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Inequality and Poverty as the Condition of Labour

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Introduction

The 1980s witnessed a radical break (at the level of theoretical discourses) with both Keynesianism and structuralist development economics, concurrent with the re-assertion of neo-classical economics. What tied Keynesianism and structuralist development economics together, however, was not just their shared critical views of neoclassical economic theory (Mkandawire, 2001: p.2), but also a number of shared premises concerning economic analysis. While it is true that the most of the early development economists argued that the economies of the Third World were supply-constrained, not demand-constrained (see, for example, Rao, (1952, 1958), this did not mean that development economics not deeply influenced by the mainstream economic discourse at the time with its explicit focus on the macro-economics of employment and the dynamics of unemployment. On the contrary, they acknowledge that in developing countries large-scale hidden or disguised unemployment prevailed, but argued that this problem could not be remedied by boosting effective demand. Instead, what was needed – they argued – was a protracted transformation of the developing economy to absorb surplus labour through the expansion of wage labour in the process of industrialisation fuelled by investment.

Wage employment, as Kurt Martin argued (1991: pp.36-37), was seen by the founders of development economics as a "historical concept and phenomenon" and, hence, as far as developing countries were concerned, as a process in the making. The main analytical tools they employed to look at this process were twofold: (1) the notion of the "dual economy" characterised by the juxtaposition of an emerging "modern" sector with a pre-existing "traditional" sector, and (2) the concept of disguised or hidden unemployment. The latter, as Martin explained, was

> "defined as a situation in the productivity dimension, and refers to people not normally engaged in wage employment who can be transferred into more modern, rewarding activities without loss of output in the so-called traditional sectors – usually, but not exclusively, peasant agriculture" (1991: p.30).

In fact, this notion of disguised or hidden unemployment bore much resemblance to Marx's earlier notion of the latent surplus population as part of the reserve army of labour within capitalist development. As Martin (1991: p.30) further argued, the concept of 'disguised' or 'hidden' unemployment, central to early development economics, was not an "innovation", but instead a "rediscovery" ("usually without realising that it was a rediscovery") of Marx' s earlier concept.

In the last two decades of the 20th century, however, there has been a marked shift away from these early concerns and from the concepts, which embedded these concerns in theory. While the pioneers of development economists talked about employment and growth, nowadays the new "international consensus" talks about pro-poor growth. More specifically, in recent years, after the initial euphoria that structural adjustment policies of the 1980s and early 1900s would cure any ill had waned, poverty rather than unemployment (and the employment relation) came to be the key concern. This transition from unemployment to poverty is perhaps not all that surprising. Indeed, it could be seen as a normal progression of ideas over.

Yet, this transition becomes nevertheless surprising and interesting once we take note that, about a hundred years earlier, the opposite transition took place: economic discourse then shifted away from poverty (or, paupers – as they were then called) to unemployment. In fact, the last decade of the 19th century and the first decade of the 20th century witnessed the birth of *unemployment* as a new variable in social and economic analysis (Desrosières, 1998: pp.254-259). Keynesianism as an approach to economic analysis arose (during the depression of the 1930s) as a consequence of this earlier shift in emphasis towards the centrality of unemployment.

This note briefly looks at the substance and the reason for this historic conceptual reversal in economic discourse 'from poverty to unemployment' to 'from unemployment back to poverty'.[1] This reversal from unemployment back to poverty needs to be further situated within the broader process of what Makoto Itoh (2001: pp.110-124) aptly referred to as a 'spiral reversal' in capitalist development from the 1980s onwards. The aim of this note is to re-assert the continued importance in development economics of looking at poverty, inequality and deprivation from the perspective of accumulation, the employment relation and the dynamics of unemployment.

From Poverty to Unemployment: the Emergence of a New Variable

Unemployment as a concept is of relatively recent origin. In English, for example, the word only came in general use around the mid-1890s, long after industrial capitalism had taken hold, particularly in England (Garraty [1978] as quoted in Atkinson, 1999: p.67). It first appeared in the U.S. Department of Labor Bulletin only in 1913 (*ibid*). In public debates during the 19th century, it was pauperism, not unemployment that occupied the centre of the stage. This obsession with paupers went back a long way. As De Swaan (1989: p.17) pointed out, the debates on poor relief in early modern Europe invariably revolved around the issue of separating the 'deserving' from the 'undeserving' poor. In England in particular, the debate

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[1] This latter transition is also reflected in the changing emphases in foreign aid – that is, a transition took place from aid as investment support, via aid as quick-disbursing programme aid to back up market-oriented reforms to aid as poverty alleviation.

on pauperism came to focus on the specific question whether poor relief was at all effective, or instead made matters worse by increasing poverty.

Thomas Malthus spearheaded the latter position and fought relentlessly for the abolition of the then existing poor laws, based on parish relief. The new Poor Law of 1835 set up a dual system consisting of indoor and outdoor relief, both administered at the county level by the Poor Law Unions. In-relief took place in the workhouse where the able-bodied 'paupers (mainly men) were housed in deplorable living conditions and forced to work at badly paid wages (the principle of 'least eligibility'). Out-relief consisted of the comparatively less harsh system of outdoor assistance administered mainly to women, the old, the disabled and the sick. The proportion of relief given out of doors was in fact seen as a reflection of the (relative) strictness or leniency of the management style of each local union. (Desrosières, 1998: pp.256, 133)

Subsequent political debates in England during the remainder of the 19th century evolved around the costs and effectiveness of both these systems in general, and of out-relief in particular. With respect to the analytical underpinnings of these debates, two authors, Charles Booth and George Udny Yule, are of particular relevance here. Their respective contributions are important for two reasons. First, because the issues they raised – in content and in method – provided an early example of an analysis of the effectiveness of aid – albeit, in this case, of poor relief within national boundaries. And, second, because Booth's work, in particular, laid the analytical foundations for the transition from paupers to unemployment as the key focus of public debates.

As to the debate on the effectiveness of poor relief, Booth, in his seminal work, *The Aged Poor*, published in 1894, claimed that the proportion of relief given out of doors bore no relation to the total percentage of pauperism (quoted from Stigler, 1986: 346). This assertion went counter to the widespread established belief – that is, among the rich and powerful – that out-relief was likely to worsen poverty. Yule, one of the most creative statisticians at the time, set out to investigate this claim made by Booth, using data for each of the 580 then existing poor law unions. In the process, Yule not only broke new ground in the development of statistical theory, but also set the stage for an empirical approach to socio-economic analysis which economists have continued to rely upon until today.

Yule took the total of poor people receiving relief (outdoors plus indoors) to be a measure of the extent of pauperism, the dependent variable, and the ratio of out-relief to in-relief (i.e. the welfare to work-relief ratio) as an indicator of strictness of local union management, his independent variable (Desrosières, 1998: 133-4; Stigler, 1986: 347). Using the method of regression and correlation developed by Galton and Pearson, he first correlated both variables and found the coefficient of correlation to be positive and significantly different from zero (a value of 0.388 with probable error of 0.022) (Desrosières, 1998: p.134). In subsequent work, Yule then continued to develop the concepts of partial and multiple regression so as to be able to look at the statistical correlation between his key variables, while controlling for other factors such as the proportion of elderly persons, average wage income, and differences in population (Desrosières, 1998: p. 134; Stigler, 1986: pp. 355-356). The crux of his empirical analysis across his subsequent contributions led him to re-affirm his initial conclusion that "a high pauperism corresponds on the average to a high proportion of out-relief" (Yule as quoted in Klein, 1997: p.226).[2,3]

Like many statisticians and econometricians after him, however, Yule tended to be more enchanted by the intricacies of statistical method than by the problem at hand. In this particular case, the key issue was how poverty itself was measured. Indeed, the data used in assessing the extent of local poverty (Yule' dependent variable and performance indicator) and the means used to relieve it, all derived from the same source – the Poor Law Unions administering the relief (Desrosières, 998: p.256). In other words, the extent of poverty was defined by the measures taken to fight it. Hence, *ceteris paribus,* the more lenient the poor administration authority, the more inclusive it was in administering relief, and, hence, the greater the number of 'paupers'. The definition of who was a pauper, therefore, depended on the leniency of poor relief.

Charles Booth's work took a different track and managed to circumvent this problem of circularity. To do so, he relied on own survey data to analyse the nature of urban poverty in London.[4] The power of Booth's approach was that it drew attention to the characteristics of family incomes – both its level and its regularity – and used this to identify different types of poverty. This approach broke decisively with the then existing practice to divide the lower classes into three ensembles: the dangerous classes, the poor, and workers in general. Instead, Booth used eight hierarchical categories to capture the varied patterns in the sustenance of urban livelihoods. The very poor included the 'infamous' whose sources of income were dishonest or unknown, on the one hand, and those families relying on casual work in a state of chronic destitution, on the other. The poor were subdivided into two categories depending on the regularity of their incomes: those with intermittent incomes as a result of the vagaries of seasonal unemployment,

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2 Yule's development of statistical method was a veritable tour de force. In technical terms, the trajectory of the development of his work proceeded as follows. Yule first applied simple regression analysis as developed by Galton and Pearson on the basis of the bivariate normal (probability) distribution. Application of this technique, therefore, assumed that the data satisfied the normality assumption. Yule was aware, however, that his data (like most social and economic data) were skewed and, hence, that the normality assumption was unwarranted. In subsequent theoretical work, Yule went back to Legendre' s older 'principle of least squares'(formulated in 1805), connected it up with Galton and Pearson' s concepts of regression and correlation (developed in the mid-1880s), dropped the normality assumption, and thus re-defined regression as curve fitting using least squares. Finally, Yule then generalised his newly found method by developing multiple and partial regression using the method of least squares.2 (Stigler, 1986: pp. 346-358).

3 Not surprisingly, the momentum of least squares regression, thus unleashed by Yule, proved to be unstoppable. As Klein explained:
Economists, in particular, latched onto least sum of squares estimation that enabled them to mimic the ceteris paribus properties of a laboratory experiment, draw law curves in logical time, and estimate inexact relationships between variables with skewed distributions. (Klein, 1997: p.226)

4 Seeborn Rowntree' s 1899 poverty study in York followed a similar tract and eventually led him to pioneer the method of poverty lines as the amount of money required to obtain the minimum necessaries of life (Sen, 1984: p.326; Kanbur and Squire, 2001: p.186).

on the one hand, and those with low, but stable incomes. These groups of the poor and the very poor were then distinguished from the 'comfortable working class' (including the borderline category of workers with regular incomes minimally sufficient to afford a living) and the 'lower and upper middle classes' (Desrosières, 1998: p.257).

The distinctive feature of Booth's work was its premise that poverty and inequality derive from the condition of (wage) employment. This is evident from the importance he accorded to the character of labour regimes and the level and regularity of incomes they supported in determining the level of economic security of families. It was this aspect of Booth's work that prepared the ground for a "transition from the old idea of poverty to the as yet non-existing idea of unemployment – the temporary loss of a wage-earning position that guaranteed a regular income" (*ibid*: 257).

The political conditions that made this transition possible came about with the rise of a new generation of social reformers who expressed "the problems of poverty in terms of regulating the labour market and passing laws to provide social protection, rather than relying on local charity" (Desrosières, 1998: pp.262-3). Indeed, as Amartya Sen (1981: pp.173) pointed out – "the phase of economic development *after* the emergence of a large class of wage labourers but *before* the development of social security arrangements is potentially a deeply vulnerable one". In the context of the so-called 'sweating system' where wage labour was unregulated, flexible and insecure, this vulnerability is essentially hidden within the swamp of pauperism. In this system, where work was subcontracted by employers to intermediaries (subcontractors) who then recruited the necessary labour force, no formal bond between employer and worker existed (Desrosières, 1998: p.263). Labour was mobilised whenever work was available and only as long as it lasted without any formal ties between worker and employers.

For unemployment to emerge as a new variable on the scene, therefore, there had to be an employment relation that could be formally broken such that unemployment results. In other words, as Atkinson (1999: p.68) put it –

> "unemployment is associated with a labour market situation where employment is a 0/1 phenomena".

It was the large-scale factory, assembling masses of (mainly male) workers separated in time and space from their families, that provided the main impetus for the development of an employment relation within which the modern concept of unemployment could arise (*ibid*). It was also this process which fostered trade union formation, led to the first records to be kept on unemployment (within the unions and friendly societies), and propelled social struggles for the improvement of the working classes. When laws where passed to regulate the position of the wage-earning workforce and the duties of the employers, unemployment could then be defined and came to be measured as a break in the bond between workers and their bosses (Desrosières, 1998: p.263). Consequently, it became possible to demarcate the dividing line between the duties of the employer in providing regular employment and the need for social security when the employment relation was broken. Social struggles thereafter, therefore, took on a different dimension: welfare, not poverty, was to be associated with large numbers of people (Metz, 1986: p.347).

This shift in emphasis from poverty to unemployment took place against a background in which, for about a century from the late 19th century onwards, the capitalist world system moved away from competitive free market capitalism (Itoh, 2001: 113). This spiral reversal away from the earlier 19th liberalism in economic development was characterised by interrelated factors:

- the concentration of mass numbers of workers in large factories and the impulse this gave to the development of trade unions;
- the introduction of Taylorism as a new organisation of labour that allowed rapid and continuous gains in productivity;
- the progressive development of a regime of accumulation coupled with a mode of regulation where the gains of productivity growth were systematically redistributed to every social class;
- and, finally, the development of a network of collective bargaining, social legislation and, ultimately, the welfare state (Itoh, 2001: 113-115; Lipietz, 2001: 18).

This era, in its mature form, came to be characterised alternatively as Keynesianism or as Fordism. The prior emergence of the concept of unemployment paved the way for the rise of Keynesian economics during the great depression of the 1930s when unemployment rose to unprecedented levels. The concern with the dynamics of unemployment thus came to occupy the center of the stage. Keynes emphasised the importance of state action 'from above' through deliberate fiscal and monetary policies to boast effective demand in order to sustain full employment. In contrast, Fordism emphasised the rise in real wages in line with productivity growth by means of explicit or implicit capital-labour agreements to enable the growth in effective demand to keep pace with the growth in output of large scale industry (Itoh, 2001: pp.115-117; Lipietz, 2001: pp.18-21).

In sum, then, the transition from poverty to unemployment meant that poverty ceased to be seen as a condition of certain people, but instead as reflective of the nature of the employment relation within capitalist development. Social struggles thereafter came to revolve around the conditions of wage employment and the social protection of the unemployed. Pauperism as a concept receded in the background; poverty and inequality came to be addressed as a condition of (wage) labour linked to the process of accumulation and its accompanying structure of effective demand, and not as deficiencies of people.

The reverse transition: from unemployment back to poverty

Development economics arose within the heyday of Keynesianism and Fordism. Not surprisingly, it took many of its initial cues from both these traditions. In fact, it was the conviction of the post-war development economists that economic growth in the developing countries '*as a matter of economic logic*' was bound to take the same general direction (towards industry and towards wage employment) as it had done in the developed countries. (Martin, 1991: p.30). In doing so, however, their frame of reference were the prevalent developed capitalist economic systems, and not its more virulent liberal variants of the 19th century. The absorption of surplus labour from the traditional sector, therefore, was assumed to go in the direction of *formal* wage labour. In other words, using Booth's language, during the phase of the absorption of surplus labour, wage labour would hover at the borderline of the 'comfortable' working classes (low but secure wages – and, presumably, further protected by minimal social security).

Their approach was macroeconomic in scope and their focus was on the interrelationships between the regime of accumulation, productivity growth and the real wage in the process of industrialisation. The Lewis model best typified these concerns. Capital accumulation in industry (or the modern sector at large) was assumed to take place by drawing surplus labour from agriculture (or, more generally, from the traditional sector) at a real wage rate somewhat above the subsistence level prevalent in the traditional sector. Productivity growth in the modern sector would fuel profits, thereby allowing for the acceleration of capital accumulation. Once surplus labour dried up, the real wage was assumed to rise and presumably share in productivity increases thereafter.

The strength of this approach lay in its focus on the analysis of the regime of accumulation and of the way this shaped the relation between productivity growth and real wages, and between industry and agriculture. Structure mattered and growth was seen not just as quantitative expansion, but also as qualitative transformation. In doing so, therefore, the early pioneers stressed the importance of the specificity of the developing countries and the necessity to look at the process of development in a context of transformational growth. Central to it all was the dynamics of employment – the transfer of labour from agriculture to industry and its transformation into wage labour. On this count, the early tradition in development economics was clearly marked both by its classical antecedents as well as by Keynesian macroeconomics and its emphasis on employment.

For them, therefore, the dynamics of employment as determined by the regime of accumulation provided the key to understand distribution, inequality and poverty in society. The question of economic insecurity associated with the creation of wage labour, however, initially did not feature much in their analysis.[5] In part, as explained above, this neglect can be explained by the fact that the early development economists took the process of transformation to be in the direction of the growth in formal (and secure) wage employment, eventually leading to rising real wages. While development might initially be accompanied (in Kuznets' fashion) with

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