritius 'invests substantially in social protection and ecological governance' and 'deploys a framework of human and environmental rights.' Like its investments in society and the economy, the government takes its environmental programs very seriously, taxing oil 'from cradle to grave, from production to use, and uses the returns to incentivize greener investments.' It has a tax on fossil fuels that has doubled since 2008, so as to discourage their use, and the debate on the tax is not the neoliberal one of whether it should be removed but whether it is too low and should be increased to move the country more quickly into reliance on green energy. Mauritius, in Obeng-Odoom's judgment, has 'successfully combined economic growth with poverty reduction and a more egalitarian distribution of resources in a cleaner and greener environment, while still open to international trade'. Botswana and Mauritius may not be as pure as the doctrinaire Marxist, socialist, or Africanist would like them to be, but they work in terms of delivering a better life for the majority of their citizens compared to most polities in Africa or the Global South for that matter.

Africa, in short, offers the world not only examples of the terrible legacies of the colonial past and the imperial present but possibilities for a truly just and equitable future. For this reason, Franklin Obeng-Odoom's fascinating book is one from which not just Africans but the rest of us in the global South can derive many valuable lessons for our collective way forward.

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# BOOK REVIEW

## Geoffrey M. Hodgson

## Is There A Future For Heterodox Economics? Institutions, Ideology and A Scientific Community

*Edward Elgar, Cheltenham, 2019, 353pp., $52, paperback.*

## Reviewed by Geoff Dow

The tone of this book is unremittingly cantankerous. At the start of chapter five, Geoff Hodgson writes: 'Heterodox economists have been working hard to improve economics for several decades. They have published thousands of articles in reputable academic journals and taught many more thousands of students. But their progress in changing economics has been limited' (p.133). Heterodoxy has become a 'label for losers' and mediocre scholarship (p.153); the results are insufficiently cumulative, he claims. Disappointingly, lack of mainstream engagement with criticism can be sheeted home to the heterodox community itself.

A book that traverses political economy from Cambridge in the pre-war period, to contemporary discussions, to a critique of core assumptions (utility maximization and equilibrium tendencies), to evolutionary theory, to debates over science, to outlooks for heterodoxy's future promises to be exciting and rewarding. To me, *Is there a future for heterodox economics?* (*FHE?*) is disheartening.

Hodgson doesn't much like Maurice Dobb, or Joan Robinson, or even Keynes himself (p.42), citing intolerance, naivety and 'serious misjudgements' about the economic feasibility of collectivist bargains and intellectual arrogance, as well as a tendency to be 'deluded by ideology' (p.34). And he is irritated by the Cantabrigian preference for macroeconomic analysis (chs. 1 & 2) as well as what he claims is the 'selectivism' (blindness to inconvenient problems: p.63) of heterodox writers and their handbooks. Contemporary post-Keynesianism is an approach developed by 'ageing economists in the ancient University of Cambridge over half a century ago' (p.73).

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Notwithstanding his own detailed support, over several decades, for the contribution that institutionalism and interdisciplinarity should make (and have made) to the proper understanding of economies, Hodgson is often more querulous than helpful. Even if some arguments (about scarcity) can be seen as 'unnuanced and untenable' (p.54), is it not the case that the general elevation of scarcity as a timeless and existential aspect of the human condition has done enormous harm to the understanding of economic processes in most modern contexts (that is, wherein most means of production is itself produced)? And is it not the case that the adoption of 'Economics' (the term Hodgson still prefers) instead of 'political' economy (ch. 6) to specify the discipline (despite some exceptions noted) has intentionally narrowed its scope?

We might instead insist that, if the task of heterodoxy is to contribute to the understanding, critique and betterment of economies, indifference of the mainstream profession is not the primary problem. That series of debates was fought and won (by the heterodox tradition) long ago. Many social science disciplines – including economic sociology, economic history, evolutionary studies, development studies, the parts of political science that include state theory and regulation theory, and comparative studies in political economy – accepted the reality of cross-disciplinary approaches in their founding moments, flourishing in the process.

Unsurprisingly, Hodgson repudiates important avenues of contemporary research (for example, critical realism). He knows that interdisciplinary perspectives are essential; but still defends compliance with current performance indicators and replication of mainstream academic protocols. While apparently aware of the tentative nature of some experimental knowledge, he baulks at heterodoxy's problematising of knowledge that is still in the process of being consolidated. (Recent revivals of neo-mercantilism and deliberative industry protection are examples.) More rigorous recourse to peer review in reputable academic journals is of limited use when key institutional custodians of the discipline remain recalcitrant.

Of course, Hodgson is not an orthodox economist himself and he disputes the discipline's founding assumption – that people in general are self-seeking utility maximizers – so emphatically that he thinks this scepticism should define all heterodox economics. Indeed, we would all benefit from

a systematic rejection of 'rational *homo economicus*' as the starting point of economic analysis. A more complex methodology deploying conjecture and refutation, perhaps upgrading our understanding of the development of capabilities through deliberative institutions and moral judgement (similarly evolved over time), would be welcome. *FHE?* also wonders why the strands of social science that embrace 'other-regarding behaviour' as fundamental to humans have not been prioritized more in heterodox political economy. Much of this Hodgson, along with Amartya Sen, endorses.

Furthermore, as Hodgson well understands – since his previous books have dealt explicitly with it – the cognate disciplines have always incorporated anti-rationalist sentiment and motivations into their theorizing. Weber and Durkheim saw substantive rationality and protections against market-induced *anomie* in such terms. Karl Polanyi continued these ruminations in his denial of the moral and ontological primacy of market modes of calculation.

Hodgson returns several times to the 'socialist calculation' debates – which he considers, decades ago, to have discredited the possibility, and therefore the idea, of an effective socialism. Cambridge-influenced radicalism is said to have ignored the supposed conclusions (concerning the difficulties of planning) of this discussion. Such a conception relies on a dualist opposition between a perfect capitalism and a perfect socialism. Yet, just as actual capitalisms embody 'impurities', so too do the socialist advances that have been experienced depart (in an evolutionary manner) from abstract blueprints.

Who imagined in the 1930s and 1940s that, by 2020, almost one-quarter of real income would not be received via citizenship entitlements and transfers authorized in the polity (by states), or that state spending and state revenues (taxation) would be consistently close to 40 percent of GDP in the rich capitalist economies? Actual socialist struggle today has the form of increased taxation-funded provision of everything from income replacement (and regulation) to housing and child-care. And despite regular attack and disparagement by liberals, it is not declining. More than that, actual capitalisms embody more 'planning' by corporations and by governments, particularly in the realm of infrastructure provision, than the early debates envisaged. It has been the mavericks, including Marxists and

social democrats (and some conservatives), who foresaw 'socialist' tendencies inherent in the dynamics of capitalism itself, and whose researches have been vindicated. Socialism is scarcely an 'abstract theory of little empirical relevance' (p.43).

It is not only capabilities in the polity that have expanded over the past three-quarters of a century, but the reach of wage-fixation systems, welfare-state arrangements, national and regional equalisation mechanisms, corporatist calculation, redistributive possibilities and developmental priorities. The arc of political economy is long, but seemingly it still bends toward ever-more intensive and imaginative macro-level management. Hence methodological individualism (that explanation of phenomena should be in terms of individuals only) is unacceptable in political economy.

Exaggerating the 'lack of accord' (p.50) over definitions of heterodoxy and post-Keynesianism, Hodgson seems to trivialise both the commonalities and accomplishments. He worries that, though diverse strands of heterodoxy are associated with diverse political positions, the cognoscenti may over-politicise their preferred (sub-)discipline. We know that heterodox political economy can accommodate very conservative stances (as in the social economy tradition, previously known as Christian social thought) and quite radical policies and institutions (as in the furore over corporatism in recent decades). Hodgson allows that much formalist analysis has been 'ontologically inappropriate' (p.148), but is still clearly irritated by a frequent presumption from heterodoxy that heterodoxy implies a critique of capitalism. Had he pursued the idea that the reform of capitalism and the struggle against it are co-terminus, this kind of impatience could have been averted.

Gaps in the progress of political economy are usually a function of the obduracy of the subject matter itself (*eg*. the meaning of capital, the importance of diverse and incommensurable inputs, the purposes and complexities of accumulation, the limits of politicization). These have been festering as a problem for political economy since well before it became hegemonic in the post-1945 period, and will continue to do so. But important gains have nonetheless been made in our knowledge of how economies work (or not), of how problems can be addressed (or worsened) and of why conflicts that give rise to function and dysfunction will stay

part of any imaginable terrain. Many of the advances now constituting comparative and institutional and cross-disciplinary studies have come from outside orthodoxy because the mainstream has continued to ignore or to dismiss them or to recognize unusual solutions only as aberrant.

For several decades now, prominent mainstream efforts have been directed towards frustrating rather than facilitating the observed growth of the public realm, and many substantive achievements have been derided or unnecessarily wound back. The towering figures in social science still endow us with intellectual direction – even if we need to remember an old observation by Joan Robinson that, to develop new critiques maximally, we ought not stay 'stuck in the groove' that instigated them.

If, from the same evidence, divergent analytical conclusions and policy inferences have been derived – while disparate aspects of the same historical reality become rival foci, and even obsessions – then a more charitable attitude to what seem to be inevitable differences within political economy is required. The dismissal of the University of Sydney-based political economy movement's survival is especially unthinking.

Hodgson has done more than any other contemporary political economist to develop the insights of Veblen and Darwin (that is, to explicate the importance of the sequence: variation – selection – inheritance: pp.110, 127) and to speculate about how much further they need to be driven to provide a sound basis for understanding the post-1945 explosion in societal capacities. Yet *FHE?* (ch.4) appears to regret that these activities are not happening within Economics departments.

One-fifth of the book is given over to a reference list; and it thereby provides a useful repository of sources on non-orthodox perspectives such as behaviourism. Yet by the end of the discussion, Hodgson reasserts his conviction that heterodoxy is too disengaged (from the orthodox discipline): problems include a tendency towards 'anything goes' (*ie.* quality control is chequered); too much concern with normative attitudes to capitalism; and little evidence of theoretical advance (pp.148-61). Furthermore, accomplishments are being mitigated by unresolved disputes. I was not convinced. It is the unresolved disputes that should forever commit us to finding a body of enquiry and social improvement appropriate to our intellectual duty to postulate possibilities and limits thrown up in capitalist economies.

# BOOK NOTES

## Jon Shefner and Cory Blad

## Why Austerity Persists

*Polity Press, Cambridge, 2019, 208pp, paperback, $36.95.*

During the Coronavirus pandemic, many governments have set aside the austerity policies they have commonly pursued during the last couple of decades. Will there be a reversion as soon as is politically expedient? This book gives us some basis for judgement. It considers the characteristics of austerity as a dominant policy regime, while recognising that there are many paths to austerity. It reviews the experience in various parts of the world - Latin America, Africa, Asia and Oceania, the United States and the European Union. Rounding it off is an analysis of why austerity persists. Although the book was written before the onset of the global coronavirus crisis, it remains useful in showing the long-term basis for governments' belief that austerity policies are appropriate and necessary. By the same token, it helps in forearming us for state policies and tendencies likely to return, perhaps return with a vengeance, during the current decade.

## Heather Whiteside

## Capitalist Political Economy: Thinkers and Theories

*Routledge, London, 2020, 172pp., paperback, $70.*

This recently published introduction to political economy focuses on the contribution and influence of key figures in the history of political economic thought. Following the initial scene-setting, successive chapters introduce us to Adam Smith and Karl Marx, showing their very different conceptions of how the economy works. Then comes William Jevons and other scholars who narrowed the agenda by turning attention away from capitalism as a political economic system to the study of self-intereted individuals and idealised self-equilibrating markets. Critics of this new

orthodoxy were numerous, of course, as the second half of the book shows. Separate chapters explore the analyses of JM Keynes and notable iconoclasts such as Thorstein Veblen, Joseph Schumpeter and Karl Polanyi. A further chapter considers the contributions by Braudel, Wallerstein and Arrighi to a 'world economy' perspective. Finally, there's a chapter on modern debates about gender inequalities and environmental stresses. These last two chapters make Whiteside's book a significant advance on Robert Heilbroner's rightly renowned book *The Worldly Philosophers*, written over half a century ago. The comparison is intended to be laudatory. Indeed, this lively, modern equivalent should have strong appeal to students and teachers concerned with a pluralist approach to economics education. Moreover, it should have many readers beyond the universities too, wherever people are seeking an accessible introduction to the currents of thought in an inherently contested discipline and a deeper understanding of the major political economic issues.

## Lisa Adkins, Martijn Konings and Melinda Cooper

## The Asset Economy

*Polity Press, Cambridge, 2020, 167pp., paperback, $30.95.*

This book challenges political economists, other social scientists and policymakers to come to terms with the reality of asset ownership as a key dimension and driver of inequality in modern societies. It even challenges the notion that class is primarily defined in terms of people's relationship to the means of production. The authors argue that, such is the importance of real estate as a focal point for the accumulation of wealth that class division is now at least as much about whether people own residental property or not. Those in the former group have often accumulated enormous personal wealth as a result of inflation in land and housing prices, whereas those in the latter group remain marginalised and effectively out of the game. It is a phenomenon ithat is all too well known to those of us living in Australian cities. The article appearing earlier in this issue of JAPE by two of the authors, combining in this instance with three other similarly concerned social scientists, gives a taste of the fuller analysis presented in the book. Its focus on the connections between house price inflation, household debt and growing socio-economic inequality will surely make it a focal point for ongoing research and controversy.

## Jodi Gardner, Mia Gray and Katharina Moser

## Debt and Austerity: Implications of the Financial Crisis

*Edward Elgar, Cheltenham, 2020, 361pp., hardback, $169.75.*

Here is further analysis of how the modern financialised economy affects households having different positions within the income distribution. Problems of household debt are paramount in the analysis. Chapters have titles like 'debt begets debt' and 'mortgage debt in an age of austerity'. Both attitudes and experiences of heavily indebted households are explored. The book's contents are diverse, as one might expect from an edited collection of 14 chapters contributed by social scientists from a wide range of fields, including geography, sociology, social policy and legal studies, plus some practitioners from banking and citizens' advice. Yet the volume has overall cohesion because of its concern with the application of social justice principles to pervasive real world problems, centred on the all-too-real difficulties of trying to live affordably in modern capitalist cities. While its principal empirical focus is on the UK, a chapter by Jordan Grace widens the coverage to include the Australian situation.

## Richard Eccleston and Ainsley Elbra

## Business, Civil Society and the 'New' Politics of Corporate Tax Justice: Paying a Fair Share?

*Edward Elgar, Cheltenham, 2018, 336pp., hardback, $178.*

Concerns about corporate tax avoidance have grown substantially since the global financial crisis of 2007-8. Vast public revenue is at stake. So too is the legitimacy of multinational corporations who seem largely untrammelled in their capacity to use their 'global reach' to minimise tax liabilities in individual countries. This book brings together contributions by academics and activists concerned to address and resolve this issue. Its dozen chapters explore different dimensions of the campaign against corporate tax avoidance and for more robust and equitable forms of tax collection. The ongoing challenge is to shift the onus of financing public services from lower income groups towards these fabulously wealthy institutions that pour huge resources into minimising their tax liabilities.

## Jessica Whyte

## The Morals of the Market: Human Rights and the Rise of Neoliberalism

*Verso, London, 2019, 288pp., paperback, $40.*

Coming at the challenges of the current era from a distinctive academic perspective, this new book by philosopher Jessica Whyte provides a scholarly account of how neoliberals have constructed a version (perversion, some might say) of human rights that effectively stand in the way of economic justice and a more comprehensive social equality. Neoliberals are fond of claiming that their political economic philosophy is deeply respectful of individual freedom. This book exposes the claim as a fig-leaf over the otherwise naked class interests that neoliberal practices and policies actually serve. It argues that the central values of civilisation are endangered because the policies favoured by neoliberal exponents are not actually respectful of human rights. Rather, they constitute what the author calls the 'shabby remnants of colonial imperialism'. Neoliberalism's origins in Pinochet's Chile are considered in the penultimate chapter, showing how its policies and practices emerged in a regime that blatantly curtailed political rights. A concluding chapter explores what is to be done, emphasising the need to expose and challenge the neoliberal assault on postcolonial economic justice.

## Rob Watts

## Criminalizing Dissent: The Liberal State and the Problem of Legitimacy

*Routledge, London, 2020, 302pp., paperback, $78.*

Challenging the prevailing political economic order involves dissent. This process raises important questions for both analysts and citizens concerned with the particular problems arising from current institutions and public policies. What is the right to dissent? Is dissent being criminalised and, if so, why and to to what extent are liberal democratic states doing that? Is it possible and necessary to contest the tendency towards criminalisation of dissent? In exploring these complex questions, and much more, Australian social scientist Rob Watts offers no easy answers: rather, he presents readers with a careful analysis of the issues while leaving little doubt about

which side he is on. The penultimate chapter, titled 'why dissent is good for us' ends with the proposition that 'we need to make deliberative dissent our default position'. The logic of this bold claim follows from the two preceding chapters on 'the political legitimacy of the liberal-democratic state' and 'the legitimacy of political violence'.

## Alex Millmow

## The Gypsy Economist: the Life and Times of Colin Clark

*Palgrave Macmillan, Singapore, 2021, 396pp., hardback, $135.*

Studying the history of economic thought gives isnsight into the origins of both progressive and conservative influences. Both are evident in this book which draws attention to one of Australia's most overlooked economists. Millmow argues that Colin Clark was the first economist to derive the concept of Gross National Product, the first to broach development economics and to foresee the impact that development in India and China would have on the modern global economy. Clark's strong personal adherence to Catholic doctrine also made him a staunch opponent of policies to control the pressures of population growth. The author says Clark 'rambled through the fields of applied economics in much the same way as he rambled through the English countryside and the Australian bush', and his choice of title for the book reflects this emphasis on these 'imaginative wanderings'. The book's in-depth approach emphasises the connections between Clarke's 'life and times' and his professional concerns and contributions, ranging from innovation in economic statistics and macroeconomics to bringing Catholic social doctrine to bear on contemporary policy debates.

## Ken Heydon

## The Political Economy of International Trade

*Polity Press, Cambridge, 2019, 240pp., paperback, $28.95.*

Written by a former Australian government trade official, this book provides a contemporary overview of international trade issues. It contains three broad sections: the nature and distribution of the gains from trade, how the international trading system works, and the array of policy issues that confront individual nations states and international organisations. It is

clearly written with students in mind and includes case studies that help to bring practical realities as well as theoretical positions into the discussion. At a time of instability and change in the multilateral trading order, the issues raised by this book deserve critical, ongoing consideration.

## Franklin Obeng-Odoom

## The Commons in an Age of Uncertainty: Decolonizing Nature, Economy, and Society

*University of Toronto Press, Toronto, 2020, 280pp., hardback, $111.*

This new book by a notably productive political economist, like his other recent book reviewed earlier in this issue of JAPE, shows Obeng-Odoom's concern to analyse important contemporary issues by drawing from different currents of political economy, including the oft-ignored ideas of Henry George. His focus here on the commons is timely, given the surge of interest worldwide in resisting 'land grabs' and extending property in common as an alternative to the dominant policies of neoliberalism and land privatisation. As the author points out, much blinkered thinking about the 'tragedy of the commons' has arisen from the writing by Gareth Harden whose work is commonly cited (but probably much less commonly read). Actually, it is by no means inevitable that commons are degraded by over-use. With due acknowledgement to the contributions of Elinor Ostrom as well as George's ideas, Obeng-Odoom seeks to develop a better approach to extending the possibilities, showing the relevance of the concept of the commons in the context of cities, technology, oil and water. This is a significant contribution to modern political economy, integrating Georgist ideas about land with considerations of the progressive potential of the commons and its management.

## Éloi Laurent

## The New Environmental Economics: Sustainability and Justice

*Polity Press, Cambridge, 2020, 228pp., paperback, $37.95.*

The literature on environmental issues has grown prodigiously during recent years, and rightly so. Are we thriving or are we doomed? That is the question with which this new book begins. Laurant, a French economist,

is primarily concerned to assess whether and how economic analysis can contribute towards sustainability and social justice. The topics addressed include biodiversity and ecosystems, energy and climate change, environmental health and environmental justice, as well as the array of new indicators of well-being beyond the conventional economic measures based on GDP growth. It is written primarily as a textbook, showing how the huge challenges of the modern era may be addressed from an environmental economic perspective. Of course, a huge number of books on this general topic already exists, so the impact of the book will depend on how it is seen in relation to its competitors. The author's approach is bold in its emphasis on the magnitude and array of environmental problems and in its inclusion of topics like urbanisation, but more modest in its call for economists to adopt a 'critical toolbox' approach. Political economists may ponder whether this goes far enough to engage with the vested interests and political economic power relations that are such an impediment to any 'just transition' to ecological sustainability.

## Klaas Woldring

## How to Improve Australia's Democracy: Breaking the Vicious Cycle!

*BookPod, Melbourne, 2020, 144pp., paperback $20; e-book $9.99.*

The author, a former academic at the Southern Cross University and long-time advocate of combining republicanism with more comprehendive political econonomic reform, has written an engaging book on what he sees as the major problems of Australia's political system. He challenges its in-built conservatism and its orientation to 'piecemeal tinkering', making a strong case for more fundamental systemic change. Key focal points among his prescriptions are workplace democracy, a fundamentally reformed federation, proportional representation and a new constitution. He posits that, because the pandemic has opened up a situation conducive to considering major political system and constitutional changes, the timing is now propitious for the Australian Republican Movement to grasp the nettle, raising the big constitutional reform question: 'what kind of republic do we want?' It is a small, self-published book raising big issues.

## Erik Paul

## Australia in the Expanding Global Crisis: The Geopolitics of Racism

*Springer Nature, Singapore, 2020, 147pp., hardcover, $102.45.*

Erik Paul sets out to explain and criticise the elements within Australia that distort democracy and foster nationalism, racism, violence and current social and environmental stresses. The book contains three distinct essays, one on 'emancipation and genuine democracy', one on 'racism as nationalism and capitalism', and the third on 'Australia's existential crisis'. The author was formerly President of the advisory council for the Centre of Peace and Conflict Studies (before senior managers at the University of Sydney decided that CPACS, which had linked peace studies in the university with peace activism in the broader community, should not continue to exist). He has previously written extensively on imperialism and violence, and he continues these themes here, writing that: 'the evolution of imperial capitalism has undermined democracy in Australia and created a political culture obsessed with war'. Peace is more than the absence of war, of course, and Paul's book shows that social justice is its essential accompaniment. The political emphasis is on re-engaging citizens in democratic political processes that oppose the influences of racism and nationalism, thereby offering the elusive prospect of a deeper emancipation and a sustainable future. The 'passion for peace' that Stuart Rees demonstrated when he was at the helm of CPACS shines from every page of this slim but timely volume by his similarly-committed colleague.

## Alex Cobham

## The Uncounted

*Polity Press, Cambridge, 2020, 200pp., paperback, $29.95.*

This book argues that systematic gaps in economic and demographic data lead to understatement of socio-economic inequalities, thereby tending to exacerbate them. The inequalities on which Cobham focuses relate typically to Indigenous populations, women and people living with disabilities. Because these groups are consistently under-represented in the data, the consequence, so the author argues, is that the social and political pressures for redress of their disadvantaged conditions are reduced. What

is marginalised in the data tends to be yet more persistent in reality. As the book proceeds, a second tendency also emerges, which is the under-representation of extreme wealth at the 'top end' of the official data. This bias arises partly because corporations and the ultra-rich tend to keep their wealth hidden as far as possible in order to avoid regulation and taxation. Efforts by investigative journalists as well as political economists have sought to bring the fuller picture into public view in recent years, yet the double-headed problem persists - inadequate data on extreme wealth and great difficulties in getting the ultra-rich to pay more tax. Because the data-policy relationship is symbiotic, the possibility of turning it from a vicious circle into a virtuous circle offers a source of hope for potential progress. This book's linkage of the data and policy problems at both ends of the inequality spectrum, pointing to the need for reform in both statistical agencies and public policies, is an important contribution.

## Bill Dunn (ed)

## A Research Agenda for Critical Political Economy

*Edward Elgar, Cheltenham, 2020, 247pp., hardback, $160.*

Meanwhile, at the research frontier…

The dynamism of political economy as a challenge to economic orthodoxy and as a means of understanding how the world actually works depends crucially on progress in research. This is particularly pertinent in this subject because of the continuously changing characteristics of the real world that is being analysed. This edited collection shows the nature of what is being done – and what still needs to be done – in important sub-fields of political economy. These include the analysis of economic inequality; economic growth and development; money and finance; international trade; time, space and geographical scale; political economy of cities; studies of refugees; consideration of alternatives beyond capitalism, and much else besides. Fifteen chapters by different authors survey the territory. The result is a timely and useful stocktaking of the subject and some of its most important focal points for ongoing research endeavours.

*Book notes by Frank Stilwell*

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