African Review of Economics and Finance | ISSN 2042-1478 | Volume 12 | Issue 1 | June 2020

Book review essay

Extraordinary times: Frank Stilwell and the study of inequality

The Political Economy of Inequality

by Frank Stilwell
Polity Press: Cambridge, UK.
ISBN No (hb) 13 978 1 5095 2864 6
ISBN No (pb) 13 978 1 5095 2865 3

Reviewed by Vishnu Padayachee

School of Economics and Finance, University of the Witwatersrand, Johannesburg, South Africa

Email: vishnu.padayachee@wits.ac.za

Abstract

This essay reviews Frank Stilwell's important new contribution to the academic and policy debate over the causes and consequences of growing inequality in contemporary capitalism, including in the Global South.

Keywords: Inequality; political economy; alternative public policy.

1. Introduction

Until relatively recently the conventional wisdom was that widening inequalities experienced by all countries, regions and even between the developed North and the "Global South" represented a normal development, a phase en route to a higher and someday less unequal state. Most widely associated with Simon Kuznets (1955), this essentially mainstream growth hypothesis held the professional discourse in a vice-like grip which suffocated all and any attempt to understand and analyse inequalities in the modern world economy from other perspectives. This was also essentially an economics story which focused on inequalities of income (and to some extent of wealth). But it was also an aspect of (macroeconomic) analysis which failed to attract much attention either theoretically or empirically or, indeed, methodologically within mainstream economics. Ben Fine has argued that given the way orthodox macroeconomics has gone – with representative individuals, perfect markets, monetary policy to the fore, and policy ineffectiveness – it is hardly surprising that inequality and (re) distribution are largely absented from the mainstream (Personal communication, 21 March 2017). By the early 1990s, however, and especially in the USA, it became harder and harder to assume the problem did not exist or that it could be understood as simply a stage in a longer process of American development. The early attempts that were made by mainstream economists from that time tended to be fairly predictable and largely based on human capital differentials which inform marginal productivity and hence wages (incomes) (see, for example, Bound and Johnson, 1992).

The severity and length of the post-2008 Great Recession appears to have awoken even some mainstream economists and institutions to the destabilising role of inequality. Thomas Piketty's *Capital in the Twenty-First Century* (2014) spawned a wide literature which developed the study of inequality essentially within contemporary western society. His monumental account also raised questions about the value of economics in analysing and seeking to address sharply rising inequalities in these countries and regions, while managing not to stray too far from neo-classical tenets. Whatever its criticisms, it has played a significant role on shaking up thinking about and proposing policies to address widening inequalities of all kinds. In an interesting but welcome development, many post-Piketty publications on these topics have been written by heterodox economists (see, e.g, Pressman, 2015, Galbraith, 2012[1]), or by non-economists

[1] *Somewhat surpringly Stilwell fails to reference this important Galbraith book anywhere in his study of inequality.*

(See the many articles in law, history, sociology and politics in Boushey *et al*, 2017) employing a range of trans-disciplinary and inter-sectional approaches.

Marxists have employed class, examining the tensions between labour and the state within capitalism; post Keynesians have focused on the impact of inequality on effective demand, on consumption and investment, and the implications for workers and the poor – as a review of https://www.african-review.com/view-paper.php?serial=2017121491120-559035… published in this journal shows. Within the post-Keynesian tradition, there are not insignificant differences of emphasis suggestive of a rich yet constructive debate, as compared to the sterility of orthodoxy (see Mark Lavoie in Hein, 2016: 4). The global financial crisis has also helped to narrow some policy differences between Marxist and post-Keynesians. Marxist scholar Photis Lysandrou goes so far as to suggest 'there is no Marxist solution to capitalist crises that is essentially different from a radical form of Keynesianism.' (2019: 435).

More specifically, for our purposes, here there is discernible a high degree of consensus among Marxists and most post-Keynesian on the role of inequality as a root of the 2008 financial and economic crisis and beyond. As Thomas Goda observes:

> …for many post-Keynesians possible aggregate demand problems due to changes in the functional income distribution between workers, capitalists and rentiers are … at the heart of the analysis; but fundamental uncertainty and Minskyian instability are [also] prominent in post-Keynesian crisis theories (Goda, 2013: 26)

So after a slow (virtually non-existent) start, the pace, parameters and character of the debate about inequality has quickened and sharpened in our generation. New research centres such as the Southern Centre for Inequality Studies at the University of the Witwatersrand, Johannesburg (the only such centre in the Global South) have been established recently to try to get to grips with the question: what is distinctive about inequality in the Global South. (https://www.wits.ac.za/scis/).

It is, therefore, an opportune time for a committed, progressive scholar of high standing to take stock of these rich and diverse developments that represent a challenge to the Kuznets view and to marginal productivity theory and to offer an analysis which ranges across disciplines and traditions and also traverses many levels of analysis including global, inter- and intra-country inequalities of all kinds.

Frank Stilwell, arguably Australia's foremost political economist, turns out to be just such a scholar. His book under review here is a fine example of the state of the debate. The lucidity of his arguments, the easy unfolding of his narrative, the power of his illustrative tables, figures and devices and the logic of his method are all testimony to the superb grasp he has of his chosen subject. I came away believing that I could hold the many strands of this whole complex story in my hands.

Stilwell's book is organised around a political economy approach centred on a consideration of 5 'Ps': patterns, processes, problems, policies and prospects. These are preceded by a chapter on methodology and three chapters which examine the empirical evidence. Underlying his analysis is a scathing critique of mainstream, neo-classical economics and the role of economists who share the view that doing something about inequality is a normative matter not worthy of attention within a 'positive' science such as economics. This raises the issue of ethics and morality in our discipline, which I will return to at the end.

I do not intend to address in any detail all the arguments that Stilwell makes around the 5 'Ps', but to highlight a few salient ones, especially in respect of inequality in the global South. Stilwell makes the point early on in the book that, following encouragement from some scholars, he has attempted to embrace southern and post-colonial perspectives alongside other dimensions of the subject.

However, I am not convinced that he has fully succeeded in this respect, for one main reason. He fails to get into the history or political economy of the colonial roots that lie at the bottom of current forms and patterns of inequality in southern countries. Neither does he enter the terrain of assessing the uneven and stuttering attempts by post-colonial states to come to terms with such deep-rooted inequalities in their own post-independence policies and strategies of growth and development. Perhaps, to be fair to Stilwell, delving into such detailed analysis would have required a different kind of book altogether. Yet, Stilwell's progressive credentials are not in doubt: and in this spirit, I applaud his decision to donate all royalties from the sale of the book to support Oxfam's campaign to reduce global inequality.

A sub-theme within the broad southern perspective that he does usefully and perceptively return to again and again is that of an examination of inequality within the BRICS, the rather odd grouping of Brazil, Russia, India, China and South Africa. So, in looking at patterns of inequality it becomes evident (surprisingly) that, among this group, Russia has the highest GDP per capita (2017 based on PPP) making it the only middle-income country, and India the lowest, by far. If one looks at inequality through an analysis based on the Gini co-efficient, South Africa is clearly the most unequal, but if one looks at the concentration of income among the top 1% of each of these countries, the picture is different: Brazil takes top spot and South Africa lies in the lower segment of this table.

Looking at patterns by a study of the number of billionaires in the richer countries, one finds (not surprisingly) that the USA comes top with 155 billionaires (2013), China followed with 39, Russia 27, India had 25, and Brazil had 15 (alongside the UK). South Africa had just 3. If one looks at changes in patterns of inequality over time, one sees that China is the most dramatic story, with an eight-fold increase in per capita incomes between 1978 and 2015. Despite dramatic improvements in reducing absolute poverty in many parts of the world driven by China and India, making sense of inequality patterns viewed over time is a difficult issue to capture easily. India may be 'shining' in this sense, but inequality there has risen substantially, much like China. Similarly, despite claims of 'Africa rising', and some notable growth stories, many countries on our continent are still languishing in poverty with little progress towards a more inclusive Africa (Obeng-Odoom, 2015). Kenya, for example, is often held out as a great success for its innovations in digital banking, but the economy remains unproductive and unequal. M-Pesa digital banking technology may have helped 194 000 households (2%) out of extreme poverty between 2007 and 2011 but the innovation 'did not resolve structural economic inequalities' (*Le Monde Diplomatique* #1812, December 2018).

Among developed countries, over time, one striking trend is in the US where inequality is both high and rising. While the bottom half of the US population experienced no income growth at all over the period 1978 and 2015 (total cumulated real growth in fact declined by 1%) the richest 10% of people more than doubled their incomes and the top 0.0001 saw their total cumulated real incomes growing by a staggering 685%! (Stilwell, pp.55-6).

Stilwell then analyses the key drivers of inequality: location, class, gender, age, ability/disability and race. Together, these influences reinforce trends in inequality, they tend to be not just additive but 'multiplicative, creating cumulative advantage and disadvantage' (p.89). His analysis of the importance of location, reminds me of Jamie Galbraith's analysis of inequality trends within the US since the 1990s. In my review of Galbraith, I commented as follows:

> Just 15 counties in the US contributed to all of the rise in inequality measured between counties from 1994 to 2000. In other words, if we removed these 15 counties from the data sets there would have been no increase in overall inequality. Of these 15 counties, 5 (New York, 3 in northern California associated with Silicon Valley, and King County in Washington State) contributed about half of the rise in total inequality measured between counties in the late 1990s. A resident almost anywhere else, say Ohio or Georgia, would have seen little of all this directly, so that, as Galbraith notes, 'there could not have been an electoral advantage to the egalitarian left' (2012: 19).
>
> So, until about 2000 the largest income gains accrued to IT workers and managers in Silicon Valley and Seattle, and to their bankers in Manhattan. But after Bush the pattern changes somewhat: geographic gains were most noticeable in the counties surrounding Washington DC, and sectoral gains were associated with the growth of government and the national security industry (Padayachee, 2016: 432).

So, where you were born (country, region, city), tends to reinforce the stereotypes associated with colour of your skin, your race and gender, as well as how much you inherited from your parents, among the main factors, in driving and reinforcing inequality. Later on his book, Stilwell, adds factors such as globalisation, financialisation, neo-liberalism, urbanisation and capital-centric technological change, to these factors and which together compound the perversity of inequality. The need therefore for a trans-disciplinary, intersectional and life-cycle analyses to understanding the roots of inequality and in directing policy interventions to address inequality becomes apparent.

Stilwell then examines the three main alternative perspectives for theorising inequality: the conservative view (drawing from neoclassical economics) that markets cause incomes to be determined by differences in (marginal) productivity, a liberal standpoint that market imperfections cause incomes to be distorted and a radical view (drawing from Marxism) that income differences are driven by exploitation and class-based power. He then turns to ask how Piketty's influential study of inequality fits into these perspectives, concluding that it does not neatly fit into any one of them while sharing some features of all. Whatever one thinks of Piketty, he argues, it cannot be denied that his work has ensured that 'ignorance of inequality, its character and its changing dimensions can no longer be an excuse for inaction. (p.113).

Can reducing inequality help to improve national economic performance? Stilwell's answer is 'yes'. In a rejection of the Arthur Okun 'efficiency-equity' trade off, even the IMF (he points out) has joined other scholars in confirming that greater equality can improve economic performance and help to build the ‘good society’. In short, his findings are that ‘greater economic equality would be conducive to societies that are democratic and peaceful, less troubled by social problems and more ecologically sustainable’ (p.157). And as he shows in his Chapter 9, such equalizing can contribute to ‘happier societies’ too.

He then turns to ask what can we do to build more egalitarian societies? He covers the redistributive role of fiscal policy, including tax policy (making an interesting case for treating transfers of inherited wealth as income) and changes in allocations of government expenditure to effect re-distribution. He then explores policies of a ‘pre-distributive’ nature such as a job-guarantee scheme, minimum wages, incomes policy, the value of a basic income, capping executive salaries, and an interesting set of ideas around what may be termed ‘civilizing the modern corporation’. (p.206). Together these two sets of pre-distributive interventions are aimed (simultaneously) to ‘raise the floor’ and to ‘lower the ceiling’ in the income distribution, so narrowing inequalities.

What we are faced with in confronting widening inequality is, he argues, a moral and ethical challenge. Can neoclassical economics (new consensus macroeconomics), still the dominant economic ideology of our times, rise to this challenge?

Towards the end of the book he examines this question by probing the role of the economics profession in respect of four ‘I’s’: ignorance, ideologies, interests and institutions.

> When teaching in schools and universities, *ignorance* is the ostensible target. The curriculum reflects the influence of particular *ideologies* that shape particular ways of seeing the economy. Like any profession, economists’ *interests* are influenced by the broader structures of society in which they operate. The ideas they promulgate permeate *institutions* ranging from governments to corporations, think tanks and the media (p.241).

He then asks whether the economics profession is part of the problem or part of the solution? It’s a hazardous question to answer but he boldly argues that the biases of mainstream neoclassical economics currently impede a serious engagement with confronting inequality. The main characteristics of mainstream, neo-classical economics (or “new consensus macroeconomics”), ‘create an implicit bias in the profession against the analysis and redress of inequality’ (p.242). These include a narrow focus on economic growth as the core of all economic analysis, the emphasis on individual sellers and buyers in markets, and its conception of well-being as being based on individual utility. The mainstream language on inequality is extreme. Robert Wade (2014) reminds us of the views of two well-known mainstream economists:

> Willem Buiter, former professor of European economics at the London School of Economics and currently chief economist, Citigroup, succinctly expressed a common nonchalance: "Poverty bothers me. Inequality does not. I just don't care" (2007). The Nobel Prize economist Robert Lucas was more aggressive: "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, the most poisonous, is to focus on questions of distribution" (2014:2).

There are Stilwell concedes, innovations in mainstream economics, but the core of the discipline (captured in the quotes above) exhibits 'remarkable continuity and there is little interest in the views of political economists who challenge its underlying assumptions' (p.244). Stilwell calls for a critical political economic analysis, instead. Such an approach he argues has an explicit ethical dimension, putting values on the agenda.

In assessing the 'what is to be done' question in respect of inequality, making value judgments are unavoidable (he maintains) as it is not possible to duck a value-free stance. There will be winners and losers when reforms to address inequality are being debated and implemented.

Two recent books confront this issue. British Conservative Party MP Jesse Norman has written a book on Adam Smith which is an important corrective interpretation, as Smith's classic work is widely viewed as a 'hymn to the possibility of universal opulence' (2019: 166). Norman contends that Smith was far from being 'a believer in the importance of great wealth'. In *The Wealth of Nations*, he wrote: 'All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind' (in Norman, 2019: 166). In the *Theory of Moral Sentiments*, Smith 'disparages the human instinct to admire the rich and powerful and despise the poor…" (in Norman, 2019, 166).

Tim Rogan's 2017 book, *The Moral Economists: R.H. Tawney, Karl Polanyi, E.P. Thompson and the Critique of Capitalism*, takes us further into matters of morality in contemporary capitalism, through a review of the works of three scholars who he labels the 'moral economists'.

> For Rogan, the revival in Polanyi's reputation points to a major absence from current debates about austerity: morality. *The Moral Economists* is part historiographical exegesis, part subtle polemic about the limitations of contemporary critiques of

> capitalism. It does not dismiss the arguments of Piketty or other contemporary economists. But, following his subjects' example, Rogan looks to history for help in understanding capitalism, its works and its empty promises. The power of Tawney, Polanyi and Thompson's models of capitalism stemmed from the fact that they were not economists: they studied everything the economists left out". https://www.lrb.co.uk/v40/n19/katrina-navickas/whats-missing.

There are lessons here today for contemporary scholars attempting to understand the crisis in capitalism and the widening inequality that appears to be, like unemployment was to Keynes, the principal cause and feature of the current crisis. For us to succeed in battling these crises of capitalism in today's extraordinary times requires a profoundly new and bolder vision and a path to get there. The road that mainstream economics offers us is not going to get us there: this is one of the main takeaways from Stilwell's powerful account of the political economy of inequality. To even set off on the road to greater equality, fairness and social justice and the 'good society' requires far more innovative thinking and many more doses of morality and ethics than those available to the mainstream economist and his over-used tool kit of neo-liberal prescripts.

I would like to conclude with a quote from a 1920 essay by one of Tim Rogan's central characters, the great British moral economist Richard H Tawney[2]:

> There are times which are not ordinary, and in such times it is not enough to follow the road. It is necessary to know where it leads, and if it leads nowhere, to follow another... the practical thing for a traveller who is uncertain of his path is not to proceed with the utmost rapidity in the wrong direction: it is to consider how to find the right one.... (1920: 89).

[2] *With thanks to my Wits colleague and comrade Robbie van Niekerk for alerting me to this Tawney quote.*

About the reviewer

Dr. Vishnu Padayachee is Distinguished Professor and Derek Schrier and Cecily Cameron Chair in Development Economics, School of Economics and Finance, University of the Witwatersrand, Johannesburg, South Africa.

Acknowledgements

I would like to thank Eddie Webster, my colleague at the Wits Southern Centre for Inequality Studies for his comments on an earlier draft of this paper. I also would like to thank Franklin Obeng-Odoom for his on-going support of my research on inequality and monetary policy over many years.

References

Bound, John and George Johnson (1995). What are the Causes of Rising Wage Inequality in the United States? Federal Reserve Bank of New York. *Economic Policy Review*, January, pp 9-17.

Boushey, Heather, DeLong J Bradford, and Steinbaum M. (2017). *After Piketty, the Agenda for Economics and Inequality*. Cambridge, Mass: Harvard University Press.

Galbraith, James. (2012). *Inequality and instability: a study of the world economy just before the great crisis.* Oxford University Press: New York.

Goda, Thomas (2013). The Role of Income Inequality in Crisis Theories and in the Sub-prime Crisis. Post Keynesian Economics Study Group, Working Paper # 1305. https://www.postkeynesian.net/downloads/working-papers/PKWP1305.pdf.

Hein, Eckhard (2016). Post-Keynesian Macroeconomics since the Mid-1990s: Main Developments. Working Paper 75/2016. Institute for International Political Economy, Berlin.

Kuznets, Simon (1955). Economic Growth and Income Inequality. *American Economic Review*, Vol 45, No 1, pp. 1-28.

Lysandrou, Photis (2019). Global inequality and the global financial crisis: the new transmission mechanism, in *The Handbook of Globalisation.* Jonathan Michie, (ed.). Cheltenham, UK: Edward Elgar Publishing.

Norman, Jesse (2019). *Adam Smith, what he thought and why it matters.* London: Penguin Books.

Obeng-Odoom F, (2015). 'Africa on the rise, but to where?' *Forum for Social Economics*, vol. 44, no. 3, pp. 234-250.

Padayachee, Vishnu (2017). Inequality, macroeconomics and financial instability - a South African perspective. *International Review of Applied Economics*, Vol 31 No 3, pp.429-436.

Piketty, Thomas (2014). *Capital in the Twenty-first Century*, trans., Arthur Goldhammer. Cambridge, Mass: Belknap Press for Harvard University Press.

Pressman, Steven (2015). *Understanding Piketty's Capital in the Twenty-first Century.* London: Routledge.

Rogan, Tim (2017). *The Moral Economists: R. H. Tawney, Karl Polanyi, E. P. Thompson, and the Critique of Capitalism*. Princeton: Princeton University Press.

Tawney, Richard H. (1920). The sickness of an acquisitive society. In *British Socialism*, Anthony Wright (ed). London: Longman.

Wade, Robert H. (2014). The Piketty phenomenon and the future of inequality *Real-world Economics Review*, issue no. 69, pp.2-17.