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The Great Transformation and the Redistributive Imperative for Development

Abstract:
Drawing from Polanyi's thesis of The Great Transformation and supplemented by the ideas of several seminal thinkers in the field of early development economics such as Celso Furtado, this paper argues for rehabilitating an understanding of redistribution as a fundamental functional element of modern market societies, without which capitalism itself becomes dysfunctional. This understanding is in contrast to common neoclassical reasoning, which sets up a frame of analysis that leads to an in-built tendency for the case of state intervention or regulation to be on the defensive, in tension with and morally trumped by freedom, rather than as an enabler of freedom via the strengthening of social competencies within complex modern market societies. In this sense, redistribution needs to be understood as an essential synergistic condition of productionist strategies, principally by way of socialising the wealth produced by increasing productivity, as well as through its role in buttressing the institutional bases of capitalism. Moreover, in the context of contemporary global development challenges, there is an even stronger imperative for redistribution now than in the past.

Introduction

Drawing from Polanyi's thesis of The Great Transformation and supplemented by the ideas of several seminal thinkers in the field of early development economics such as Celso Furtado, this paper argues for rehabilitating an understanding of redistribution as an essential intrinsic and functional element within modern market societies, without which capitalism itself becomes dysfunctional and more organized forms of development have difficulty taking root. This understanding is in contrast to common neoclassical reasoning, which sets up a frame of analysis that leads to an in-built tendency for the case of state intervention or regulation to be on the defensive, in tension with and morally trumped by freedom, rather than as an enabler of freedom via the strengthening of social competencies within complex modern market societies. To a certain extent, this tendency has even pervaded the discourse and analysis of the Left in development studies, in part due to a decades-long struggle to defend productionist development strategies (such industrial policy) from neoliberal ideological attack, albeit with the consequence that the idea of redistribution has been sidelined and to a certain extent co-opted by more conservative agendas, such as with the rise of the social protection agenda among major international donors.

Redistribution in this sense refers to an understanding situated in (classical) political economy terms, as part of the sphere of circulation (versus production), and also in terms of a tripartite distinction between production, distribution and redistribution. It refers to those mechanisms or interventions that correct initial structural inequalities (i.e., those deriving from differences in value-added productivity across and/or within sectors), related wage inequalities, and functional income distributions (i.e., between wages, profits and rents). Social policy obviously plays a central role within these redistributive functions, not only through its fiscal effects but also, more fundamentally, by how it influences the organization of social provisioning, stratification and even labor valuation within societies. However, redistribution also includes a wider remit of public policy, including fiscal policy, public employment and wage policies, industrial policy, monetary and financial policy, land reform, regional development policy, and so forth. These redistributive functions need not pass through the state – they could also operate through families, communities and other non-state channels such as religious institutions or civil society organizations. The modern state, however, has arguably proven to be the most effective and progressive at instituting such functions at a regional or national scale. It also serves as the prime locus of political struggle and accountability over the course of such institutionalization. As noted by Harriss-White (2002) in her work on the centrality of social institutions in assembling and regulating factors of production, the social regulation of labour through non-state informal channels, such as through social structures of identity in the case of India, is usually of a more exclusionary and discriminatory nature than state forms of regulation. In other words, while state regulation might be imperfect and states themselves might be captured by elite interests, the alternative is never non-regulation, but regulation through other, often more regressive social structures that are much more limited in their potential or interest to create an institutional basis for socializing and sharing wealth across different sectors of society.

From this broader political economy understanding, redistribution needs to be understood as a synergistic essential condition of productionist strategies, principally by way of socialising the wealth produced by increasing productivity, as well as through its role in buttressing the institutional bases of capitalism. These synergies can be conceived both structurally and institutionally. Structurally, redistribution serves to socialize the wealth produced by increasing (and increasingly concentrated) productivity in physical production, towards and within those sectors that are not directly engaged in production but instead derive their value through the sphere of circulation, as is increasingly the case precisely as economies become more productive, and more complex and specialized as a result. This structural synergy entails an imperative – or what might be called a Gershenkronian principle – for redistribution within development, which intensifies with the increasing integration, concentration and productivity of global capitalism, as well as with the increasing transition of labor in both Global North and South towards tertiary sectors (i.e. towards sectors not involved in production and hence where the connection between notions of productivity and the value of labor becomes problematic). In particular, the contemporary development context of increasing productivity within fragmented albeit increasingly concentrated networks of global production and distribution, together with the tertiarization of labour forces across the Global South, has resulted in a situation whereby links between productivity and labour returns have become increasingly tenuous. This places an even stronger imperative for redistribution now than in the past. Indeed, the crucial roles played by redistributive mechanisms in providing some degree of resilience within the often radical development transitions of various ‘rising powers’ has tended to be downplayed if not ignored in this respect.

Institutionally, redistribution also plays synergistic roles with the rise of modern organizational, planning and regulatory capacities given that such capacities, in both public and private organizations, derive their value from the sphere of circulation rather than production. Hence, they are supported by redistributive mechanisms, whether progressive or regressive, or whether instituted through public or private channels. Echoing Schumpeter and Polanyi, such organizational capacity, whether in the public or private sphere, arguably provides a better understanding of modern economic development than the essentialized and somewhat mythologized idea of market forces. It also tends to grow proportionately in both private and public entities with the increasing complexity of economic and social systems. In contrast to the glorification of “searchers” versus the demonization of “planners” by the likes of Easterly (2006) and the Hayekian tradition preceding him, the modern business corporation in this sense can be understood as representing an apex of planning (i.e., management) as the supreme modus operandi for mobilizing, capturing and controlling value and wealth in the contemporary global economy. The rise of administered (rather than market) exchange in the public sectors of all advanced industrial economies, unrelenting even in the face of so-called neoliberal reforms aimed at retrenching or “marketizing” this state role, is testament of this need to conceive of capitalism not exclusively in terms of markets, but more broadly in terms of increasing organizational and regulative capacity. This institutional dimension also implicates the redistributive imperative as a means of supporting such processes of capacity development.

The imperative implies that redistribution is not simply an ethical or populist choice or a trade-off with efficiency necessitated by greater ills such as inequality or market failures. Rather, it is fundamental to the functioning of modern market society, to the extent that the socialization of wealth is necessary (although not necessarily sufficient) even for the very possibility for liberalism. This is the fundamental contradiction with the neoliberal ideological attack on redistribution over the last three decades, which has hollowed out the redistributive capacities of states precisely at a time when they needed to be reinforced and refined, when capitalism has become ever more complex, and the needs for more far-reaching strategies of redistribution ever greater. The counterintuitive political impulse to curb the redistributive imperative has not only been at the heart of rising inequalities in the Global North, as often recognized, but has also been fundamental to many of the disfunctionalities of development in the Global South. Instead of retrenching redistribution within nations, the ultimate challenge in the contemporary context of globalization is to move redistribution to a global scale, in what might be called a second phase of the “Great Transformation” once postulated by Karl Polanyi.

This argument is made in three sections. The first briefly surveys the development challenges facing the Global South in terms of population transition and the massive employment generation requirements in the coming decades, as a global “Great Transformation” of people and labour. The second discusses the limitations of standard economics approaches in dealing with these challenges, as well as an alternative socially and institutionally embedded view building on the ideas of Polanyi and Furtado. The last section returns to the redistributive imperative in contemporary development, with some examples taken from China. In the conclusion, some of the challenges to maintaining the redistributive synergies between production and redistribution in the context of contemporary globalization are discussed, particularly with respect to Southern countries.

1. Great Transformations of the 21st Century: Global Population and Employment Transitions

It is first important to sketch the intensity of the social need for employment in the contemporary global context, by laying out some stylized facts of population growth and labour transitions occurring worldwide, which are in many respects is comparable to the transitions studied by Karl Polanyi in the English setting, except at a far greater scale. The first obvious consideration is population growth that is relatively rapid, from a historical perspective. According to the median variant estimate of the 2012 revision of *World Population Prospects* (United Nations 2013),[1] global population reached 7 billion in early 2012, with about 80 million people added annually. Given that fertility and birth rates have been declining worldwide, the yearly addition is also declining, although according to the latest median revisions, total world population is projected to be still growing by 10 million people a year by 2100, when it will have reached almost 10.9 billion people. More proximately, an estimated 2.5 billion people will be added to the world's population by 2050. Even according to the low fertility variant, whereby total fertility rates around the world fall much faster than expected, which is possible,[2] world population is estimated to peak at 8.34 billion by 2050, or an addition of about 1.3 billion people to present numbers.[3] The bulk of this global population increase is more or less guaranteed by population momentum even if higher fertility regions of the world quickly move to replacement levels of fertility—i.e., two children per women on average. Notably, most of this increase will take place in the global South, with the bulk occurring in the poorest countries, particularly in sub-Saharan Africa, and South and Central Asia. Today's baby boomers in countries such as India, Mali, Uganda and Yemen will keep population growing for the next generation or two even if radical measures rapidly reduce fertility rates, such as China took in the early 1970s and other East Asian countries even earlier.

[1] These data are contested. Some have argued that, in comparison to earlier revisions in the mid-2000s, the median variant was set unrealistically high in order to emphasize the urgency of challenges presented by sustainable development and climate change (e.g., see Pearce 2011). Nonetheless, the data—particularly the lower variants—indicate the broad picture of population change over the next 35 years.

[2] The total fertility rate is the average number of live births that women would have in their childbearing years (generally from 15-45 years) at a particular point in time, assuming that the fertility rates at that point would continue throughout their reproductive period, and that they are not subject to mortality. The rate is expressed as children per woman. Faster fertility decline would lead to an earlier and smaller peak population, whereas slower fertility decline would lead to a later and larger peak.

[3] According to the low fertility estimate, world population will peak at 8.34 billion people by 2050 and will fall to 6.7 billion by 2100. According to the high fertility estimate, world population will still be growing by 127 million a year by 2100, reaching 16.4 billion people.

The development challenges are monumental, even without an alarmist Malthusian or neo-Malthusian narrative on the impoverishing consequences of such rapid population growth.[4] There will be a pressing need for employment creation in poor countries with few resources to finance capital deepening for even existing employed people. An estimated 16 countries currently have rates of natural population growth exceeding 3 percent a year, based on 2005-2010 data. Uganda, which had an estimated population of 5.2 million people in 1950 and almost 34 million people by 2010, is projected, according to the median variant, to reach 104 million by 2050, a population larger than every European country by that time except the Russian Federation. The median variant assumes that total fertility in Uganda will drop from 6.4 children per woman in 2005-2010 to 3.2 in 2045-2050, at which point the Ugandan population would still be increasing at 2.2 percent a year, whereas that of the Russian Federation would be shrinking by 0.6 percent a year. Similarly, Niger, with the highest natural increase rate in the world in 2005-2010, grew from 2.6 million people in 1950 to 15.9 million in 2010 and is projected to reach 69.4 million by 2050, assuming that total fertility drops from 7.6 to 5 children per woman. Afghanistan increased from about 7.5 million people in 1950 to 28.4 million in 2010, and is projected to reach almost 57 million by 2050. While growing slightly less fast, at between 2.5 to 3 percent a year in 2005-2010, the population of Nigeria is projected to increase from 160 million in 2010 to 440 million by 2050, Iraq from 31 million to 71 million, Yemen from 23 million to 43 million, the State of Palestine from 4 million to almost 9 million, and Guatemala from 14 million to 31 million.[5] Even if women in these countries were to suddenly substantially reduce their fertility now, which is already somewhat assumed in the median variant projections, much of these population increases is more or less already guaranteed by population momentum. The likely doubling or even tripling of these populations from 2010 to 2050 is compelling, particularly considering the land and resource scarcities that many of these countries are already facing. Niger, for instance, recently suffered from famine and food shortages.[6] The rate of increase in the working-age population—and hence demands for employment generation—will be even faster given declining fertility.

The potential for agriculture to productively absorb such increases in the workforce of these countries is negligible given the already overstretched land resources in most of them. If anything, agriculture needs to shed labour if agricultural (labour) productivity is to increase, as many argue needs to happen. Food deficit countries, such as Niger and Yemen, will need to

[4] See Fischer (2011a) for a discussion of contemporary demographic insights on these matters, how the problems of resource scarcity in the context of contemporary population growth are primarily about distribution rather than supply, and a political economy understanding of vulnerability in the context of population growth that distinguishes between processes of human development on one hand, and those of capitalist economic development, hierarchy and power on the other.

[5] Demeny (2003) made a contrast between the Russian Federation and Yemen, showing that the two populations would be almost equal by 2050 at around 100 million people each, although his comparison was based on data from the 2001 revision of population projections by the United Nations. This would have relied on estimates from the mid- to late 1990s, when the Russian Federation was at the trough of its fertility collapse; fertility has since recovered from 1.25 in 1995-2000 to 1.44 in 2005-2010. Yemen was close to its peak total fertility rate, which reached 9.23 in 1980-1985 and remained at 8.93 in 1985-1990, then fell to 8.24 in 1990-1995, 6.87 in 1995-2000, 5.91 in 2000-2005 and 4.91 in 2005-2010. Such retrospectives testify to the degree of assumption involved in population projections.

[6] See a discussion of this by John Cleland at a talk in The Hague in 2009, summarized in Fischer 2010b, p. 23. Also see Burki 2013.

export more in order to pay for more food imports from abroad. Insofar as the intensification of land-based primary commodity exports, such as coffee, cocoa or cut flowers, takes land away from local food production, however, it merely offsets the food deficit problem rather than resolving it. In other words, the foreign exchange earned through producing food for European supermarkets, minus the profits that European corporations organizing such production remit back to Europe, is largely used to pay for the increased food imports that these poor countries require as a result of shifting their land and labour towards export production and away from domestic food production.

The bulk of the increase in employment will most certainly need to occur in the secondary sector, comprising manufacturing, mining and construction, or in the tertiary sector, encompassing services, broadly speaking. And even then, in the best of scenarios, Yemen and other countries would need an outlet of international emigration. After all, during Europe's phase of rapid population growth, as much as 20 percent of its population increase emigrated to North America and other temperate ex-colonies, which had been murderously cleansed for the purpose. Emigration from developing countries today accounts for a far lesser share of their population increase than in these earlier European cases, yet these countries face a far greater need for emigration due to more rapid growth pressures. These have arisen from sharper and faster reductions in mortality since the 1950s, attributable to fundamentally good human development, and have occurred even as there are far fewer resources to face the employment challenges of population increases.

Without a substantial outlet for migration, as experienced by Europeans, developing countries face a particular employment predicament in the contemporary context. Given the capital intensity and low degree of employment creation relative to output that is offered by contemporary manufacturing, the bulk of the employment generation mentioned above will probably need to occur in services, largely in urban areas. The burden placed on the tertiary sector to absorb rapidly increasing workforces is relatively greater in countries attempting to industrialize now than in the past, and this burden is compounded by faster rates of population growth.

Notably, labour transitions out of agriculture have also been occurring largely irrespective of economic conditions in urban areas. This demographic insight serves as a useful antidote to many of the uncritical assumptions that are often made about the reasons for urbanization. The proposition, classically formulated by Kingsley Davis (1963) as multi-phasic responses to population growth, is that migration and associated movements of labour out of agriculture are primarily driven by increasing family sizes, as more children survive to adulthood and more adults live longer. Economic 'push' and 'pull' incentives might well serve as more proximate facilitating factors, influencing the timing or destinations of migration, but not as remote causal factors of migration. Social structural factors, such as inheritance practices or gender norms, can play equally if not more important facilitating roles. Increasing household population size—as with aggregate population size—is not contradictory with falling fertility, but is the result of population momentum. In other words, replacement level fertility only replaces a population once parents and grandparents start to die. It might take several generations of below replacement fertility rates before a population starts to stabilize and decline, particularly in a context of increasing life expectancy. This is demonstrated by the Republic of Korea, which had one of the lowest total fertility rates in the world in 2005-2010, at 1.23 children per woman, and yet was still growing at a positive rate of almost 0.5 percent a year (United Nations 2013). Davis' contention was that families respond to such population pressure in a variety of ways and, contrary to Malthusian worries, the poor and those with more constrained resources tend to respond more quickly than those with fewer constraints. Migration is one of the most immediate responses. These social processes obviously also need to be considered alongside questions of inequality, agrarian labour regimes, and the availability of off-farm employment in both rural and urban areas.[7]

Strain on poorer rural households is not resolved by commercializing agriculture, including, for instance, land leasing by transnational corporations in Africa. Nor is it resolved by increasing the capital intensity of agriculture, for example, by using tractors instead of people. These types of intensification generally increase labour productivity, but at the cost of employing fewer people. They do not necessarily make the land more productive, albeit this is still debated in agrarian studies regarding the 'inverse relationship' between land size and (land) productivity.[8] Agricultural intensification tends to lead to land concentration and/or intensify the displacement of labour from agriculture, thereby exacerbating strains on existing land use, particularly for smallholders. At the same time, it may reduce the availability of employment on larger farms, which is usually the lifeline of landless and poor farmers who cannot meet their subsistence needs on their own land. Even the application of technology to increase food supply, where this does not lead to the exploitation or dispossession of small farmers, at best can only marginally compensate for the increases in household or family size.

Many contemporary demographers have argued that demographic transitions essentially drive processes of urbanization, regardless of economic 'pull' incentives deriving from urban areas, in contrast to the more conventional belief that urbanization is primarily driven by economic growth and industrialization.[9] This insight helps to understand cases where employment transitions and urbanization have been occurring in recent decades in contexts of little or no economic growth, such as in Latin America in the 1980s or much of sub-Saharan Africa throughout the 1980s and 1990s.[10] Urbanization has generally occurred irrespective of employment conditions in urban areas. Where conditions are dire, rural-to-urban migration often leads to the transformation of rural poverty into urban poverty, particularly in poorly remunerated urban informal employment. Such outcomes can ironically appear as improving

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[7] In the famous Machakos case in Kenya, successful societal adaptation to environmental stress was achieved in part through increased inequality due to intensification of labour in land use and greater social differentiation, as well as an ample supply of off-farm employment opportunities due to the proximity of Machakos to Nairobi. See the seminal studies on this by Tiffen and Mortimer (1992); Tiffen, Mortimore and Gichuki (1994); and Tiffen (1995). Also see Boyd and Slaymaker (2000).

[8] For recent examples, see Griffen et al. (2002, 2004) and Eastwood et al. (2010). For criticisms of the former from the left, see the special issue of the *Journal of Agrarian Change* 4(1-2), introduced by Byres (2004).

[9] See Dyson (2011) for an excellent discussion of this demographic understanding of urbanization.

[10] For an interesting extension of Dyson's argument in the case of sub-Saharan Africa, see Fox (2012).

incomes due to the higher living costs of urban areas, although this cost differential might nonetheless provide possibilities for raising rural incomes through remittances. These outcomes can also appear to contribute to poverty reduction if poverty lines are poorly calibrated to the higher costs of living in urban areas, which is common.[11] In this sense, urbanization involves processes of reconstituting social needs, including far greater monetization and commodification of livelihoods than in rural areas, such that notions of subsistence and poverty are never entirely translatable or comparable in the transition from rural to urban settings.

According to this demographic understanding, faster demographic transitions intensify urbanization. Even in a context where poor rural families rapidly reduce their fertility, as has generally been the case in most developing countries, compared to the slower speed in European experiences, faster rates of population increase due to faster initial mortality declines nonetheless place relatively greater strain on families going through these transitions than was historically the case during Europe's phase of rapid population growth. This understanding is important in order to make a subtle distinction between processes of human development and of capitalist economic development.

A demographic understanding of urbanization and related employment transitions serves as a particularly useful antidote to the view that, because urbanization is driven by economic incentives, its occurrence must therefore infer that employment opportunities exist, and that the role of governments is to merely facilitate their maximization through policies promoting labour market flexibility, secure property rights, and so forth. This view might be described as belonging more generally to 'supply-side' economics approaches to employment generation, referring to the orthodox view that supply creates its own demand (also known as Say's Law or what Keynes referred to as the tail wagging the dog). An alternative perspective is that employment transitions and urbanization are primarily driven by social need rather than economic incentives, and that optimal quantities and qualities of employment are not guaranteed by the free and flexible operation of labour markets. They require governments to actively engage with development and related public policies to mediate the changing supply of labour generated by rapid social structural transformations. If not, governments risk exacerbating employment disjunctures in both rural and urban areas, which labour market flexibility might in fact offer little potential to address. As usual, the experience of East Asia serves as one of the central bones of contention in the representational disputes on these issues.

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[11] Satterthwaite (2004) makes a powerful and compelling argument that the scale of urban poverty is systematically underestimated in the official statistics produced and used by governments and international agencies, in large part because of the underestimation of non-food essential needs in urban areas. Also see Hussain (2003) for an example of the substantial underestimation of urban poverty rates in coastal China due to the use of national poverty lines that do not account for variations in costs of living across different cities and regions. Based on provincial poverty lines, urban poverty rates in south-west China were in fact lower than the national average in 1998, very close to those of the south-east, and considerably lower than those of the north and north-east. The results were strikingly contrary to the conventional perspective based on a single national line, which invariably shows much lower poverty rates in more costly urban areas (ibid., p. 18).

The supply-side view implicitly informs much of the fairly optimistic literature on the 'demographic dividend'. The demographic dividend refers to the one-off opportunity that occurs during demographic transitions once fertility starts to fall, a population starts to age, and then the overall dependency ratio falls to an all-time, one-time historical low for several decades, before increasing elderly dependencies start to compensate for reductions in youthful dependencies. This phase is called a 'dividend' or 'bonus' because the largest share of population ever is in the working age groups and is in principle available to work, consume, save and/or invest. This proportionately reduces the amount of effort that families, communities and governments need to spend and invest in caring for dependents, young and old, rather than in productive activities. It is a non-controversial, established, stylized fact of changing age structures from a predominantly young population in the pre-transitional and early phases of demographic transition to a predominantly older population in the later stages.

The argument in much of the literature is that a large part of the so-called 'economic miracles' of East Asia can be attributed to this dividend, in other words, to the realization of the benefits of rapid fertility decline that took place in countries such as the Republic of Korea, Taiwan Province of China and even China.[12] The controversial element in many of these arguments is not the recognition of the 'dividend', but the implicit supply-side understanding of causality, as if the supply of labour via the demographic transition drove productive employment generation—and hence the miracle. In reality, the dividend is a potential, in the sense that realizing its benefits ultimately depends on the ability of economies to actually employ the extra workforce. If additional workers are not employed, the dividend is meaningless. The logic of the dividend argument appears to assume full employment, or else it would equally apply to cases of high unemployment or underemployment, because the same benefits could be accrued by simply employing an unemployed person or by more productively employing an underemployed person. Unemployment is rarely referred to as a 'dividend' or a 'bonus', however. Explaining part of the economic miracle with demography risks the danger of potentially misattributing important interactions between two types of structural change (demographic and economic) as a causality running from the former to the latter. This causality is questionable because the so-called benefits of fertility reduction can only be capitalized on in the presence of an economic miracle and the policies bringing it about. Recognizing the potential of the demographic dividend does not resolve the employment question, but only serves to highlight the increased imperative of employment generation in the context of demographic transitions. In no way does it diminish the achievements in generating employment in the successful East Asian cases of late industrialization.

The fact that the dividend is a potential is well recognized in the literature, although the precise implications are not, particularly with regard to the plausible characterization of the East Asian miracles as following economic models of employment maximization versus

[12] For the seminal work on this, see Higgins and Williamson (1997); Bloom and Williamson (1998); and Bloom, Canning and Sevilla (2003).

efficiency maximization.[13] To be fair, the seminal authors of the demographic dividend literature argue that so-called 'good policies' are required to capitalize on the dividend. The characterization of such good policies aligns more or less along the lines of the Washington and post-Washington consensuses, however, including labour market flexibility in particular, rather than emphasizing the importance traditionally accorded to formal employment in East Asian development strategies, at least until the 1997-1998 East Asian crisis, to the extent of causing labour market rigidities.[14] The possibility that certain degrees of labour market inflexibility might well have enhanced development and employment, even if they reduced efficiency from a firm perspective, is usually ignored. The recognition of a structural demographic 'dividend' in terms of reduced dependency burdens does not resolve these politicized policy questions and debates about what is required to generate growth and to employ a rapidly growing population, nor does it suggest any deterministic outcome in this regard.

There is some excellent work on macroeconomic policies for promoting full employment in a development context, particularly under the auspices of the International Labour Organization (ILO).[15] In line with the analysis here, however, a degree of caution is required when applying the idea of full employment to developing countries, particularly those in sub-Saharan Africa and South Asia that are still very agrarian. Full employment as an achievable policy goal evolved with reference to the fully industrialized context of Europe and North America in the 20th century; its application to a development context in which a substantial portion of the labour force is embedded within rural livelihoods can be problematic, particularly considering that such people are generally employed in a wide variety of ways, such as on family farms or in informal employment, and not necessarily in a manner associated with conventional forms of formal urban employment. This is a basic insight coming out of the rural livelihoods literature. Moreover, the truly poor, in contexts with little or no social security, are not usually unemployed, but must accept whatever work is available at whatever wage. In this sense, the more essential concern with development is not necessarily full employment as such, but labour force transitions to higher productivity, higher value added, and/or higher quality and better remunerated forms of employment. These occur most fundamentally through transitions out of agriculture and into other sectors of the economy, whether in rural or urban areas. From this broader perspective, concerns of employment maximization and security need to involve a wider spectrum of policy approaches, including land reform, for instance, as a way of increasing security in the sources of labour transition, as well as a broad range of approaches to address insecurity of labour transitioning out of agriculture. This is in addition to the more conventional policies of social security and labour market intervention at the receiving end of transitions, in more formalized and urbanized categories of employment.

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[13] Krugman (1994) refers to this point, ironically as a criticism of the 'East Asian miracle' and with the intention to diminish perception of their achievements.

[14] Amsden (2010) forcefully makes this point with respect to the disregard of formal employment in current development agendas.

[15] For instance, see Roy and Weeks (2005), Cornia (2006), Frenkel (2006), Akyüz (2006), Ocampo and Jomo (2008), Felipe (2010), Damill et al. (2011), or Weerakoon and Arunatilake (2011).

Keeping this qualification in mind, some lessons of employment security and maximization within such transitions can be drawn from successful cases in East Asia. First, the pace of transition is worth highlighting. For instance, the share of labour employed in the primary sector (mostly agriculture) in the Republic of Korea fell from around 30 percent in 1980 to around 9 percent in 2006; in Malaysia, the primary sector labour share fell from 55 percent in the 1960s to 16 percent in 2000. Transitions have been slower in Brazil, where the primary sector labour share fell from about 29 to 20 percent between 1980 and 2006, and much slower in India, where the primary sector share barely fell between 1960 and 2005, from just above to just below 70 percent (UNRISD 2010, chapter one). In China, the proportion of total employment in the primary sector fell from almost 84 percent in 1952, to 81 percent in 1970, 69 percent in 1980, 60 percent in 1990, 50 percent in 2000, and then to under 37 percent by 2010, i.e., more than 10 percentage points a decade since 1970 (China National Bureau of Statistics 2011, table 4-3). In this respect, the lack of transition out of agriculture in India is probably a more pressing issue for employment policy than the objective of creating full employment, especially if the 'fullness' of employment is achieved by people remaining in agriculture.

Within a context of significant transition out of agriculture in combination with substantial population growth, 'success' might be deemed as avoiding a situation in which the bulk of transitioning labour ends up in insecure informal employment, as has occurred in much of Latin America, where labour forces are both highly urbanized and informalized.[16] The policy measures to achieve such success in East Asia have been varied, but they have generally not fallen into the mould of labour market flexibilization and other such orthodox approaches to employment policy. They are better characterized as prioritizing the maximization of employment at the receiving end of labour transitions coupled with various measures to enhance livelihood or employment security throughout these transitions so as to avoid excessive social dislocation and unrest, among other concerns. They include, as mentioned above, land reform in the cases of the Republic of Korea and Taiwan Province of China.[17]

[transition with some comments bringing this back to Polanyi]

2. Labour market intermediation: towards a socially and institutionally embedded Polanyian view

With regard to politicized policy questions regarding employment generation in the context of these rapid development transitions—both human and economic—it is important to understand how mainstream emphasis in these policy matters is deeply embedded within an orthodox neoclassical economics reasoning, and reflecting on the alternative socially and institutionally embedded views inspired by thinkers such as Karl Polanyi. Notably, a neoclassical reasoning need not necessarily lead to what might be called a 'neoliberal' policy stance. Many economists have used neoclassical deductive reasoning to justify state intervention, industrial

[16] In this respect, recent characterizations of Brazil as having full employment, on the basis of labour force surveys, needs to be questioned. Much recent employment generation has been in relatively insecure and informal service sector employment.

[17] See Kay (2002) for an excellent discussion of this.

policy, trade protection or universal public provisioning, such as Amartya Sen and Joseph Stiglitz, to name two well-known examples. Neoclassical reasoning nonetheless sets up a frame of analysis such that state intervention and/or regulation need to be justified, however, rather than being understood as an embedded feature of modern economies. There is thus an in-built tendency for the case of state regulation to be on the defensive, in tension with and morally trumped by freedom, rather than being presented as enabling freedom within complex modern market societies. The liberal bias of neoclassical economics no doubt provides important insights from certain perspectives, such as with respect to the principles of market intermediation among atomized and relatively free individuals, although it is limited in terms of providing a holistic understanding of social systems, including their structural and institutional aspects, and how these change throughout the course of development.

In essence, a line of reasoning can be identified as neoclassical on the basis of the deductive principle that a perfect market—if this could ever exist in reality—leads to the most efficient and pareto-optimal outcome possible. Over time, it also leads to greater equality, as per factor price equalization theory. Hence, the ultimate or abstract solution for both efficiency and equality is found in free and perfect markets, at least in principle, even if not possible in practice. Pure neoclassical theory, entailing perfect information, perfect competition, all other things being held constant, inexistent or insignificant transaction costs, etc., predicts market clearance at a given price where supply meets demand. The quantity demanded at this price is sold and the quantity supplied is purchased. Transferring this market analogy to employment implies that a perfectly competitive labour market will generate no unemployment so long as wages are flexible and the supply and demand of labour is free to adjust to wages. The attempt to apply this logic to reality is precisely the ideology that Polanyi referred to as the self-regulating market.

Obviously, most neoclassical economists will qualify that these pure market situations do not exist in reality, and that abstract general equilibrium modelling is not meant to represent reality in any literal way. Nonetheless, a neoclassical theoretical position uses this ideal market solution as an abstract and deductive reference point to which second and further-order solutions are compared.[18] Moreover, the hypothetical 'market' in which transactions are made is usually not specified or described; presumably, the sum of transactions itself is the market, regardless of whether these take place in a single location or in a dispersed and disorganized manner. This inconvenience is usually deflected either by reference to Smith's invisible hand or else Walrus' auctioneer. The implication is that the simplicity of the abstract market reference point is sufficiently pertinent to effectively mimic the operation of modern complex market systems.

The slippery slope of the neoclassical paradigm is based on the degree to which market imperfections are recognized in reality; are considered to be tractable; and are deemed to produce second, third or worse-order outcomes. It is also premised on judging these outcomes

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[18] For instance, see Lal (2002, pp. 49–51) for a clear statement on the use of the deductive ideal reference point in neoclassical economics, or what he refers to as received wisdom.

as superior or inferior to the option of state intervention in the market. The case for state intervention is argued by way of the degree of diversion from an abstract perfect market possibility. Modifications of neoclassical theory, such as modern welfare theory (confusingly to be distinguished from the economics of the welfare state),[19] recognize market imperfections such as externalities, lack of perfect information, lack of perfect futures markets, transaction costs and so on, but still generally hold that a second-best free but imperfect market outcome is better than state intervention in most settings. Besides in certain exceptional situations, proponents of this position argue that most movements towards approximating an ideal market situation would improve the second-best imperfect outcomes, thereby leading to less unemployment or less disequilibria between savings and investment. This view is based on the assertion that decentralized market coordination in most cases results in superior unintended outcomes than if the state or other entity intentionally attempts to predict or impose market outcomes, even under conditions where the knowledge at the disposal of the state might be greatly superior to any single (in this case, atomized) actor operating in the market. The neoliberal policy position, which is closely informed by modern welfare theory, adopts the view that close-to-perfect markets—i.e., markets in which outcomes are better than state intervention in most cases—are attainable as economic and social realities.

According to this logic, the best way to achieve both economic efficiency and greater equality is to prevent obstructions to free markets and strive for market perfection as much as possible—particularly through strengthening market-supporting institutions such a private property rights and contract law. State action should be restricted to these objectives and to the provisioning of state welfare to those falling through the transitional cracks of imperfect markets on the way to market perfection. Latitude is often allowed for state involvement in some aspects of public provisioning, particularly in basic services, where externalities are too great for markets to internalize, so long as this involvement is conducted in market-harmonizing ways, and does not crowd out the possibility for the private sector to supersede this role if and when it can. This rational informs arguments that the reduction of market distortions is an important policy for reducing inequality, and that public social spending should only be used for those who qualify as deservingly needy, since others can presumably purchase social goods for themselves through private providers. It also informs the advocacy of the World Bank, for instance in its 2013 *World Development Report* on jobs (2012), of trade liberalization, labour market deregulation, and policies to correct market imperfections as pillars to support 'good job' creation and address poverty and inequality, or else why *The Economist* (2012) argues that trade unions have been the greatest contributors to inequality, far more than Wall Street bankers. To paraphrase Karl Polanyi's criticism of the laissez-faire utopia of economic liberalism: Because the ideal free market is never attainable as a reality in a complex modern economy, it can always be argued that the failures of economic liberalism are not that markets were liberalized, but that they were not liberalized enough.

[19] For a good presentation of welfare economics, see Lal (2002 pp. 52–55). In contrast to this theoretical treatment of 'welfare' (read 'utility'), see Barr (1998) for a thorough analysis of the more applied economics of the welfare state.

More critical theoretical views have emerged from within the neoclassical paradigm itself through a stronger recognition of market imperfections, such as New Institutional Economics (North 1990) or the 'imperfect information approach' or 'information economics paradigm' pioneered by Joseph Stiglitz and colleagues.[20] However, the underlying theoretical principles of these approaches can be characterized as neoclassical insofar as the associated authors do not depart from the theoretical welfare principle that, under hypothetically perfect conditions, markets would produce both efficient and equitable outcomes (equity according to factor price equalization theory and its derivations), and that this deductive reference point is the principle against which government intervention is to be justified. Hence, most of the focus on institutions is oriented towards understanding how market imperfections (i.e., transaction costs or imperfect information, whether transitory or intrinsic) obstruct this first-best outcome, and conversely, how 'institutions', understood as private property rights and other factors that reduce the transaction costs of operating in markets, can act to compensate for imperfections and thereby bring a market outcome closer to its optimum, with the assumption that it is this optimal efficiency that is the primary cause of investment and economic accumulation. Important distinctions between these various theorists are found in the degree to which they view market imperfections as surmountable – such as through institutional development and 'good governance' – or else as more or less inherent to complex economic systems, and thus likely to intensify with the evolution of more sophisticated, complex and opaque market systems. Under the latter perspective – which is possibly more representative of Stiglitz and company – regulation and market operation become co-dependent as economies become more complex and more established forms of government regulation of market systems to prevent the abuses that invariably arise are thereby justified, even within advanced capitalist economies that are supposedly the models informing 'good governance' and the post-Washington Consensus. Nonetheless, even in this more critical positions, information imperfections become the reason for less than optimal market outcomes, as opposed to, say, Schumpeterian ideas, later carried on by Alfred Hirschman, that informational asymmetries or market disequilibria might in fact serve as the basis for dynamism within capitalism, driving profit opportunities, innovation and investment.

Beyond Neoclassicism: crossing the abstract deductive threshold

There has been much reaction to the neoclassical form of institutionalism from a variety of heterodox perspectives, particularly Marxist ones. Ben Fine (2001) directs his criticism at the so-called 'methodological individualism' of these neoclassical approaches, and particularly targets Joseph Stiglitz in his critique of the post-Washington Consensus. Mushtaq Khan (e.g., see 2002 and 2006) has made important contributions in pointing out how violations of property rights are often at the root of capitalist transitions, drawing from Marxist notions of primitive accumulation and applying these to the early phases of late industrialization in East Asia, where property rights were effectively restructured, such as through land reform, or else created anew through monopolies in efforts to direct incentives towards the development of new productive capacities. Khan generally avoids the more fundamental question of whether or

[20] For some of the foundational contributions to this approach, see Rothschild and Stiglitz (1976), Grossman and Stiglitz (1980), and Stiglitz and Weiss (1981); see Stiglitz (1986) for a good discussion of its application to development economics.

not, once this process is instituted and a fully evolved capitalist destination is reached, markets and their institutional foundations do indeed conform to neoclassical expectations.

A similar Marxist critique of market liberalism is that compulsion due to labour commodification undermines the free operation of markets because people are not free to not engage with labour markets. Compulsion in this sense undermines the ideal free market logic because markets are not free if one cannot withdraw from them. This lack of freedom to be excluded, rather than included, is usually a condition of exploitation. In other words, the free market logic is only relevant under conditions of freedom as a minimal but not necessarily sufficient condition. Many precursors or pioneers of early neoclassical theory in the 19th century, such as Leon Walras, were 'scientific' socialists who accepted that free market efficiency was a principle that would apply in a context of equality and freedom from compulsion. The very operation of a market relies on the ability of the seller and buyer to not sell or buy in order for the bargaining to function as postulated by theory. If labour is not free to not work, then we must fundamentally question the extension of this market logic to the labour market. Lack of freedom need not only apply to the classical world of people barely subsisting at survival wages; compulsions that discipline labour can operate in more affluent conditions, including the need to pay rent, transport, health care bills, school fees, student loans, credit card debt, mortgage payments, or any other necessity for a minimal degree of functionality in society let alone dignity.[21] Such social needs are not merely socially constructed or conditioned relative norms, such as in the United States, where people might feel deprived if they do not own a car. They can also be very real and hard constraints that can drive people into objective states of deprivation if not met, such as not being able to access necessary health care.

Despite the evident power of this 'compulsion' critique, compulsion can nonetheless be construed as a type of market imperfection, in the sense that compulsions can be entered into the range of factors that obstruct free market operations, alongside transaction costs and imperfect information. This skirts the issue of whether or not labour markets would function in the manner predicted by neoclassical theory in the absence of compulsion.

Chang (2003) takes a step further towards a socially embedded view of markets by arguing that even 'free markets' are political constructs of rights-obligations structures, and are regulated in the sense that state involvement sets the playing field, who plays and the terms of play. He contends that "no market in the end is 'free', as all markets have some state regulations on who can participate in which markets and on what terms…. It is only because some state regulations—and the rights and the obligations that they support, or even create—can be so totally accepted that some markets appear to have no 'intervention' at all and are therefore considered 'free'" (p.49). Similar to Khan, Chang does not fully enter the black box of markets as institutions themselves, but focuses instead on how markets are instituted by other,

[21] See Heintz (2008, p. 13) for an excellent discussion of this last point. He cites empirical studies documenting an increase in labour force participation—particularly among women—when average real earnings fall. This suggests that labour supply and earnings may be negatively correlated, particularly among low-income households, given that households increase their labour supply when faced with lower earnings in order to make ends meet.

wider factors. In this subtle respect, many New Institutional Economics authors such as North (1990) or Acemoglu et al. (2001) would probably not disagree too much with Chang, insofar as they all understand that markets are instituted. Hence, Chang's insight does not take us to the heart of the problem. The more essential question is, once instituted, how do markets function? Once the terms are set, does the free interaction of markets tend towards an equilibrium, even if this equilibrium is unfair, and, if so, how?

A more fundamental departure from the broader neoclassical paradigm arguably starts with a rejection of the dichotomy between state and market as a meaningful basis from which to understand the modern economy, including modern market operations, and especially at the macroeconomic or aggregate level. For instance, a Keynesian view, from a post-Keynesian reading, starts from the understanding that even perfect markets can fail. In particular, aggregate pseudo-markets dealing with employment or savings and investment fail regularly because the institutional mechanisms driving supply and demand in these aggregates are simply not coordinated in the manner supposed of markets. It cannot be assumed that even perfect markets will move towards equilibrium without the intervening presence of some form of regulatory non-market coordination, not simply as a regulator of markets or market entry, but as an inherent functional element embedded within market systems, especially in aggregate pseudo-markets.

Of course, this reading of Keynes depends on how, or which, of his writings are read. The neo-Keynesian neoclassical synthesis drew from his theoretical examples of how wage rigidities (or sticky wages) could lead to market failure. Drawing from one of Keynes's stylized facts that money wages cannot be reduced in a free society, it has been commonly contended that Keynes' argument was a special case that applied under conditions of wage rigidities, thereby apparently supporting a market imperfection understanding of unemployment. As pointed out by Skidelski (2003, pp. 535–537), Keynes used these theoretical examples as heuristic devices. He also clearly stipulated his case under the theoretical condition that wages are fully flexible, and argued that his analysis was not dependent on wage rigidities.[22] Even under conditions of flexible wages, wage adjustment, or falling wage rates in order to increase the demand for labour, would be self-defeating, because falling wage rates would lower aggregate demand and result in less demand for labour, and therefore eliminate any potential benefit of flexible wages in achieving full employment.[23]

Rather than sticky versus flexible wages, the key distinction of Keynes from neoclassicism (or what he called 'the classics') arguably resides in his implicit form of institutionalism. Employment and savings and investment play a central role in this respect. For instance, a labour 'market', as an aggregate concept, cannot be considered a market in a strict micro sense. Similar to savings and investment, which regulate aggregate demand, labour

[22] This point has been reiterated more recently in Farmer (2013).

[23] Again, as noted by Heintz (2008, p. 13), falling wages might also increase labour supply from poorer households in order to make ends meet. This would further exacerbate the disequilibrium given that, according to neoclassical theory, labour supply should fall with falling wages.

markets are better conceived as pseudo-markets; they function in the aggregate through a variety of complex mechanisms, some but not all of which operate through the decentralized but coordinated decision-making characteristic of market transactions. Supply and demand in the aggregate might be responsive to each other at the margin under certain conditions, hence the origins of neoclassical theory as 'marginal theory', and thus they could be related to markets by way of analogy. But movements towards equilibrium are not guaranteed, even under conditions where agents interact freely and knowledgably through price incentives. Suppliers and demanders in these aggregate settings are usually responding to different sets of incentives, whether or not under compulsion, and act under conditions of uncertainty, which is different from risk in that it is historical, not amenable to calculus. This is in contrast to the pure neoclassical ideal market, where the market is one single institutional setting in which both suppliers and demanders respond to the same incentives represented by a single variable: price, or wage as in the case of a labour market. It is only under this condition, i.e., a singular coordinated institutional setting, where market coordination might be postulated to lead towards definite market clearance, as in the case of commodity or financial markets.

Keynes stipulated that these conditions rarely apply in the aggregate, and, in the case of labour markets, suppliers and demanders respond to different incentives guided by different institutional settings, although Keynes himself did not use this terminology of institutionalism. Labour demand is primarily determined by aggregate demand in the economy, which is influenced by consumers' propensity to consume, and businesses' expectations for future profits in their investment and production decisions, crucially underpinned by pervasive uncertainty, with wages playing a marginal influence on these more fundamental factors. The supply of labour may be marginally responsive to wage rates, but the aggregate supply is more fundamentally determined by the social or subsistence need to work, which to a large extent is driven by structural demographic factors that are not necessarily responsive to the incentives driving labour demand, as discussed in the first section of this paper. Wage rates may play some role in influencing these supply decisions at the margin, but this role is quite possibly minor in comparison to other structural factors, particularly under conditions of economic downturn when people have all the more need to work precisely because of falling wages, as noted by Heinz (2008, p. 13). Similarly, the intermediation of savings and investment in an economy cannot be considered a 'market' in any analytically precise sense, given that these aggregates are mediated through complex and often disconnected sets of institutions and incentives, unlike individual money markets, which can be understood as markets in the proper sense.

Keynes' contention, here interpreted using an institutionalist language and according to a post-Keynesian reading, was that regulation is needed not only to correct for market imperfections, but, more fundamentally, as the very essence that guarantees a degree of equilibrium in aggregate pseudo-market conditions that are far from the abstract models of arbitrage in neoclassical theory. Such 'markets' cannot be guaranteed to clear—i.e., to achieve full employment or an economy operating at full capacity—even under relatively free conditions, because supply and demand often respond to different incentives that are frequently uncoordinated, even if interrelated. A divergence between incentives can easily arise. Keynes' main contention was that market clearance would therefore be an exception even under perfect market conditions. Government management of aggregate demand and labour market regulation is required to achieve these outcomes in a complex modern industrial economy.

According to this argument, social or public regulation and non-market mediation ironically play integral roles in guaranteeing market clearance, even within efficient, competitive and close to perfect market conditions. This goes beyond the focus on the institutional foundations of markets, as analysed by authors such as Chang (2003), who as noted above argues that markets are instituted processes in ways that condition the behaviour of individuals and social groups, and give rise to correlated and often predictable patterns of human behaviour. Here, regulation implies more specifically the necessity for a degree of planning and management across the different sets of incentives operating in the 'two blades of the scissors' (to paraphrase Alfred Marshall) of the aggregate processes of supply and demand. Such regulation is not simply a precondition for the effective functioning of markets, but is also an intrinsic element within such functioning, a point largely ignored in the New Institutional Economics literature given the abstracted neoclassical foundations from which its theories are built.

Social security as market enhancing

Mulheirn and Masters (2013) provide, perhaps not intentionally, an excellent example of such thinking with respect to the role of social security institutions in regulating the functioning of labour markets. Drawing from the work of a variety of economists, some of whom might ironically be identified as New Institutional Economics authors on other topics, they argue that sufficient degrees of social security can actually help to make the labour market function more effectively—rather than dampening incentives to work—because it allows people time to search for the right job. Search time is a function that, they argue, has been increasingly seen by economists as important for matching employee skills with employer needs, and for productivity in an increasingly skill-based economy. On this basis, and supported by the work of Acemoglu and Shimer (2000) and the Organisation for Economic Co-operation and Development (OECD 2006), among others, they argue that where unemployment insurance is too low, the labour market does not function effectively, and '…in an environment where getting people back to work immediately is the policy priority, there is little incentive for workers to invest in their own skills' (Mulheirn and Masters 2013, p. 7). Hence, unemployment benefits can actually play a crucial role in allowing people time to search, not just for any job, but for the right job, and higher social security benefits in this sense can facilitate a more flexible workforce, in contrast to the more punitive versions of labour market activation policies that impose conditionalities on benefit recipients to speed the return to employment. Mulheirn and Masters point out the work by Raj Chetty (2008) on how unemployed people with access to funds spend longer looking for the right job, even to the extent of using their own savings if benefits are too low or non-existent, implying that waiting is a worthy investment. This is in contrast to those who are compelled to move back to employment more quickly due to 'liquidity constraints', and are thus not in a position to turn down unsuitable work relative to their skill sets and aptitudes. His research provides a powerful example of how unemployment insurance, for instance, can have a positive reinforcing effect on the functioning of labour markets, contrary to the ‘moral hazard’ that is typically assumed to exist in the antipathy between markets and government-provided social security.

While such analyses draw from a European and North American setting with fairly robust and well-developed social security systems, similar principles arguably hold in other contexts. For instance, parallels can be made with rural settings where people are still embedded within subsistence forms of production. As argued in Fischer (2006, 2008b, 2013b), based on fieldwork in western China, the autonomy from labour market dependence or labour commodification that rural households can achieve by maintaining an asset base sufficient to meet minimum subsistence requirements (‘subsistence capacity’) represents a fundamental source of economic opportunity. It provides an ability to act strategically, primarily by avoiding dependence on subordinated forms of employment. Rural dwellers naturally seek autonomy from such dependence. One way is to embed themselves in an asset base, such as by investing in land and livestock, as a buffer against the potential disadvantages of labour commodification in the short term, even though social and economic structural changes might simultaneously undermine the sustainability of subsistence household livelihood strategies in the medium to long term.

Subsistence in this way serves both an instrumental and symbolic or cultural wealth function within rural communities. Contrary to arguments that such valuation of subsistence is only a characteristic of those living close to destitution, the idea that subsistence is an instrument for wealth is comparable to the way that monetary wealth provides freedom within a fully commoditized non-rural setting. As with the previous example on unemployment benefits, few would contest that the rich can do what they like with their disposable wealth, regardless of whether their actions are deemed rational or otherwise; this is the privilege of wealth. Similarly, the ability to be unemployed in most poor countries is actually an attribute of middle- or upper-class status; the truly poor have no capacity to be unemployed. They must work, whatever the work, and whatever the remuneration. This understanding of what it means to attain subsistence, and thus, in principle, to be a ‘subsistence farmer’, may not accord with the ways that non-rural academics or policy makers expect ‘disciplined’ or ‘deserving’ poor to behave. But this is more likely due to a misreading of the clues rather than any developmental deficiency on the part of rural dwellers.

Along similar lines, an extension of the ‘commodity’ or cash economy is not necessarily antithetical to these subsistence strategies. Contemporary rural dwellers across the global South are invariably involved with the commodity cash economy in various ways, some through choice and others through necessity, and thus they cannot base their livelihoods solely on subsistence household production, if ever they did, as noted by Hill (1986). This is partly because they purchase, consume or invest in modern goods, be they mobile phones, motorcycles or fertilizers, among many others. Perhaps more importantly, rapidly increasing fees for education and health care in many contexts act as strong compelling forces for rural dwellers to move into cash-earning activities, particularly in light of household livelihood strategies that target post-primary schooling for at least one child. Scarcity of rural cash-earning opportunities in turn drives rural to urban migration, as discussed in the previous section.

The cash imperative is often overemphasized as a driver of labour commodification, however, given that it can easily coexist with subsistence livelihood strategies. In fact, the combination is ideal. If subsistence capacity is sufficient, it offers choice as to how and when to engage in cash-earning activities. It allows autonomy from a dependence on regular low-wage employment, or from the forced selling of produce at inopportune moments, both of which can have impoverishing implications. The ability to wait thereby confers an ability to access better opportunities if and when they arise.

In this sense, the subjective proclivity for subsistence within rural communities is not merely cultural or symbolic. It also carries important instrumental wealth functions, not only in terms of the risk-averse insurance principle as argued by authors such as James Scott (1976), but also in terms of providing a position from which market and other forms of economic opportunity can be engaged in advantageously. In other words, the reinforcement of subsistence capacity can serve as an important wealth-supporting strategy within rural transitions into more marketized forms of production, exchange and employment. This was precisely the point of Hill (1986, pp. 18–20) in her criticism of the conventional usage of the concept of subsistence in much of development economics as implying poverty. She argued that it is usually only rich rural households that can hope to attain a degree of self-sufficiency, and she therefore critiqued the common assumption that traditional agriculture is characterized by degrees of subsistence, which are inversely related to market integration, given that this assumption ignores the role of inequality within such agricultural systems. Moreover, she pointed out that it is precisely the wealthy households that achieve some level of 'subsistence' that also enjoy the most lucrative non-farming occupations. From this perspective, it is clear how achieving a minimum threshold of subsistence capacity for rural dwellers offers a freedom to act, whether for profit or non-profitable social approbation, and that this freedom is a crucial element for both subjective social values as well as objective economic values of employment. Similar to the case of unemployment insurance, a certain level of sufficiency and security can be understood to strengthen market functioning rather than introducing dynamics of moral hazard or perverse incentives.

Capitalism as planning and regulation

Such perspectives echo the Polanyian approach of locating the rise of complex market societies in state planning. Along these lines, our understanding of modern economic development (i.e., capitalism) arguably needs to be refined in terms of an appreciation for the rise of modern forms of organization and planning, whether in government or private corporations. In contrast to the glorification of 'searchers' versus the demonization of 'planners' by the likes of Easterly (2006) and the Hayekian tradition preceding him, the modern business corporation can be understood as representing an apex of planning (i.e., management) as the supreme modus operandi for mobilizing, capturing and controlling value and wealth in the contemporary global economy. The rise of administered exchange through the public sectors of all advanced industrial economies, unrelenting even in the face of so-called neoliberal reforms aimed at retrenching this state role in the economy, is testament to the fact that we need to conceive of capitalism not exclusively in terms of markets, but more broadly in terms of this increasing organizational and regulative capacity within both public and private spheres, both supported by redistributive mechanisms, progressive and regressive, and instituted through public and private channels. This aspect of economic development could be described as a form of capability, as a crucial 'economic facility', to use the terminology of Amartya Sen, except one better conceived as a collective capability or competency to regulate and plan rather than to freely interact in a market place. Or to crudely paraphrase Joseph Schumpeter (1942), this regulatory function tends to grow proportionately in both private and public entities with the increasing complexity of economic and social systems. Similar to the rise of public sectors within modern economies, the managerial, regulatory and planning components of modern private corporations are proportionately much greater today than they were in the past.

This point was poignantly made in the seminal work by Celso Furtado (1983; translated from the Portuguese edition of 1978), one of the founders of the Latin American school of structuralist economics and colleague of Raúl Prebisch. Furtado identified the rise of industrial capitalism with the rise of unified planning—referred to as economic policy—which was achieved through the emergence of modern nation states from the mid-18th century onwards. This showed two relevant countervailing features: a progressive concentration of economic power and the highly effective organization of the wage-earning masses (ibid., p. 17). Within such 'organized capitalism', which is best conceived as a system of social organization rather than simply a form of organizing production, "political power—conceived as capable of changing the behaviour of broad social groups—emerges as a complex structure in which the institutions comprising the State interact with the groups that dominate the accumulation process and with the social organizations capable of intervening in a significant way in the distribution of income" (ibid., p. 17). The challenge for contemporary developing countries, he argued, is that the increasing transnationalization of production weakens the ability of increasingly effective forms of social organization to exert pressure on the growing power of enterprises for a more immediate distribution of income (ibid., p. 21). While the power of "social organizations engaged in the struggle to raise the value of labour, that is, to bring about a more widespread social distribution of the benefits of the growing productivity of labour generated by accumulation…" (ibid., p. 27) was historically enhanced by the tendency of the state to broaden its social bases of support, the same tendency today is undercut by the fact that the power responsible for coordinating increasingly complex international economic relations has shifted, to a large extent, from the national state to the large enterprise (ibid., p. 23). From this somewhat prophetic perspective, written well in advance of the globalization literature of the 1990s, the subsequent emphasis on deregulation during the neoliberal years from the 1980s onwards can be understood as a further privatization of this macro regulatory capacity rather than deregulation per se.

Moreover, the valuation of labour itself is particularly susceptible to such processes. Valuation is often only marginally related to productivity, particularly as populations move out of agriculture, bypass manufacturing and enter the service sectors, where wages are effectively a reflection of social processes of valuation, more so than in tangible production sectors (see

Fischer 2011; 2014). Social valuation is particularly pliable to politicized social bargains with respect to the norms governing such valuation.

This relates again to an important thesis made by Furtado (1983, pp. 15–17) regarding the increase in the average real wage rate in classical cases of industrial capitalism that almost always managed to keep pace with the rise in the average productivity of labour or with the increase in the capital allocation per worker, as a counterpart to the structural tendency towards the relative scarcity of labour in systems with a more advanced accumulation. He contended that:

> …though rapid accumulation was certainly a necessary element in the increase in remuneration for workers, it would be wrong to regard it as the effective cause. Given the enormous concentration of economic power, which gave rise to the sophisticated forms of market control that came to prevail, it is more than likely that, without the organization of the working masses and the combative spirit they have historically displayed, the evolution of industrial capitalism would have taken the line of a greater social concentration of income, possibly combined with a more vigorous external expansion, or an increase in public expenditure for prestige purposes, external aggression, or something similar. The form of society that came to prevail in industrial capitalist countries was not a historical necessity but simply a historical possibility. And if this possibility materialized, it was in large measure thanks to the power progressively exercised through the organization of the large social majorities who earn their livelihood by selling their labour capacity on the market (pp. 16–17).

Furtado placed great emphasis on the historical conjuncture in this early phase of industrial capitalism that allowed for a positive synergy between the evolution of economic and political power.

This emphasis on social mobilization as a crucial institutional factor influencing the valuation of labour and hence the potential for rising wages with rising productivity is also echoed in the thesis of Gøsta Esping-Anderson. Esping-Anderson (1990, p. 29) argues that the development of welfare states in the Anglo-European and Japanese cases—a massive historical factor influencing distributive and redistributive processes—was influenced by three factors in particular: the nature of class mobilization, especially of the working class, keeping in mind the increasing imprecision of this concept and the changing role of so-called middle classes in the contemporary context; class-political coalition structures; and the historical legacy of regime institutionalization. The differing paths resulting from diverse historical constellations of these factors, in the form of social policy for instance, have had major impacts on shaping both social rights and social stratification within each country.

Both authors would undoubtedly source the causes of stagnant average wages in the United Kingdom, the United States or other countries over the last 30 years to the undermining of classical social mobilizations and class-political coalitions under neoliberalism, rather than to any causes related to labour productivity. Indeed, conventional measures of labour productivity have been rising during this period in the United States, even in the service sector. Beyond the specificities of the various theoretical arguments, a key element is the role of distributive and redistributive social, political and institutional mechanisms in socializing the benefits of growing productivity, and the costs of providing socially acceptable forms of employment to increasingly tertiarized and, in many cases, educated labour forces.

Social valuation and the care economy

The care economy provides a pertinent example since it accounts for a growing proportion of tertiary sector employment, often involving quite skilled categories of labour. It is also increasingly embedded within globalized labour networks, or what Parreñas (2000) has termed the 'international division of reproductive labour' and Hochschild (2000) the 'global care chain'. One prominent discussion within the care economy literature is on the empirically demonstrable undervaluation of care labour relative to other types of labour with equivalent education and skill levels, e.g., see Folbre and Nelson (2000), England et al. (2002), Razavi (2011), and Palmer and Eveline (2012). Much of this discussion revolves around issues of labour intensity and the inherent tension, as discussed by Palmer and Eveline (2012), between the marketing of high-quality care services and attempts to control their costs, which are mostly related to labour. They point to the perplexing situation where wages are too low to attract workers, which in turn encourages an increasing reliance on immigrant labour, at least in the richer countries that can afford this option. Palmer and Eveline do not explore this point further, given that they focus instead on the discursive processes by which employers in the Australian aged care sector justify and sustain low pay for work that is both highly skilled and in high demand. Their case provides a valuable example, however, of how this care labour market, within a relatively liberalized setting, is not working as predicted by standard neoclassical theory. An excess of demand over supply would normally raise wages, but instead, in this case and others across Europe and North America, it drives a shift in social norms regarding the valuation of such labour as well as the categories of people deemed suitable for supplying it. The demand for immigrant labour in these cases would appear to follow downward wage pressures, rather than being a cause of downward wage pressures, as would be typically postulated by comparative advantage explanations for falling wages in rich countries in a context of globalization.

The inherent problem in these cases is not with the 'labour intensity' of the skilled labour involved, but more precisely in the reliance on a business model in which the costs of providing such skilled labour is more or less entirely internalized within the business unit, whether profit or not-for-profit, and paid for largely through private means. Under these conditions, and where average wages are stagnant, potentially enormous disjunctures emerge, such as in the current 'care crisis' in the United States, where a single parent in most states working a minimum wage job 40 hours a week for 52 weeks a year does not earn enough to put two young children in a child-care centre, according to average annual state costs (Diehm 2013). As argued by Razavi (2011), the failure to socialize the costs of care in these and other settings will inevitably feed into and exacerbate existing inequalities, in particular by increasing the costs of essential social needs faced by the less advantaged half (or more) of the workforce, while at the same time producing strong downward pressures on wages within service provisioning, thereby contributing further to the stagnation of average wages and so forth.

The key to interrupting this downward cycle is through socializing the costs of care. This arguably requires universalistic forms of decommodification to sever the link between the costing and supply of services, in both quantity and quality, or between the pricing of services and the wages involved in supplying them.[24] Such decommodification, in order to be financially sustainable, arguably also requires removing the pricing of services from market intermediation, given that, as contended in Fischer (2012), uncontrolled market pricing within health care systems, for instance, is a crucial factor undermining the sustainability and effectiveness of health insurance reforms in countries as varied as China, India and the United States. Similarly, redistributive mechanisms are required to finance such decommodified provisioning by tapping into the increasing, albeit increasingly concentrated, productivity in other parts of the economy. Such systemic principles are precisely the ingredients behind successful models of universalistic health systems, whereby services are provided according to need, of the best quality possible; prices are regulated administratively, without consideration for demand at the time of need; and costs as financed indirectly via progressive taxation, hence allowing for salaries within the sector to be determined apart from the cost of providing the services or from the financial viability of one particular unit supplying services, if it were hypothetically forced to function as a private unit, for instance. This thereby allows for spreading the costs of offering socially acceptable wages and working conditions within the sector, in accordance with the skill levels of labour required, in a manner that is similar to the principles of insurance.

In contrast, the self-contained business model of private provisioning actually concentrates costs very inefficiently on individual units. This is in much the same way that food shortages result in localized famines in the absence of mechanisms to disperse costs, in the manner that national markets are typically presumed to do through rising prices, as once argued by Thomas Malthus (see Wrigley 1999). In this respect, the private business model would appear very unsuited for social needs provisioning. This does not mean that private provisioning units cannot operate within a socialized model. Rather, it implies that if such social needs, which all human beings invariably have for at least several 'captive', non-withdrawable periods during their life cycle,[25] are treated as commodities in a market, they effectively become fictitious commodities—to borrow from Polanyi (2001[1944])—in the sense that they

[24] Note that this usage of the term 'decommodification' is slightly different from the way it is used by Esping-Anderson (1990), who applies the term with reference to labour markets. The reference here is more precisely to something being treated or not as a commodity. See Fischer (2012).

[25] Universality of social needs with respect to the human condition is distinct from the increasingly specialized character of physical production—especially manufactures—in which a smaller and smaller proportion of the population has any direct contact with or precise knowledge about the production processes involved. This fundamental difference provides the structural principle for universalistic modes of provisioning in social policy versus targeting in industrial policy, inverse to the logic in mainstream development policy as noted by Mkandawire (2005).

are not ‘produced’ for buying and selling on the market. Treating them as if they are can be very destructive for the social fabric.[26]

An excellent example of these principles can be found in the work of İlkkaracan (2012) on the role of public and social policies in influencing women’s labour force participation, with a particular emphasis on time-related work-family reconciliation policies, such as those related to care leave, its gender distribution and work hours, as well as the provision and subsidization of care services. In a comparative study of seven OECD countries, Sweden in particular stood out as a “haven in terms of the generous combination of care-related leave for both men and women plus wide spread access to high-quality public childcare services... [France and Sweden] have some of the best gender equality indicators in labour market and enjoy relatively higher fertility rates in the European context despite high rates of female labour market activity” (p. 326). Child-care services in Sweden follow a socialized model of free universalistic provisioning funded by progressive taxation, in striking contrast to the situation in the United States, as described above. This leads to entirely different results in terms of the participation and integration of women into the formal workforce as well as the valuing of women’s labour and, ultimately, the social value derived from their employment.

3. The redistributive imperative in development

While most examples of robust national social insurance systems are drawn from the classic well-developed welfare states of northern Europe and its offshoots, such systems are non-extant in most developing countries. Even though it might not be possible to replicate the institutional forms of these classic cases, which developed under very particular historical circumstances, it is important to explore the operating principles underlying them as a basis for social policy innovations in developing countries today. Along these lines, it is useful to conceive these principles more broadly in terms of redistributive institutional mechanisms that allow for socializing wealth, rather than in terms of the more historically specific institutional forms of modern welfare states and associated social policy.

Recalling the first section of this paper, a key development question concerns how to channel wealth generated by rising productivity in the primary and secondary sectors of poorer developing countries into the tertiary sector of employment, and how to prevent wealth from being siphoned out of these economies altogether through a variety of increasingly sophisticated channels within ever more transnationalized networks of production and distribution. Presuming that raising productivity in the primary sector is limited in the short term, these countries would arguably need to institute strong redistributive mechanisms to guarantee that a substantial portion of the wealth generated by more and more productive manufacturing or enclave sectors such as mining would be circulated throughout the rest of the economy in such a manner as to generate decently paid and relatively ‘productive’ employment in the largely urban tertiary sector. This principle draws from earlier European cases of industrialization, in which instituting universalistic social policy, in combination with other factors such as out-migration and inflows of colonial wealth, arguably served as a key

[26] See Mackintosh (2006) for an interesting discussion on this point.

redistributive mechanism. It allowed (labour) productivity gains in agriculture and industry to be circulated towards the tertiary sector, in a manner that drove formalization of the labour force, as well as rising wages and non-wage standards of employment, including gender equality standards. Redistributive principles were key contingencies to establishing a strong social value of employment in this transitional context of development.

The importance of social policy stems in part from its role in directly redistributing wealth or in influencing initial distributions of wealth through setting or influencing wage and employment standards. In addition, various social policy sectors such as education and health are central in structuring inequality and opportunity. Social policy affects labour supply in the long term by contributing to slowing population growth from peak natural population increase rates once demographic transition is in course, as in all countries today, through death control as the remote determinant of fertility decline, as well as family planning and education, which are both important proximate determinants of fertility decline.[27] Social policy plays a complementary role in influencing public sector employment, which in turn would need to take on a prominent role in tertiary sector employment generation. This is because much of redistribution happens through state channels; because of the important and under-acknowledged role of public employment in setting standards and even wage levels in an economy; and because it is effectively the coveted target of the employment expectations of increasingly well-educated young populations in the global South. In all of these dimensions, universalistic social policy supported by progressive taxation systems is arguably superior to targeted or residualist approaches to social policy.[28]

The standard retort to such a principle—from many spectrums—is that poor countries need to focus first on productive accumulation in order to create the surplus to redistribute, or else risk populist redistributions that undermine the growth process. The counter-argument to this position can be found in the seminal work on late industrialization by Gershenkron (1962), who clearly documented that the classic late industrializers (e.g., Germany, Japan and Russia) typically instituted moves towards more universalistic forms of social policy and related redistributive public policies earlier than would have been expected by the experience of previous industrializers, if not earlier in actual historical time, as in the case of Germany versus the United Kingdom. These public policy initiatives were central components of successful late industrialization strategies, alongside the ability to leapfrog in technological progress through the adoption and adaptation of more advanced technologies from industrial leaders (education was obviously key to the capability to leapfrog). In this sense, a Gershenkronian principle is that the later the industrializer and the larger the catch-up required, the greater the imperative to pre-empt and support industrialization with strong redistributive mechanisms, including the universalization of social policy as a central component. A demographic corollary might be also postulated that this imperative becomes greater the later and faster the demographic transition, given that this results in faster and more pronounced ‘demographic dividends’ precisely at a time when productive industries absorbing less and less labour, hence intensifying

[27] See Fischer (2010b, 2011a) for further discussion of these demographic points.

[28] See Mkandawire (2005) for a seminal synthesis of these arguments.

the need for employment generation in tertiary sectors, relative to earlier industrializers and demographic transitions.

Beyond the classical late industrializers, these principles were also demonstrated by the East Asian examples of successful late industrialization, namely, the frequently discussed cases of the Republic of Korea and Taiwan Province of China. The means by which these countries were remarkably successful at both rapidly reducing fertility and generating employment—and hence, speeding up and then profiting from the so-called 'demographic dividend'—were generally characterized by a combination of strong developmentalism and universalistic social policies in basic education and health. Universalism was not applied to social welfare, which remained quite minimalist and family-based up until the 1990s, which is an important distinction from the development of European welfare states.[29] Developmentalism in this sense refers to state-led industrial policy rooted in nationally owned firms, regulated capital accounts to ensure that wealth remains national, and a bias towards generating employment rather than efficiency. This is the opposite of the neoliberal dictates that demand employment austerity in the name of (transnational) firm profitability. Equally important and often underappreciated are the variety of strongly redistributive institutional mechanisms outside of the realm of social policy, as means of dispersing wealth across society in a manner that synergistically generated employment in tertiary service sectors and supported industrialization strategies, such as extensive land reform and the rapid expansion of the education system above the primary level in the early 1950s. Notably, these radical initiatives were mostly taken at a time when both countries were largely agrarian and very poor. Both were also supported by substantial amounts of foreign aid. Generous aid was due to geopolitical considerations, although this point should not take away from the importance of the international redistributive principle in strategically supporting such broader development strategies.[30]

While the Republic of Korea and Taiwan Province of China are obvious examples of where synergies between developmentalism and redistributive principles worked well, China provides another interesting case of broader redistributive principles, albeit not necessarily in the form of universalization of social policy until recently. Similarities in these three cases include land reform. The current tenancy system in rural China serves much the same purpose of providing an egalitarian, even if somewhat poor (albeit still very popular), floor of security for rural dwellers from which they can then strategize their migration. State-led industrial policy has also obviously been important in these cases as a means to create the conditions for labour to be able to transition to more productive, higher value added and relatively formalized employment outside agriculture. Monetary policies aimed at sustaining aggregate demand for employment maximization have included tolerance for moderate degrees of inflation.[31] State ownership of the banking sector in China and the Republic of Korea has allowed for the financing of not only industrial policy, but also of employment-generating activities such as infrastructure construction, both of which are not necessarily profitable in the short term. Fiscal

[29] See Kwon (2005) and Ringen et al. (2011) for excellent discussions of this in the case of the Republic of Korea.

[30] See Fischer (2009b) for further discussion of this point.

[31] For instance, see an interesting discussion of this in Stiglitz et al. (2006).

policies have similarly been directed towards employment creation; the National Rural Employment Guarantee Scheme in India is one often-cited example of this. Another could be taken from the massive regional development strategies in China since the mid-1990s, in which economic renewal, increases in urban formal employment, and rising wages have been financed by rising provincial government fiscal deficits, as discussed in the fourth section. Trade and exchange rate policies have been more contextual and debatable. Despite the conventional wisdom now, based on the experience of China since the late 1990s, that trade surpluses and hence undervalued currencies are the best way to boost aggregate demand and maximize employment, even if not necessarily appreciated by trade competitors or sustainable on a generalized global level, earlier experiences in the Republic of Korea were actually characterized by trade deficits up to the 1980s, as was the experience of China up to the early 1990s (e.g., see Fischer 2009b, 2010d). In general, these various heterodox approaches to employment and economic policy lead us to question the conventional orthodox wisdom regarding employment, particularly with respect to the contexts of labour transition in developing countries.

From a narrow social policy frame, however, China might not appear to be the most obvious case to highlight, given the retreat from universalistic social provisioning in the early reform period in the early 1980s, and the troubled and faltering attempts to return to that direction since the late 1990s.[32] The erosion of more universalistic forms of social policy in post-Mao China has been a major source of both inequality and social instability. Nonetheless, in widening the scope of redistributive mechanisms, important principles become obvious as important preconditions that contributed to growth from the 1980s onwards, and also as crucial factors for stabilizing and sustaining the growth model and avoiding its more egregious tendencies. These elements have been often underemphasized in the presentation of China's successes, but are vital to understanding how China has been attempting to leverage its success in both economic growth and human development to move towards a progressive formalization of its workforce, including through rising wages and related benefits. They contrast with the attack on and hollowing out of redistributive capacity in Latin America and Sub Saharan Africa following the 1982 debt crisis, which was the watershed moment in the transition to neoliberal dominance in mainstream international development policy.

[32] Appleton, Song and Xia (2010) inadvertently make this point in their critique of targeted welfare in this intervening period. They argue that government anti-poverty programmes in China had little impact on urban poverty between 1988 and 2002. Instead, through an econometric analysis of urban household survey data, they contend that urban poverty had fallen almost entirely due to overall economic growth rather than 'redistribution'. The misconstrued element in their argument is that they refer not so much to redistribution but, more specifically, to targeting, given that China's urban anti-poverty programmes were heavily oriented towards means-tested targeting within an overall retreat from more universalistic principles over the 1980s and 1990s, including the rapid erosion of most pre-existing redistributive and/or social security systems, and a notably regressive shift in the burden of taxation (e.g., see Khan and Riskin 2001). In this context, it can hardly be said that targeted poverty reduction programmes constituted a strong case for redistribution. Rather, targeted social assistance probably represented one of the few marginal factors compensating for an overall regressive shift in the social policy regime of China. Most poverty reduction could be shown through econometrics to have come from growth, although this can hardly be used as a case against redistributive polices. With this corrective in mind, the argument of these authors otherwise well corroborates the arguments discussed here.

In terms of preconditions, China's success in reducing fertility from a rate of 5.8 in 1970 to 2.8 by 1979—before the introduction of the one-child policy—cannot be appreciated without understanding the entirely state-collectivized economy at the time. Collectivization assured full employment and the near universal provision of primary health care and basic education in both rural and urban areas, at least to a level that allowed for the rapid dissemination of new practices and socially transformative messages. The contribution of these earlier social achievements to subsequent economic growth from the 1980s onwards is often under-appreciated, although they have been recognized as central to the fact that China had already far outperformed India in human development terms by the 1970s. Despite starting from about the same life expectancy at birth in the late 1940s, China was more than 10 years ahead of India by 1970. Life expectancy at birth for both sexes combined from 1975 to 1980 was 66.3 years in China versus 54.2 years in India (United Nations 2013). Similarly, China achieved a literacy rate by 1982 (around 66 percent of the population aged 15 and older) that was higher than that of India in 2001 (65 percent of the population aged 7 and older). These differences have been increasingly recognized as fundamental to the divergent development trajectories of the two countries, such as in the latest book by Drèze and Sen (2013).

Despite the collapse in the 1980s of China's universalistic system of basic health insurance and social protection that had been instituted under Maoism, certain other aspects of redistribution have been central to the ongoing stability and sustainability of the country's growth experience. One obvious foundation was that rural decollectivization in the early 1980s was effectively equivalent to a massive land reform programme. Continuous adjustments to this system of land tenure up to the present have resulted in one of the most egalitarian distributions of land assets (or rural usufruct rights) in the developing world.[33] For better or worse, the Government relied heavily on this egalitarian base to compensate for the erosion of rural social security from the early 1980s onwards; it was able to neglect other forms of rural social security reform for more than a decade.

As another example of redistribution, while it has been much criticized by liberal economists, the financial system in China remains largely if not mostly under state ownership at various levels. This means that it can be used in a developmentalist manner, for instance, to subsidize major development initiatives that might include white elephants, but also those contributing to rising incomes in many rural areas. Well-subsidized rural credit in China has made the provisioning of costly and effectively regressive microfinance more or less irrelevant. As noted in the second section of this paper, Huang (2012) argues that the bulk of township and village enterprises in China from their inception were essentially private, and that the financial context of the 1980s was one of liberalization, which was subsequently reversed in the 1990s. Even if this argument is accepted as true, it does not take away from the egalitarian foundations of reform in the rural areas, as well as the fact that much of the initial rise in rural incomes in the first half of the 1980s was due to an administered sharp increase in the terms of

[33] For an excellent discussion of the continuous adjustments to this system in order to maintain equal land access, see Brandt et al (2002). On the equalizing contribution of land assets to rural household inequality in China in the 1990s, see Khan and Riskin (2001).

trade for farm goods, in addition to the one-off incentive effects of returning to an individual household land tenure system.

Other redistributive mechanisms include major fiscal reforms in the mid-1990s, which shifted the control of total national government revenue away from the provinces and back to the central government. The central share of total revenues increased from 22 percent in 1993 to almost 57 percent in 1994 (China National Bureau of Statistics 2011, table 8-3), which in turn allowed the central government to reinvigorate regional development strategies that had effectively become moribund since the advent of fiscal decentralization in the early 1980s, in large part through increasing transfer payments to interior and western provincial governments, and thereby allowing them to run substantially increased budget deficits.[34] This fuelled a remarkable economic recovery in the hitherto stagnant regional economies of interior and western China, which had been seriously lagging behind the coastal growth experience with high and in some cases rising levels of poverty. Despite the egregious aspects of such regional development strategies, particularly in minority nationality areas such as Tibet and Xinjiang (e.g., see Fischer 2005, 2013b),[35] these relatively massive redistributive transfers from east to west in China via the fiscal intermediation of the central government have been important to its attempts since the mid-1990s to reorient its growth model towards domestic demand, and to deal with regional inequality as one of the key dimensions of rising overall inequality, in addition to urban-rural inequality. The emergence of western industrial hubs such as Chongqing, Chengdu, Xi'an and Lanzhou has been closely related to such policies.

China has also practised a degree of regional wage equalization across state sector employment in urban areas, adjusted according to local cost of living. Through such wage policies, it has also instituted rapid real wage increases within such employment from the 1990s onwards on a nation-wide scale. For instance, nominal average wages of employees in state-owned urban units rose from 5,553 yuan in 1995, to 9,441 yuan in 2000, to 18,978 yuan in 2005, to 38,359 yuan in 2010 (China National Bureau of Statistics 2011, table 4-13). Considering that consumer price inflation in China has been negligible since 1998, most of the increase in the 2000s was real, after indexing for inflation. These increases have been more or less proportionate across provinces—much of the transfer payments described above would have been spent on financing such wages in poorer provinces with fewer local fiscal resources. The increases have, in turn, arguably set standards and thereby affected wages in non-state formal corporate sector employment, where wages have similarly risen, and even in more informal categories of employment such as urban private units, urban self-employment or unregistered categories of employment. While the phenomenon of rising wages among less privileged

[34] These deficits have reached levels that would send the European 3 percent deficit ceiling into disarray. For example, in 2010, Sichuan, which had about 80 million people and a GDP worth US $280 billion at current market rates—roughly equivalent to the GDP of Greece—ran a provincial government deficit of almost 16 percent of GDP.

[35] Although these 'western development strategies' are often characterized as targeting minority nationality areas, in reality, the large majority of people covered by them and receiving the majority of funds disbursed have been Han Chinese—not those residing in minority areas, but in traditionally Han areas such as eastern Sichuan, Chongqing, Shaanxi or Gansu. Such strategies have been related to policies aimed at building regional growth poles in places such as Chengdu in Sichuan, Chongqing, Xi'an in Shaanxi or Lanzhou in Gansu.

categories of workers in China is still hugely debated, and there is obviously a great risk of entrenching a polarized urban labour market, given relatively high levels of inequality, the relation of rising wages at the lower end of the labour hierarchy to publicly instituted state-sector wage policies at the upper end has been given far less attention than the demand factors coming from coastal industries. Rising wages also need to be understood in terms of their synergy with efforts to broaden social security and public provisioning, including substantial increases in government expenditure in these policy sectors. The central government has been pushing these measures forward as a central part of its strategy to address inequality and reorient the growth model towards a more sustainable foundation in domestic demand, despite enormous challenges, including very strongly entrenched vested interests.[36]

The particular revolutionary setting of China would be nearly impossible, and perhaps not desirable, to reproduce in other countries today. But there is still much to be learned from underlying principles, shared with other less extreme cases, in terms of the ways off-farm employment was generated and supported by domestically controlled mechanisms of accumulation, wealth redistribution and universal social service provision—all pursued from a poor agrarian economic starting point. In drawing from these historical and contemporary examples, two important corollaries must be made. First, transitions to lower fertility, out of agriculture, and towards industrialization and urbanization began long ago for many countries, especially outside sub-Saharan Africa. It might not be appropriate for countries such as those in the Southern Cone of Latin America, which was already well in advance of the Republic of Korea in the 1950s, to draw from earlier East Asian examples or even from the particular context of China at present. Second, there is arguably an even greater need for strong redistributive mechanisms today, in part because of the faster speed of demographic transitions, and the more rapid speed of population growth despite faster fertility reductions. Moreover, even strong forms of national developmentalism, as existed in East Asia in the 1960s and 1970s, can no longer be presumed to produce the same equalizing effects via employment and local retention of value-added as they might have in the past, particularly in a very globalized and neoliberal setting.

Hence, the Gershenkronian principle arguably holds more than ever, although operationalizing it for most developing countries requires experimentation and discovery, rather than a replication of old institutional models. Nonetheless, short of radical shifts towards such principles, the predominant supply-side emphasis in contemporary mainstream development policy arguably exacerbates the dilemmas of informalization, casualization and effective underemployment of labour transitioning to urban tertiary sectors in the global South. Current mainstream approaches to social protection, which some have called a ‘revolution’, are excessively limited in scope and ambition to be able to address these dilemmas, in part because

[36] In discussions with Linxiu Zhang, Deputy Director of the Centre for Chinese Agricultural Policy at the Chinese Academy of Sciences in June 2013, she suggested that return migrations of people from the coastal areas back to their home provinces in interior and western China—and hence the tightening of labour market conditions in coastal China—have been influenced by health insurance and other social security reforms, particularly in Sichuan, where many of reforms have been piloted. While reforms have sought to overcome institutional residential rigidities of the past by integrating rural and urban areas, they nonetheless remain restricted to the province in question and are non-transferable across provinces.

they eschew anything other than a very limited, somewhat conservative approach to redistribution, namely, welfare for the poor with conditions.

Conclusion

The paper explored some stylized facts on population growth and labour transitions towards tertiary sector employment across the global South; the limitations of standard economics approaches in dealing with issues of employment creation and regulation in this context; a variety of alternative socially and institutionally embedded views that emphasize the social processes involved in the valuing and regulation of labour; and lastly, the increasingly important imperative for progressive redistributive mechanisms to serve as crucial institutional factors in meeting the contemporary development challenge of employment generation. Ignoring this redistributive imperative while striving for productivity increases might well exacerbate certain structural aspects of vulnerability that evolve alongside human and economic development.

From this broader perspective, and as a means to summarise many of the points raised in this paper, redistribution needs to be understood as a synergistic essential condition of productionist strategies, principally by way of socialising the wealth produced by increasing productivity, as well as through its role in buttressing the institutional bases of capitalism. These synergies can be conceived both structurally and institutionally. Structurally, redistribution serves to socialize the wealth produced by increasing (and increasingly concentrated) productivity in physical production, towards and within those sectors that are not directly engaged in production but instead derive their value through the sphere of circulation, as is increasingly the case precisely as economies become more productive, and more complex and specialized as a result. This structural synergy entails an imperative – or what might be called a Gershenkronian principle – for redistribution within development, which intensifies with the increasing integration, concentration and productivity of global capitalism, as well as with the increasing transition of labor in both Global North and South towards tertiary sectors (i.e. towards sectors not involved in production and hence where the connection between notions of productivity and the value of labor becomes problematic). In particular, the contemporary development context of increasing productivity within fragmented albeit increasingly concentrated networks of global production and distribution, together with the tertiarization of labour forces across the Global South, has resulted in a situation whereby links between productivity and labour returns have become increasingly tenuous. This places an even stronger imperative for redistribution now than in the past. Indeed, the crucial roles played by redistributive mechanisms in providing some degree of resilience within the often radical development transitions of various 'rising powers' has tended to be downplayed if not ignored in this respect.

Institutionally, redistribution also plays synergistic roles with the rise of modern organizational, planning and regulatory capacities given that such capacities, in both public and private organizations, derive their value from the sphere of circulation rather than production. Hence, they are supported by redistributive mechanisms, whether progressive or regressive, or whether instituted through public or private channels. Echoing Schumpeter and Polanyi, such organizational capacity, whether in the public or private sphere, arguably provides a better understanding of modern economic development than the essentialized and somewhat mythologized idea of market forces. It also tends to grow proportionately in both private and public entities with the increasing complexity of economic and social systems. In contrast to the glorification of “searchers” versus the demonization of “planners” by the likes of Easterly (2006) and the Hayekian tradition preceding him, the modern business corporation in this sense can be understood as representing an apex of planning (i.e., management) as the supreme modus operandi for mobilizing, capturing and controlling value and wealth in the contemporary global economy. The rise of administered (rather than market) exchange in the public sectors of all advanced industrial economies, unrelenting even in the face of so-called neoliberal reforms aimed at retrenching or “marketizing” this state role, is testament of this need to conceive of capitalism not exclusively in terms of markets, but more broadly in terms of increasing organizational and regulative capacity. This institutional dimension also implicates the redistributive imperative as a means of supporting such processes of capacity development.

This understanding of synergies and imperative helps to overcome the dichotomy conventionally presumed to exist between redistribution and production (and between states and markets more generally), which has limited a more holistic consideration of development in the field of economics and, by implication, in the field of development studies more generally. The imperative implies that redistribution is not simply an ethical or populist choice or a trade-off with efficiency necessitated by greater ills such as inequality or market failures. Rather, it is fundamental to the functioning of modern market society. The socialization of wealth is necessary even for the very possibility for liberalism, insofar as it cultivates the conditions for labor to be able to refuse a market offer, hence allowing labor markets to operate in the manner predicted by neoclassical micro-foundations in economics. A fundamental critique of market liberalism is that such conditions do not exist so long as labor is driven by compulsion. Compulsion not only applies to the classical world of people barely subsisting at survival wages; compulsions that discipline labor can operate in more affluent conditions, such as with respect to considerations of accessing health care insurance in the US. Conversely, freedom from dependence on labor markets – what Esping-Anderson (1990) refers to as decommodification, such as through modern forms of social security – in effect provides the necessary (although not necessarily sufficient) condition for the supply and demand for labor to at least approximate the operation of a commodity market. Hence, sufficient degrees of social security, which in their modern form have co-emerged with modern forms of state-led redistribution, in effect provide the functional basis for market society.

This is the fundamental contradiction with the neoliberal ideological attack on redistribution over the last three decades, which has hollowed out the redistributive capacity of states precisely at a time when they needed to be reinforced and refined, when capitalism has become ever more complex, and the needs for more far-reaching strategies of redistribution ever greater. The counterintuitive political impulse to curb the redistributive imperative has not only been at the heart of rising inequalities in the Global North, as often recognized, but has also been fundamental to many of the disfunctionalities of development in the Global South, particularly in those countries that have been most advanced in disassembling such functions, whether under duress or ideological zeal. The failures of the international aid system, for instance, are fundamentally located within the inability of the system to enact any significant or sustained degree of global redistribution, rather than in any of the more proximate causes commonly postulated, such as governance, institutional or planning failures, which in many cases are better understood as symptoms rather than causes. Many of the problems associated with state-directed redistribution more generally, such as state paternalism and dependency, also do not refute the relevance of redistribution, but instead highlight the challenges of enacting redistribution in dignifying and right-respecting manners. Rather than throwing the baby out with the bath water, these challenges call for progressive refinements and innovations within evolving practices of redistribution, ideally guided through genuinely democratic forms of political contestation and collective bargaining, rather than through retrenchments of state-led redistribution, which undermine the space for democratic accountability and have been associated with attacks on collective bargaining.

Moreover, the context of contemporary globalization has presented increasing challenges to maintaining these structural and institutional synergies, particularly for Southern countries. The increasing transnationalization of production contrasts with the difficulties of enacting any significant degree of progressive redistribution beyond national borders (although it has facilitated regressive redistribution), and has accentuated the tenuous disjuncture between productivity and labor returns among the Southern producers of Northern consumption. In the institutional dimension, macro regulatory capacity to coordinate increasingly complex international economic relations has also increasingly shifted from national states to large transnational enterprises, undermining the tradition modes of redistribution even within states. These contemporary conditions have placed an even stronger imperative for redistribution now than in the past, not simply within countries but also globally. Ultimately, in the face of the contemporary context of globalization, these challenges highlight the need for a reconstituted “Great Transformation”, to quote Polanyi, one that extends to a global rather than national scale.

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