GLOBAL INEQUALITIES & POLARIZATION

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EDITORIAL INTRODUCTION

*M. Mustafa Erdoğdu, Humberto Merritt, Armida Concepción García*

Inequalities are pervasive in social life and seem to be the main reasons for polarization. As Østby (2008, p. 143) points out, “[r]obust results from panel and cross-section analyses show that social polarization and horizontal social inequality are positively related to conflict outbreak”. Understanding their dynamics is therefore a central task for the social sciences.

Inequality and polarization are at the heart of the most pressing concerns in contemporary economics and politics. Inequality in particular is an issue today that political parties in all parts of the ideological spectrum cannot dismiss. This is partly due to the work of authors such as Anthony Atkinson, Branko Milanovic, Thomas Piketty, and Joseph E. Stiglitz. The books written by these authors have re-drawn attention to issues of economic distribution and fueled a public movement that has put pressure on governments to tackle inequality.

According to the *Kuznets Curve* suggested by Simon Kuznets in the 1950s, market forces first increase as the economy develops and then reduce economic inequality. This hypothesis has clearly become invalid in the industrialized world in the last few decades. Statistically sound studies on measuring income distribution show that in almost all countries the gap between the income of rich and poor people has widened over the past four decades. Therefore, the trend of inequality is observable both in developed and in developing economies. As Dobreva (2019, p. 8) points out, “even though factors that impede economic development are more attributable to developing economies, their overreaching effect is affecting developed economies as well and creates general burdens to the global economic development”.
As the graph above shows, income inequality substantially increased from an all-time low around 1980, reflecting a strong rise in top incomes and income from capital. In 2016, the share of the top 10 earners (top 10% income share) in total income was 37% in Europe, 41% in China, 46% in Russia, 47% in the US and Canada, and around 55% in sub-Saharan Africa, Brazil, and India. In the Middle East, the top 10% captured 61% of national income (Alvaredo et al., 2008, p. 9).

The poorest half of the world’s population saw significant income growth thanks to high growth in Asia (especially China and India). However, due to high and growing inequality within countries, the top 1% richest individuals in the world captured twice as much growth as the bottom 50% individuals since 1980 (Alvaredo et al., 2008, p. 11). According to Oxfam, the number of billionaires required to match the affluence of the world’s poorest 50 percent dropped from 380 to 26 between 2009 and 2018.
The global middle class (which comprises all of the poorest 90% income groups in the EU and the US), on the other hand, has been squeezed. As a result, living conditions are very different between different places in the world. According to Credit Suisse’s 2019 report on global wealth, the richest 1% own 45% of the world’s wealth and the bottom 50% own less than 1%. The result is that some people can live healthy, prosperous, and happy lives while others continue to live in ill-health, poverty, and sorrow.

Since 1980, there have been very large transfers of public to private wealth in almost every country, rich or emerging. While national wealth has increased significantly, public wealth in rich countries is now negative or near zero. This arguably limits the ability of governments to tackle inequality. This certainly has important implications for the inequality of wealth between individuals (Alvaredo et al., 2008, p. 14). Also, governments are not the only key sources of development policies, particularly those related to eradication of inequality. Economic development and the increase of national and individual wealth are governed by processes, related to the establishment of deeply embedded relations between institutions, business units and society (Dobreva, 2018, p. 119).

Extremely wealthy people often have their wealth amassed on the backs of people around the world who work for poor wages and in dangerous conditions. Women are rare at the top and overrepresented at the bottom. Gender discrimination in the workplace is a major contributor to these persistent economic disparities. There are also large differences in wealth across racial groups. Persistent racial discrimination in many forms, including education, recruitment, and pay, contributes to persistent income inequalities. Inequalities have dramatically increased the economic and political power of those people at the top.

What is happening is an obvious reason why laissez-faire or market fundamentalist neoliberalism cannot rely on economic equality. According to Galbraith (2019, March), the rise in global inequality from 1980 to 2000 was the by-product of a reactionary global financial regime, largely controlled by Washington, New York, and London. Branko Milanovic (2016) links the rise in income inequality in industrialized countries over the past few decades to several factors that are not mutually exclusive:

• Transfer of the workforce from the industry to services, where it is more difficult for employees to organize,
Automatization of routine jobs facilitated by the lower cost of robots, itself linked to globalization,

Creation of monopoly rents in sectors such as telecommunications,

Downward pressure on wages for the least skilled with the surge in labor supply in the context of globalization,

Lower marginal tax rates for high incomes and lower capital taxes.

Joseph Stiglitz (2013) identified three major causes of our predicament: that markets do not work as they should (neither efficiently nor stable); how political systems cannot correct the shortcomings of the market; and how our current economic and political systems are fundamentally unfair. He mainly focuses on the gross inequality these systems lead to, but also explains how inseparable they are.

A comprehensive reevaluation of the Schumpeterian legacy by Antonelli and Gehringer (2017, February) shows that technological change affects income inequality, not only by reducing wage differentials but also by reducing rent inequality, a key component of income inequality. Slow technological changes help consolidate barriers to market entry and restrict the functioning of price competition. The transfer of the increase in efficiency to the end-user is significantly delayed. Property owners can benefit from permanent monopoly rents at high levels. On the other hand, when the pace of technological change is fast and innovations sparked by market rivalries between competitors, successive waves of creative destruction lower the barriers to entry and shorten the duration of temporary monopoly rents. The Schumpeterian creative destruction shows its effects all the more in countries where the distribution of income is more focused on the rich, as it primarily affects the wealth of the established businesses and consequently mainly lowers top incomes based on rent.

What is clear is that the growing pervasiveness of inequality in the twenty-first century requires a sustained attack on many fronts. As Atkinson (2018) reminds us, “inequality is not unavoidable, a fact of life like the weather, but the product of conscious human behavior.” The following chapters engage with inequalities and polarization to find out ways to reduce inequalities and polarization.

In the first chapter entitled ‘The Challenges of Global Inequalities: The Case of Europe’ Julia Dobreva discusses through literature review the current global challenges facing inequalities in different parts of the world, with a particular emphasis
on Europe. She provides an overview of the current definitions of inequalities, as well as the major problems being faced in modern economies in terms of poverty rates, distribution of income and distribution of wealth. Specific literature overview is done on inequalities both for developing and developed countries to illustrate the main arguments and to emphasise that the global challenge of inequality is that it is not localised only in developing regions but is also problematic in well developed countries.

In the second chapter entitled ‘The Political Economy of Financialisation’ Peter Willans discusses how financialisation in contemporary terms describes the nature and dynamics of capitalism. The author contends that the current era of financialisation predicate new spheres of inequality and distort economies, whilst rewarding elite market players. In this regard, the author aims to answer the following questions: Who is accountable for the public exposure to ungovernable financialisation? Is financialisation a viable long-term economic transformation? Is financialisation a systemic risk to civil society? The author concludes that financialisation has come to epitomize an increasing role of financial motives and markets, actors, and institutions in international economies because it has dominated the capacity and development of nation states.

In the third chapter entitled ‘Global Intellectual Property and the Uneven Distribution of Knowledge’ Humberto Merritt postulates that the uneven possession of technical knowledge is emerging as a defining trait of the global inequality that will characterize the second decade of the 21st century. This uneven world distribution of knowledge has emerged from the execution of sophisticated and expensive research and development (R&D) activity, which favors multinational firms from industrialized nations thanks to their substantial financial resources. According to the author, industrial intellectual property rights (IPR) has become a cornerstone of the competitive strategies of large companies in their pursuit of increasing profits and market share since the mid-1980s and needs to be changed with fairer rules that protect less developed countries.

In the fourth chapter entitled ‘Understanding and Framing Big Data from Political Economy Perspective’ Reşide Adal Dündar focuses on Big data which is considered the most valuable resource of our age. Dündar places Big Data in an exploratory and descriptive framework within the political economy by being overseen in its relation with the many subsystems of society, science, and methodology. She tries
to find answers to the following questions: “what is big data, what is new and distinctive regarding big data” and “what kind of social, economic, and political relations does it correspond to”, “how is it deployed in several spheres of economy and politics”, and “who owns it”. As a comment, the author suggests that big data will be the new Colosseum for neoliberal individualism’s unresolved dichotomies.

In the fifth chapter entitled ‘An Interdisciplinary Approach to the Analysis of IMF Lending: A New Research Agenda’ Merih Angin argues that the conditions shaping the International Monetary Fund (IMF) lending process are still not fully understood, so she develops a comprehensive model that can take into account all actors having an impact on IMF program design. Through her framework, the author aims at providing an extensible tool for international political economy researchers to model the program design and implementation process with high predictive power of the outcomes. Angin concludes that interdisciplinary research requires collaboration between political science, international relations, economics and computer science disciplines, with her contribution focused on introducing the applications of machine learning and natural language processing to the study of international organizations.

In the sixth chapter entitled “European Stability Mechanism as a Strategy for Fueling Competitiveness: Economic Restructuring in Bailout Countries” Özgün Sarimehmet Duman explores strategies of the European Stability Mechanism (ESM) as a possibility of consolidating policies based on competition throughout the euro zone, within the framework of its economic recovery. Duman scrutinises key economic indicators of competitiveness (labour cost, labour productivity, part-time and temporary employment, and social protection and health care expenditure) in bailout economies of Ireland, Greece, Cyprus and Portugal that received loans within a macroeconomic adjustment programme. Through an accurate review of the literature, the author argues that adjustment programs and their conditionalities have led to an economic restructuring that can increase their competitiveness.

In the seventh chapter entitled ‘Transformation of the distribution and marketing networks of the Mexican textile industry: The Texti-Cuitzeo bazaar’ Armida Concepción García and Guadalupe Margarita González Hernández analyse how Mexico has benefited from significant economic growth thanks to the development of the maquiladora textile industry. The authors claim that the impact of the global transformation in the textile industry’s productive processes and inequality generation can be explored through the distribution and commercialization channels.
The authors focused on the Texticuitzéo market as an empirical case. The constant presence of criminal structures in the zone is one of the factors why it is a closed social and economic space. Nonetheless, this commercial development has perfected a special distribution and commercialization circuit.

In the eight and final chapter entitled ‘To look at the economic one with theater: Give some light to the stage!’ Pelin Vildan Kokcu Delikaya gives us a critical reading of the capitalist system through the book “The Curse of the Starving Class” by Sam Shepard. The aim of the study is to reveal the role of overcoming the traces of the crisis tendency innating the capitalist system on society by tools that were determined and enforced by the hegemonic powers and to work on them through the play. This is a new look at economics through the theater that results in a novel sociological reflection. The author comments that there could be a relationship between theatre and capitalism.

We believe these chapters will generate ideas for future research efforts as well as for the development of policies that will help to reduce inequalities and improve a shared realm.

References


EDITORIAL INTRODUCTION
M. Mustafa Erdogdu, Humberto Merritt, Armida Concepcion Garcia


1

THE CHALLENGES OF GLOBAL INEQUALITIES: THE CASE OF EUROPE

Julia Dobreva1

Abstract

Economies today are facing numerous challenges of the modern world, most of them with no direct economic nature like climate change, global terrorism, refugees, contagious diseases, food and air quality, waste accumulation, etc. Yet, non-economic aspects are tightly linked with economic ones and they both have their respective share in the development processes in the 21 century. This paper discusses through literature review the current global challenges facing inequalities in different parts of the world, with a particular emphasis on Europe. It provides an overview of the current definitions of inequalities, as well as the major problems being faced in modern economies in terms of poverty rates, distribution of income and distribution of wealth. Specific literature overview is done on inequalities both for developing and developed countries to illustrate the main points. Furthermore, current trends in European inequality are also subject to this overview.

1. Introduction

Economic conditions today are subject to various challenges of both economic and non-economic nature like climate change, terrorism, contagious diseases etc. The conditions of living are unequal in many parts of the world, and this inequality is partly subject to differences in the economic environment but also to other factors, not directly related to the status of the economy. In fact, today’s

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global inequality is the consequence of two centuries of unequal progress. Some countries have improved substantially, while others have not experienced significant changes in the last decades.

The category of inequality is also quite broad. While for some people inequality is related to the outcome of one’s life and the general status of living conditions, for others it is mainly related to the number of opportunities to make certain achievements in life. Political scientists emphasise that the inequality of political power, social inequality, and prestige and status is the domain of sociologists. Economists typically limit their analysis to the inequality of income or wealth or consumption. Whatever the dimensions of inequality considered, many analysts would think it important to distinguish between inequality of opportunity (i.e., inequality in the sets of potential choices open to individuals) and inequality of result (i.e., inequality in the specific outcomes actually observed) (Osberg, 2001). Furthermore, inequality is pervasive in the social life, and understanding it is a central task for the social sciences. Jasso (2015) provides an overview of inequality analysis, discussing the framework with its questions and building blocks and surveying the twin branches of theoretical inequality analysis and empirical inequality analysis, the latter only briefly given that dozens of other articles discuss empirical studies of inequality (2015).

Globally inequality has fallen sharply since the beginning of the 1990s. However, many authors claim that inequality has grown in otherwise developed economies and in those with accelerated development. For example, Mendes (2015) observes that Brazil remains one of the most unequal countries in the world. The reduction in inequality is not only due to government redistributive policies. It is also due to the emergence of favourable conditions in the labor market. Moreover this reduction does not mean that the government redistribution policy is efficient. Actually, there are many Federal Government programs which have a regressive effect. The trend of inequality reduction is decelerating during the second decade of the 21st century. The expansion of the middle class creates conditions for this group to demand better public services and greater economic growth (2015).

Furthermore, it is essential to also understand how inequality is measured. Osberg (2001) observes that the most common measure of economic resources
used in analysis of economic inequality is annual money income, which includes cash earnings, rental interest and dividend income, and cash transfers from government. Money income can be calculated before or after tax, and in countries with progressive income tax systems the choice makes a significant difference to measured inequality. However, in a complex modern economy, it is also common to find complex cases in which the calculation of annual money income is not straightforward. For example, the cash flow of self-employed individuals or entrepreneurs typically has to be adjusted to reflect the depreciation of the capital they use in production. Also, a full definition of ‘income’ would include the value of non-marketed goods and services received, as well as money income. In countries in which much of the population is agricultural, the value of food produced and consumed within the household may be a large fraction of total income. Individuals also receive a benefit from leisure time enjoyed, the goods and services which are produced in the household, and the services of owner occupied houses. They may also benefit from services (like medical care or education) provided by government agencies. Hence, the value of these benefits should be added to cash income. In addition, individuals who live in larger households benefit from a greater ability to share resources (e.g., due to household ‘economies of scale,’ a couple with a household income of $40,000 is better off than two individuals who each have $20,000 and must live separately). If the objective is to measure inequality in economic well-being, some account should be taken of living arrangements. Economists have therefore argued that ‘equivalent income,’ which adjusts income for household size, is the best measure to use in the analysis of inequality in economic well-being.

In this paper we discuss the current definitions and trends, as well as the challenges of inequalities in modern economies, particularly in Europe on a regional level. The analysis provides, through literature review, an overview of the current trends in inequalities and the major problems being faced in modern economies in terms of poverty rates, distribution of income and distribution of wealth. It is important to distinguish that inequalities are related to poverty but do not entirely coincide with it, therefore the issue here is discussed in terms of specific elements observed both in developing and developed countries. This review is done in order to illustrate the main arguments and to emphasise that the global challenge of inequality is that it is not localised only in developing regions but is
also problematic in well developed countries. In addition, the paper reviews suggestions for certain implications on economic inequalities between countries as there is no unique approach to solving the problem.

2. Definitions of inequality

There are a number of definitions of inequality, depending on the particular aspects and their economic and social nature. According to the general definition of the UN (2015):

*Inequality—the state of not being equal, especially in status, rights, and opportunities—is a concept very much at the heart of social justice theories. However, it is prone to confusion in public debate as it tends to mean different things to different people. Many authors distinguish “economic inequality”, mostly meaning “income inequality”, “monetary inequality” or, more broadly, inequality in “living conditions”. Others further distinguish a rights-based, legalistic approach to inequality—inequality of rights and associated obligations (e.g. when people are not equal before the law, or when people have unequal political power).*

**Economic inequality**

Also according to the UN analysis above, there are two main views on economic inequality:

*One is chiefly concerned with the inequality of outcomes in the material dimensions of well-being and that may be the result of circumstances beyond one’s control (ethnicity, family background, gender, and so on) as well as talent and effort. This view takes an ex-post or achievement-oriented perspective. The second view is concerned with the inequality of opportunities, that is, it focuses only on the circumstances beyond one’s control, that affect one’s potential outcomes. This is an ex-ante or potential achievement perspective.*

**Inequality of outcome**

*Inequality of outcome occurs when individuals do not possess the same level of material wealth or overall living economic conditions. Development theory has largely been concerned with inequalities in standards of living, such as inequalities in income/wealth,
education, health, and nutrition. However, the lens through which economists gauge progress in these fronts has typically been income or consumption.

**Inequality of opportunity**

Equality of opportunity exists when life outcomes depend only on factors for which persons can be considered responsible, and not on disadvantageous attributes outside of their control. It argues that gender, ethnicity, family background, etc. should not determine outcomes. In practical terms, it exists when individuals are compensated in some way for their disadvantageous circumstances.

Equality of outcome describes a state in which people have similar economic conditions. While inequality in terms of opportunity is defined on an ex-ante basis and is concerned with ensuring a common starting place, inequality of outcomes is concerned with the finish line and depends on both circumstances beyond one’s control as well as talent and effort.

Furthermore, there should be a strict differentiation between poverty and inequality - the identification of a certain tendency in one does not necessarily presuppose the same development in the other. As McKay (2002) states inequality is different from poverty but related to it. Inequality concerns variations in living standards across a whole population. By contrast poverty focuses only on those whose standard of living falls below an appropriate threshold level (such as a poverty line). This threshold may be set in absolute terms (based on an externally determined norm, such as calorie requirements) or in relative terms (for example a fraction of the overall average standard of living). Also, relative poverty is more closely related to inequality in that what it means to be poor reflects prevailing living conditions in the whole population. But the degree of inequality will have implications for both conceptions of poverty. He makes some very important statements on the importance of inequality (Ibid.):

I. **Inequality matters for poverty.** For a given level of average income, education, land ownership etc., increased inequality of these characteristics will almost always imply higher levels of both absolute and relative deprivation in these dimensions.

II. **Inequality matters for growth.** As acknowledged in the 2000 White Paper, there is increasing evidence that countries with high levels of inequality
– especially of assets – achieve lower economic growth rates on average. In addition, a given rate and pattern of growth of household incomes will have a larger poverty reduction impact when these incomes are more equally distributed.

III. Inequality matters in its own right. There is a strong, and quite widely accepted, ethical basis for being concerned that there is a reasonable degree of equality between individuals, though disagreement about the question ‘equality of what?’, as well as about what might be ‘reasonable’.

IV. Inequality is often a significant factor behind crime, social unrest or violent conflict. These are often important contributors to poverty in their own right. Inequalities between clearly defined groups, for example according to ethnicity, may be an important issue.

V. Inequality is likely to be critically important for the attainment of the Millennium Development Goals (MDG). This is not confined only to the income poverty goal, but it also matters for country strategies and other policies on national and international level.

3. Inequality in developing and in developed economies

A report, published by the UNDP (2015) makes a basic point that in spite of the impressive progress humanity has made on many fronts over the last decades, it still remains deeply divided. The key messages delivered in the analysis include:

- On average income inequality increased by 11 percent in developing countries between 1990 and 2010.
- A significant majority of households in developing countries—more than 75 percent of the population—are living today in societies where income is more unequally distributed than it was in the 1990s.
- Evidence shows that, beyond a certain threshold, inequality harms growth and poverty reduction, the quality of relations in the public and political spheres of life and individuals’ sense of fulfilment and self-worth.
• There is nothing inevitable about growing income inequality; several countries managed to contain or reduce income inequality while achieving strong growth performance.

• Evidence shows that greater income inequality between households is systematically associated with greater inequality in non-income outcomes.

• Inequality cannot be effectively confronted unless the inextricable links between inequality of outcomes and inequality of opportunities are taken into account.

• In a global survey conducted in preparation for this report, policy makers from around the world acknowledged that inequality in their countries is generally high and potentially a threat to long-term social and economic development.

• Redistribution remains very important to inequality reduction; however, a shift is needed towards more inclusive growth patterns in order to sustainably reduce inequality.

• Reducing inequality requires addressing inequality-reproducing cultural norms and strengthening the political agency of disadvantaged groups.

• Evidence from developing countries shows that children in the lowest wealth quintile are still up to three times more likely to die before their fifth birthday than children in the richest quintiles.

• Social protection has been significantly extended globally, yet persons with disabilities are up to five times more likely than average to incur catastrophic health expenditures.

• Despite overall declines in maternal mortality in the majority of developing countries, women in rural areas are still up to three times more likely to die while giving birth than women living in urban centres.

Inequality is mainly discussed in light of the major trends in developing countries. Yet, recent analyses show that economic changes of the past 30–40 years have caused income and wealth inequalities in developed countries. Galvin (2015) explains how income and wealth inequality interplay and the different ways these are measured. Drawing on large datasets from academic, government and think-tank sources he outlines the dimensions of economic change in these countries,
from being the most egalitarian high-income societies in history, to having high and persistently increasing extremes of wealth and poverty. Galvin also explores the reasons for both the late 20th century’s unprecedented egalitarianism and the more recent shift to inequality. These include a series of major, globally disruptive events, together with changes in the degree of dominance of two opposing economic ideologies: the Keynesianism that prevailed in the egalitarian period, and the classical free-market (neo-) liberalism that prevails today. Furthermore he argues there are no fixed laws of nature governing how societies develop economically, but that people are ultimately in charge and have the potential to change things for the common good (Ibid.).

Monnin (2014) on the other hand explores the empirical link between income inequality and inflation in ten OECD countries over the period 1971 to 2010. In addition to inflation, he includes six control variables in his analysis: economic development level, business cycles, unemployment, unionization, openness to international trade and skill-biased technological change. He estimates the empirical link between all seven variables and income inequality with a balanced panel and finds a U-shaped link between long-run inflation and income inequality. The results of the analysis highlight that low inflation rates are associated with higher income inequality. As inflation goes up, inequality decreases, reaches a minimum with an inflation rate of about 13%, and then starts rising again. The precise mechanisms that lead more inflation to correlate with a decrease in income inequality until a certain threshold however are unclear yet and this is a field that requires further research.

4. Inequalities in Europe

Inequalities have increased a lot in Eastern Europe since 1980. A detailed research done by Blanchet, Chancel, and Gethin in 2019, covering the period 1980 - 2017, estimates that Eastern Europe used to be the least unequal region of the continent but as a result of the transition from communism to capitalism in the 1990s caught up with Western and Southern Europe and reached large increases in income concentration (Blanchet et al., 2019). According to the authors pre-tax income inequality levels – and ‘predistribution’ policies – remain the main determinant of post-tax inequality among EU countries, but redistribution does play an important role. Figure 1 compares the ratio of the top 10% average income
to the average income of the bottom 50% before and after accounting for taxes and transfers in 2017. In Eastern Europe, fiscal regimes reduce this gap by 15% on average. This is significantly lower than in Southern Europe and Northern Europe, and nearly twice as lower as in Western Europe, where redistribution decreases inequalities by 29%.

Figure 1 Pre-tax versus post-tax income inequality in Europe, 2017

Source: Blanchet et al. (2019). In 2017, the top 10% earn on average 7.2-times more than the bottom 50% before taxes and transfers, and 5.1-times more after the operation of the taxes and transfers system. See www.wid.world/europe2019 for data series and technical details.

The analysis concludes that European inequalities are due to inequalities within countries. The methods used combine reconciling surveys and tax data with national accounts thus allowing to go beyond nations and aggregate inequality statistics at the level of Europe. The conclusion reached is that rising inequalities in Europe have been mainly driven by dynamics visible at the very top of the income distribution. In the past four decades, the poorest 80% Europeans’ average incomes grew by about 20% to 50%. As soon as one looks at richer income groups, however, growth rates are markedly higher, exceeding 100% for the top 1% and culminating at 200% for the top 0.001% of European citizens. Between 1980 and 2017, the top 1% alone captured 17% of European-wide growth, compared to 15% for the bottom 50%.
Another important conclusion is that the level and evolution of income inequality in Europe are due to what occurs within countries rather than to differences in average standards of living or macroeconomic growth rates across countries. This becomes clear when comparing actual inequality levels to two counterfactual scenarios: one in which European countries would perfectly converge in their average national incomes (isolating inequalities within countries), and one in which European citizens would all earn the average income of their country of residence (isolating inequalities between countries). Results from this simple decomposition point to the primary importance of the former component: the share of total income received by top 10% earners in Europe as a whole would only decrease from 33% to 30% in case of perfect macroeconomic convergence, while it would boil down to 15% if there were no inequalities within countries. It is estimated accordingly that over 75% of European inequalities are accounted for by the within-group component.

Europe however remains more successful than the US in lowering inequalities because while inequalities have increased in Europe, the old continent remains substantially less unequal than the US (Figure 2 a and b). In the US, top-1% earners used to capture 10% of pre-tax national income in 1980 and receive 20% today. In Europe as a whole, the top-1% share only grew from 7.5% to 11%. These results have had very tangible effects on the purchasing powers of low-income citizens: bottom-50% earners saw their average pre-tax income increase by 40% in Europe but only 3% in the US. Also, it is estimated that the poorest half of the population earns an average annual income of €17,100 in Western Europe, compared to €13,000 in the US.
Figure 2. Income inequality in Europe and in the US, 1980-2017

a) United States

Source: Blanchet et al. (2019). Between 1980 and 2017, the top 1% pre-tax income share in the US rose from 10.7% to 20.2%. In Europe, this share rose from 7.8% to 11.1% over the same period. See www.wid.world/europe2019 for data series and technical details.

b) Europe
The conclusion from this analysis point towards the fact that despite rising income disparities since the 1980 due to fast-growing incomes at the top, Europe remains the least unequal region of the world. This is mainly thanks to a more equal distribution of income before taxes and transfers. The European social models characterised by relatively equal access to public education, healthcare and fair jobs, have proven to be more successful than the US in addressing the challenges posed by technological change and trade globalisation, which are now known to affect low-skilled workers.

Yet, the identified rise in top income inequality in Europe still suggests that there is more improvement to be expected. Considering the increasing tax competition, a majority of European countries have engaged in the process of decreasing corporate tax rates, reducing top marginal income tax rates, and partly compensating budget losses by relying on indirect taxation. It is observed that these dynamics can have important consequences on both pre- and post-tax distributions and limit the ability of European countries to finance their social models in an equitable way.

According to a survey done by the European Investment Bank (Bubbico & Freytag, 2018), net inequality has actually decreased in Europe in the long run. The survey refers to a research by Darvas and Wolff (2016) who show that the Gini index of market income inequality (income before taxes and transfers) has been increasing since the early 1990s from around 0.45 to above 0.50, with little variation since 2000. They point out that the market income Gini has been larger in Europe than in the US since the early 1990s. However, in Europe, the tax and welfare systems have been tweaked in effective ways, increasing their redistribution capacity over time, reducing net inequality and achieving an increasing gap with market income Gini. Instead, the trend of net Gini has broadly followed the one of market Gini, showing a limited impact of welfare and fiscal measures in contrasting diverging market dynamics. The decline of inequality in Europe in the long run has been due to convergence of average incomes across the Member States, with a significant increase of disposable income in poorer countries vis-à-vis more developed European countries. The majority of total EU inequality is essentially due to the intra-country and intra-regional component, rather than cross-country.
Another interesting point is that the financial crisis in 2007-2009 put the convergence process at a halt, but this is mainly due to cross-country dynamics. The weak economic performance of the EU countries over the last decade had a significant impact on economic conditions of individuals. It affected their employment conditions, income levels and social protection benefits.

In addition, the asymmetric growth trends of European economies during the crisis have also suggested that the European convergence mechanism does not work and while the least developed countries in Europe have kept on converging, the decline of disposable income in southern EU countries relative to the rest of the EU has put this process at a halt. The result of these contrasting trends is that overall inequality has not increased significantly (Darvas, 2016). Market inequality in the EU, measured by the market Gini coefficient before taxes and social transfers has increased only marginally from 2007 to 2015. Instead, the net Gini coefficient is basically the same as 2007 and this is consistent with the tendency observed in poverty indicators. The at-risk-of-poverty rate before social transfers has increased, but marginally, as well as the rate after social transfers and the rate for those working. Instead, the severe material deprivation rate decreased, after reaching a peak in 2012 at 9.8%.

On the other hand, China and India have made a significant impact on inequality. It is interesting that following the booming of China’s and India’s economies global inequality decreased, but incomes did not increase on an equal footing. Relative global inequality declined steadily over the last 45 years, with the Gini index declining from 0.74 in 1975 to 0.63 in 2010 (Niño-Zarazúa et al. 2016). This change was caused mainly by declining inequality between countries, arising from the extraordinary economic progress observed in China and India. This improvement was registered despite an increasing trend of inequality within these countries. The members of the ‘global’ middle class, mainly living in China and other rapidly developing economies, doubled their real income, while middle-class of developed countries faced a stagnation of their real incomes. Hence, this reflects increased inequality within developed countries, since the top percentile, composed mainly by developed country’s higher income earners, witnessed a much higher growth of real income than the middle class.

In addition, over the last decade in Europe those in the lowest income deciles have lost some share of total income. Looking at the distribution of income in
the period 2005-2015, the picture has changed only slightly with the lower de-
ciles of the income distribution are the ones that have lost the largest share of to-
tal equivalised disposable income. Also, the mid-range of the total income distri-
bution has seen no change in their share of total income, while the 8th and 9th
deciles are the ones witnessing the highest increase. The highest income decile
has seen a limited reduction of its share of total income.

It is also important to note that although net inequality has not increased, there
are several on-going factors that need to be considered as drivers of increasing mar-
ket inequalities in Europe and in other advanced economies. On the first place,
aggregate demand and the labour market have important influence. With low la-
bour-force participation rates, persistently high unemployment, fading of social
protection and stagnating productivity all lead to lower incomes over the entire
life-cycle of individuals, with poor households being more affected.

Secondly, the impact of skill-bias in income is increasing. Low (in some countries
negligible) salary increases for low-skilled and part-time workers and large income
increases for high-skill occupations. Thirdly, an additional driver is the near-zero
interest rate environment, with low returns on capital income. Demographic pres-
ture and rapid ageing play a key role, both for the sustainability of welfare systems
and for the evolving composition of households (lower average number of mem-
bers, higher housing costs, lower intra-family welfare), making them potentially
more prone to poverty. Milanovic (2016) identifies several other factors that are
likely to push market inequality up in the US and in other developed countries:

1. capital income is highly concentrated (Gini of 90 in developed countries) and
   is combined with high labour income of the same individuals;
2. homogamy has also a role as more educated and richer people tend to marry
each other;
3. better access to political decisions for high-income earners.

5. Conclusion

The issue of inequality in the modern world is deeply related to poverty but does
not entirely coincide with it. Therefore it should be subject to research in both
developed and developing economies.
This paper discusses the main challenges of inequality in modern days. It makes a review of existing literature and research on inequalities in terms of definitions and field applications. Then, the analysis reviews the aspects of inequality in developed and in developing economies, as well as some general trends in EU countries, considering the effects of the economic crisis in 2007-2009 and the economic development of China and India. A particular emphasis was made on the major traits and also on the issue of inequality measurement. Thus the major challenge of global inequality is that it is not localized only in areas with developing economic structure but is also a characteristic of developed economies. In addition, there is no uniform way to battle inequality, it has to be individually solved as a problem according to the country’s specific features.

Some of the most important conclusions, mentioned in the study include:

- Inequalities have increased a lot in Eastern Europe since 1980.
- European inequalities are due to inequalities within countries.
- The level and evolution of income inequality in Europe are due to what occurs within countries rather than to differences in average standards of living or macroeconomic growth rates across countries.
- Europe remains more successful than the US in lowering inequalities.
- Despite rising income disparities since the 1980 due to fast-growing incomes at the top, Europe remains the least unequal region of the world, mainly thanks to a more equal distribution of income before taxes and transfers.

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THE CHALLENGES OF GLOBAL INEQUALITIES: THE CASE OF EUROPE

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Abstract

There has been an increasing rise in financial capitalism, within the operational mechanics of global capital. Over the past four decades, finance has moved from its traditional role, to one that accommodates substantial debt, investment, and private finance. Financialisation in contemporary terms describes the nature and dynamics of capitalism. Markets have become concentrated in terms of corporate financial participation and wealth factors, in a progressive realignment toward market-based imperatives, transcending borders. International currency and speculative trading have redefined contemporary markets. This paper contends that the current era of financialisation has detrimental effects on global and nation state economies and examines detrimental outcomes for global citizens in terms of lost income, and lost prospects, as contemporary regimes of financialisation predicate new spheres of inequality and distort economies, whilst rewarding elite market players.

Key Words: Financialisation, Market Economies, Socialising Credit Risk, Covid-19.

Introduction

Financialisation in contemporary terms describes the nature and dynamics of capitalism. This paper contends that the current era of financialisation has detrimental effects on global and nation state economies. Contemporary financialisation in its current iterations tends to threaten participating, and passive, nation states. Over the past four decades, finance has moved from its traditional role, to one that accommodates substantial debt, investment, and private finance, each transforming to become tradeable commodities.

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Markets have become concentrated in terms of corporate financial participation and wealth factors, in a progressive realignment toward market-based imperatives, transcending borders. There has been an increasing rise in financial capitalism, within the operational mechanics of global capital. International currency and speculative trading have redefined contemporary markets. Market elites remain effectively unchanged by the distortions of the Global Financial Crisis. Corporations now carry more direct debt than any time in history.

This paper examines detrimental outcomes for global citizens in terms of lost income, and lost prospects, as contemporary regimes of financialisation predicate new spheres of inequality and distort economies, whilst rewarding elite market players. Who is accountable for the public exposure to ungovernable financialisation? Is financialisation a viable long-term economic transformation? Is financialisation a systemic risk to civil society?

The methodology of this paper proposes a global view of the rise of financialisation as defined by evolving political, economic, and market circumstances. The purpose of this paper is to examine and address the escalation and prominence of global capital markets. To achieve this goal, it is necessary to address the changing nature of global capital influence on the vulnerability of both global, and Australia's economy.

**Financial and Trade Theories**

Financialisation has been accompanied by economic growth in democracies that have grown prosperous through war, peace, and financial expansion. In the past four decades, nation state economies have expanded, giving rise to a new era of economic liberalisation. Regimes based on neoliberalism have been both strengthened, and, concomitantly, made more vulnerable, by the international nature of borderless finance, encompassing the regime of financialisation.

Against the enormous, and continuous, scientific advances, in the period 1870 to 1970, the growth rate of the present (nearly) fifty years, 1970 to 2020, has been less than half of that enjoyed between 1920 and 1970. Gordon suggests that “some inventions are more important than others, and that the fast growth century after the American Civil War was made possible by a unique clustering of these “Great Innovations”, most of them having a strong effect after 1920 (Gordon, 2016, p. 1).
The immediate past era (1970 to 2020) has become the most unstable, economically, politically, and socially, of any previous era. Following tangible growth, in trade and development, opportunities in global society, and a concomitant enhancement in education, a new deepening challenge has emerged through the agency of unfettered growth in debt ratios, as financial markets have taken over real economies. From 1979 onwards, wages across all Western economies have stagnated, or fallen, whilst inequalities have risen.

Real economies became artificially buoyed by the new regimes of global debt, and stagflation. This issue has existed since the 2008-09 global crisis (Rodrigo Olivares-Caminal, 2019). Prior to the pandemic, March 2020, worldwide debt totalled US$246.5 trillion. The Institute of International Finance (IIF) reported that current debt levels were 331 percent of global gross domestic product and had risen by 20 percent since 2012 (Institute of International Finance, 2020).

As COVID spreads, economists, and regulators, predict that the global economy is cratering into the worst slump in 100 years, suggesting that it is on the same level as the Great Depression of the 1930’s. Unemployment is at record highs in most developed countries.

Against these major negatives, stock markets are booming. Quantitative Easing and record amounts of stimulus money printing have buoyed speculative trading on global stock and financial markets. In 50 days to June 2020, the US Index, which tracks the country’s top 500 stocks, rose 37.7 per cent. The largest 50-day market rally in history.

There are growing indicators that finance is becoming fragile. Nation states are becoming more financially vulnerable, as their dealings with international financiers are challenged, and unhinged. Post COVID 19 the global economy will be more dependent on credit than at any time in modern history. Credit sustains the purchasing power of governments, markets, and consumers. Consequently, corporations now carry more debt and rely on nation state policies of socialising debt. Zombie corporations, whose profits no longer suffice to service debt, figure sizably in contemporary financial markets (Wolff, 2020).
Contemporary Financialisation

Krippner suggested that the new phase of financialisation is defined as “a pattern of accumulation in which profit making occurs increasingly through finance channels rather than through trade and commodity production”. For four decades financial elites have separated themselves and their capital from the real economy. Elites and their capital holdings have grown exponentially, in wealth, and influence. Particularly political influence. The modern era of capitalism and capital markets revolve around neoliberalism, capitalism, and financialisation. The elite .01% of the global finance sector have effectively captured disproportionate financial gains in expanding economies. (Krippner, 2005). Dore had previously exposed this thesis as money becoming commodified, traded in, and of itself, for profit, without reference to the real economy (Dore, 2002).

In the immediate past, prior to COVID, private entities, rich families, banks, insurance, and pension funds, were the majority lenders to corporations, who bought and held corporate bonds. Private lenders now sell their corporate bonds to the US Federal Reserve. Bonds then become packaged loans (Asset Backed Securities) and traded through the Federal Reserve, as specific financial instruments. Recently, the Federal Reserve has undertaken the market purchase of Exchange Traded Funds (ETF), made up predominantly of corporate loans/bonds. The Federal Reserve then makes “credit facilities” available to corporations, tax exempt entities, and municipalities, as the ‘lender of last resort’. As the rapidly growing lender the State becomes more the social basis of credit. The US Federal Reserve has rapidly become the controller of credit in a massively credit dependent world, deeply moved by cyclical instability, a global pandemic, and inherent political instability.

With the onset of COVID, the Chief Investment Officer of United States firm Guggenheim Investments, who has advised the New York Federal Reserve Bank, has suggested that the US Federal Reserve’s actions to the pandemic crisis has …”essentially told the world that there is now a backstop on corporate debt. By directly intervening, (the FED) has established a precedent that will be impossible to reverse…. “We have now socialised credit risk”. And we have forever changed the nature of how our economy functions” (Leonard, 2020.)

Prior to the Global Financial Crisis, Phillips had argued that “financial services, broadly construed, have taken over the dominant economic, cultural and political
role in national economies” (Phillips 2006). This concept has progressively deepened under the regime of financialisation. Defining this disconnect from past roles of international and nation state economies Christopherson, Martin and Pollard (2013, p. 352)suggest:

Whilst this dominance of money and finance in everyday life is but the latest phase in an on-going process that has been unfolding for decades, arguably since the early 20th century, it is a phase that is quantitatively and qualitatively different from what preceded it. Finance has ceased simply to assist the running and operation of the real economy of goods and services, but has come to dominate, even displace the latter. Financial rationales and practices have reshaped performance metrics not just for enterprises across all sectors of the economy, but also throughout the public sector and utilities, including health services and social services, thereby directly affecting the social wellbeing and welfare of households.

Palma argues that financialisation underwrites neoliberal narratives, and discourses, which emphasise individual responsibility, risk-taking and active investment for the benefit of the individual himself/herself within the ‘neutral’ or even ‘natural’ constraints imposed by financial markets and market norms of credit worthiness (Palma, 2009).

Privatisation of government owned utilities, education provision, proliferation of private money lending, and influence of monetary influence in all political systems of government are the new norms of financialisation over decades. Further, Kear suggests:

This way financialisation morphs into a technique of “power” to maintain a particular social order in which the delicate task of balancing competing social claims and distribution of outcomes is offloaded to the “invisible hand” which operates through anonymous blind financial markets (Kear, 2012, p. 4).

Socialised debt has given the strong hand of finance further political power and a high level of influence. This point is perhaps illustrated by Hudson who stated:

Rising mortgage debt has made employees afraid to go on strike or even to complain about working conditions. Employees have become more docile in a world where they are only one paycheck or so away from homelessness, or what threatens
to become almost the same thing, missing a mortgage payment. This is the point at which they find themselves hooked on that dependency (Hudson, 2020, p. 2).

Concomitantly, the predominance of financial systems, and their expansion globally, have influenced all sectors of governance, and placed high levels of risk on global and civil society.

The first changes toward the regime of financialisation were through the medium of financial liberalisation across borders, then domestically, which began in the 1980’s, and by the early 1990’s global liberalisation was largely complete. Padoa-Schioppa’s phrase encapsulated these dramatic changes with the felicitous words ‘liberalisation turned an essentially government-led, into a market-led, financial system’ (Padoa-Schioppa, 1988).

A new regime of global financial liberalisation emerged from financial repression which characterised regimes of economic insecurity and inequality, post 1980. Borio (2018, p. 1) explained:

It gave full play to the self-reinforcing interaction between loosely anchored perceptions of value (wealth) and risk, on the one hand, and funding conditions (“liquidity”), on the other. This amplified and lengthened financial cycles, the most disruptive of which typically take the form of outsize expansions, or contractions in credit and asset prices, most notably property prices, and can spread rapidly across borders through flighty capital flows, often denominated in the world’s dominant economy - the dollar. More than just metaphorically, we shifted from a cash-flow contained (economy) to an asset-backed global economy.

The second critical change was the adoption of global market, credible, anti-inflation monetary policy regimes. Led by US Economist Paul Volker in the 1980’s the extreme, and lingering problems of inflation had wreaked havoc in global economies and eroded societies fabric. The new policy regimes remained unable to challenge global financial imbalances. History indicates that financial imbalances have often built up even in the context of low and stable inflation, sometimes in regimes of falling prices.

During the 1990’s and 2000’s the third phase emerged as the globalisation of the real economies of nation states. This phase manifested through to the 2000’s and included the emergence of China, and emerging market economies, including
India, thus adding approximately 1.6 billion people to the profiles of emerging and developed economies, globally. These emergent events tendentially lifted billions out of poverty and enabled the domestic and financial capacity of new and developing economies, both in production and at state, corporate and personal levels.

Financialisation is the most widely used term by analysts endeavouring to name and understand the contemporary rise of finance and its associated value and roles. Further, the term financialisation had been developed prior to the Global Financial Crisis, and more broadly in contemporary literature, to describe the “increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economies (Polychroniou, 2017).

Epstein argues that financialisation can lead to economic expansion or stagnation depending on relative nation states capacities and other factors. But that financialisation always increases inequality. And it also leads to financial instability at government and personal levels. It can be the reason for crises (Epstein, 2018).

Whilst financialisation has been the vehicle for contemporary political stimulus it has often demonstrated a limited focus for governments assisting growth. Policy underlying financial investment has often promoted subsidies and financial incentives to firms through tax incentives. Governments have seen their roles as “risk absorbers to the private markets, rather than for its citizenry” (Ezell & Atkinson, 2011).

Polychroniou argues that this definition focuses on financialisation as a process and is quite agnostic on the issue of whether it constitutes a new mode of accumulation, or broadly characterises an entirely new phase of capitalism. Further, Polychroniou suggests that this “new phase” of capitalism perhaps signals a decline in the power and influence of the hegemonic countries, and particularly, the United States (Polychroniou, 2017).

 Shortly after the wreckage from the 2007-08 Global Financial Crisis (GFC), US Investment Bank Goldman Sachs’ CEO Lloyd Blankfein suggested that “The people of Goldman Sachs are amongst the most productive in the world”, despite Goldman Sachs being a major contributor to the worst financial and economic crisis since the 1930s, with an aftermath that required United States taxpayers to contribute US$125 billion toward its bailout funds alone. The Federal Reserve
added US$1.4 trillion to its balance sheets. The year after the GFC, 2009, Goldman reported post crisis earnings of US$13.4 billion (Financial Times, 2009).

Financialisation and its Challenges
The Post GFC era became known as “The Age of Finance”. An unprecedented era represented by the supremacy of unbounded financial actors, institutions, and markets. In separation from, and, often in contest with, the function of real economies of nation states. A new age that increasingly polarises actors.

The shifts between democracy and authoritarianism can be explained by the extent to which people feel that their existence is secure. Prominent new finance polarises global and state actors, providing vast wealth for a concentrated minority whilst, concomitantly, creating further entrenched inequality. Unregulated or lightly regulated financial actors are a prime cause of this insecurity.

The rapid nature of expansion of finance has seen nation state and international financial sectors, actors, institutions, and markets, transform all debts and assets into tradable commodities, and concomitantly, a rapid rise in highly sophisticated trading exchanges. These mechanisms are located within the City of London, Wall Street, and depend on the duplicity of tax havens, and special accommodating sectors. There is a political supremacy of financial actors, institutions, markets, and motives. Storm argues that actors in the financial sectors have considerable political influence (Servaas Storm, 2018).

Market actors promote and enable financialisation through concentration modes which include and entrap all classes of citizens. Citizens in most global economies increasingly have their savings invested in mutual funds and stock market firms, whilst loans, mortgages and debts are turned into securities and sold to global financial investors and included the wide web of global speculative finance (Keucheyan, 2018).

Joseph Stiglitz (2019) suggested these formations as economies and democracies of the 1%, for the 1%, by the 1%”. He suggests that the upper 1% controls about 40% of all wealth in the United States. The top 1% accounts for a quarter of all income in America and has witnessed their personal income rise dramatically over the past decade. Contemporary financialisation estimates suggest that the world’s richest 1 percent are on course to control as much as two thirds
of the world’s wealth by 2030 (*The Guardian Business*, 2019). Whilst the bottom 50 percent of US workers have witnessed a continuing decline in the pre-tax income over the past fifty years (Stiglitz, 2019).

Australian workers have not had wage rises for over a decade. Global workers have had no respite from rising consumer, accommodation, health, and transport charges for over a decade. The era of financialisation has only been effective for high end workers in Australia, the United States and Europe. These regime changes are behind high-level inequality, challenges of democracy and political systems globally.

Andriotis, Brown, and Shifflet (2019) suggest that with wages stalled in the United States, the American middle class is falling deeper into debt to maintain a middle class lifestyle, suggesting that cars, college, medical care, and housing commitments have become more expensive whilst wages have been stagnant for two decades. Concurrently, consumer debt has now reached US$4 trillion. The authors suggest that filling the consumer gap is “an explosion of finance into every corner of the consumer economy”. Unsecured personal loans are in resurgence.

Reinforcing the dominant role of financialisation Saith (2011, p. 70) suggests,

The emergent regime of financialisation, morphs into a technique of power, to maintain a particular social order, in which the delicate task of balancing competing social claims, and distributive outcomes, is offloaded to the “invisible hand” which operates through anonymous financial markets.

**The Social Consequences of Contemporary Financial Markets.**

The ongoing social effects of this new, entrenched age of finance, has come to dominate the way elected governments have ceded responsibilities of state interests and citizens, to financial interests. Democratic governments have effectively become servants of finance, enabling new populist regimes, whose power and voice encapsulates the rising tide of secular politics Hudson (2012) argues,

Rising mortgage debt has made employees afraid to go on strike, or even to complain about working conditions. Employees become more docile in a world where they are only one paycheck or so away from homelessness, or, what threatens to become the same thing, missing a mortgage payment. This is the point where they find themselves locked into debt dependency.
True to the nature of contemporary financialisation era is the socio-economic strains that are dislocating societies, creating vast imbalances within societies, including the wider spectrum of social regulation, income and wealth disparities, and the pernicious influence of money on politics. Recent academic papers demonstrate divisions within societies, communities, and the changing nature of politics, as the new regimes of financialisation become standardised by governments in most democracies (Krippner, 2005, 2011).

Within democracies, income and wealth concentration are most evident as financialisation has been concentrated into the hands of the rentier class, realised through increased speculative channels, described as “productive capital accumulation”. Davis and Kim identify this nuance as accumulation in pursuit of ‘financial-capital’ gains through asset/investment speculation, outsourcing and corporate disaggregation (Davis & Kim, 2015). Privatisation of public services and utilities such as power supply, water, education and transport evidence the willingness of the state to abdicate responsibilities to corporate interests.

For Lazonick, this rise in the speculative nature of global economies “took the wind out of the sails of the real economy”, and firms responded by holding back investment, using the profits to pay out dividends to their shareholders and to buy back their own shares to consolidate the firm, or corporation (Lazonick, 2014). This regime of share buy-backs from the marketplace to boost the value of the stock and to improve financial statements, is having an increasing effect through the concentration of wealth for corporations, globally.

The issue of concentration of wealth, as firms buy back shares, took hold after the Global Financial Crisis, and tends to demonstrate free market capital austerity. The flow on from capital market concentrations is further rising inequality because the wealthy own most of the subject assets and anything that makes these assets rise, rapidly makes the rich, richer. (Taylor, Omer, & Rezaei. 2015). Piketty suggests that in the United States this extreme income polarisation has been unseen since World War 2 (Piketty 2017). Another area of immense concern is the speculative activities of global financial systems.

**Understanding Shadow Banking Systems**

The shadow banking system has escaped regulation primarily because unlike traditional banks and credit unions, these institutions do not accept traditional deposits.
Shadow banking describes financialisation in the form of non-bank intermediary’s activity that take place among non-bank financial institutions outside the scope of federal regulators. These include investment banks, mortgage lenders, money market funds, insurance companies, hedge funds, private equity funds and payday lenders, all of which are a significant and growing source of credit in the economy.

Despite the higher level of scrutiny of shadow banking institutions in the wake of the financial crisis, the sector has grown significantly. In May 2017, the Switzerland-based Financial Stability Board released a report detailing the extent of global non-bank financing. Among the findings, the Board suggested that non-bank financial assets had risen to US$100 trillion in 2017, up from $89 trillion in 2014 (Financial Stability Board, 2020).

Most activity centres around the creation of collateralized loans and repurchase agreements used for short-term lending between non-bank institutions and broker-dealers. Non-bank lenders, such as Quicken Loans, account for an increasing share of mortgages in the United States. One of the fastest-growing contemporary segments of the shadow banking industry is peer-to-peer (P2P) lending, with popular lenders such as LendingClub.com and Prosper.com. Despite the evolution of broader, lightly regulated financial sector systems, finance globally have taken advantage of new freedoms on debt and quick profits.

The global shadow banking industry plays a critical role in meeting rising credit demand in the United States, Europe, China, and Asian countries. Although it has been argued that shadow banking’s dis-intermediation can increase economic efficiency, its operation outside of traditional banking regulations has raised concerns over the systemic risk it may pose to the global financial system. Post COVID-19, the system does, systematically, have the capacity to destabilise both financial markets and, more Importantly, civil society.

**Comparing economic effects on global citizens.**

A decade after the Global Financial Crisis (GFC), the United States economy remains significantly smaller than its pre-crisis growth trajectory, and trends. The Federal Reserve Bank of San Francisco (FRBSF) suggested in its FRBSF Economic Letter (August 13, 2018), that the large losses are reflective of reduced productive capacities post GFC. The FRBSF recently suggested that this trend level represents
a life-time present-value income loss of US$70,000 for every American citizen, as indicated in the chart below. (Federal Reserve Bank of San Francisco, 2018).

The era of financialisation has enabled high levels of political indulgence to shape new laws and cultures within the all-pervasive high-level fields of the economy. Four decades of financialisation and reshaping the economy toward sectional wealth by financial elites has diverted talent, policy, and capital away from societal levels and toward an ever-persuasive financial sector, removed in the most fundamental way from broader civil societies.

The Bank for International Settlements (BIS) reported in 2018 that there were US$9.66 trillion on speculative trade contracts on foreign exchange markets, and US$6.4 trillion in Interest rates contracts in the finance sector, compared to US$80 billion in trades for commodities and goods and services. Speculative trading is the raison d’etre to contemporary realms of global finance. But the overarching effect of government non-actions and non-sanctions on speculative trading has
been completely at odds with declining earnings, and expectations in real domestic economies. (Bank for International Settlements, 2018)

Economist Juan Montecino argues the new reign of financialisation tends to distort the wider societal effects applied by markets unilaterally. Montecino suggests that larger financial sectors resonate in sections of the economy “up to a point”. When the financial sector gets too large relative to the size of (nation state) economies, then economic growth begins to decline.

Crucially, Polychroniou and Epstein collaborate on this point and have suggested:

Adding up (all) these factors in the case of the United States that, at the margin, the United States financial sector in its current configuration has had a net negative on the United States economy. We estimate that it has cost the US economy as much as US$22 trillion over a thirty-year period (Polychroniou & Epstein, 2017).

**Questioning the Modus Operandi of Contemporary Financial Sectors.**

Concentrated financial sectors including the City of London, Wall Street, Shanghai, and tax havens straddling borders, have played a sizable role in destabilising global commercial and domestic markets, and as such have been subjected to political pressures. Speculative capital markets are enabled by strong political protection and encouragement. The private financial domain of The City of London has three hundred and seventy-seven thousand banking and finance related jobs, with three quarters of those workers, within the seventy percent of high-skilled jobs in the Square Mile of the finance district.

Official data indicated that the average London based citizen paid 3070 pounds more in tax than they received in public spending. A new paper by Chris Giles in the Financial Times suggested that if the City of London was comparative to a separate nation state, it would have a budget surplus of 7% of gross domestic product, suggesting that this would be “better than Norway. The City of London as a cash cow, endangers its (wider) economy, and it damages UK public finances” *(Financial Times, 2018).*
Economists Andrew Baker of the University of Sheffield, Gerald Epstein of the University of Massachusetts Amherst, and, Juan Montecino of Columbia University, have argued that an oversized City of London has inflicted a cumulative 4.5 trillion-Pound Sterling hit on the British economy from 1995 to 2015 (Baker, Epstein, & Montecino, 2018).

This estimate is the sum of two figures. First, 1.8 trillion pounds in lost economic output caused by the global financial crisis since 2007 and 2.7 trillion pounds in misallocation costs. When a powerful finance sector (City of London) is diverted away from useful roles (such as converting citizens savings into investments). Thus, syphoning wealth from the domestic economy into business investments. This equates to approximately two and a half years of UK gross economic output, or 170,000 Pounds Sterling, for every British household over an average life cycle.

As global economies have become re-engineered toward serving the finance sector, most other parts of the economy have suffered. Public institutions have become privatised at every level, and the level of domestic versus speculative financial operations becomes more pronounced (Baker, Epstein, & Montecino, 2018).

Whilst the GFC has had a profound effect on Western nation states the recovery from this most profound occurrence has been similarly dramatic in the way financialisation has over-run the historic commentary that once included finance, business, society and the state. The recovery has been eccentric in the way that financial markets have been rescued by governments and speculative activity has grown to new heights. The rapid onset of COVID-19 has further destabilised current activity.

Nation states economic priorities have been reset toward the role of capital and overgrown financial sectors, nurtured by governments of all persuasions, finance has become even more powerful, well beyond their remit. As suggested, profiles of debt had sustained effects on domestic nation state economies across the globe. European economies also remain far below pre-crisis trends (Bloomberg DataStream, 2019).

Post crisis markets have become distorted; financial markets are interacting/lending primarily to themselves, propping up speculative activity, and capital investment markets, or feeding into the voluminous cross-border trading sectors. The fastest
economic growth in world history came in roughly quarter of a century after the Second World War. From the end of World War 2 to the early 1970s was one of the fastest economic expansions in global history. In the United States Gross Domestic Product increased from US$228 billion in 1945 to US$1.7 trillion in 1975.

From 1970 onwards finance became globally oriented to feed speculation as swathes of global economies were privatised. Reflecting on the opening arguments that Gordon had suggested, “the growth rate of the last 45 years has been less than half of that enjoyed between 1920 and 1970”. The difference is in the debt. As interest rates have lowered in western economies, debt levels have heightened.

In the United States the COVID-19 Crisis has destroyed a decade worth of job growth, effectively destroying over 20 million new positions obtained since the Global Financial Crisis. This has pushed the unemployment rate to the highest levels since the Great Depression. The pandemic has strained finance market dynamics and corporations that have been saddled with record levels of debt. The pandemic has closed the United States economy with more force that any event in history. As a result, the Federal Reserve Bank (FRB) has printed more money at a scale that is unprecedented. After the 2008-09 Global Financial Crisis (GFC), the FRB added US$ 1.4 trillion to its balance sheet, over a two-year period. Post COVID, the FRB added US$2.9 trillion in three months. After 2008 the FRB balance sheets was six percent of the entire United States economy. Post COVID it is anticipated to be over forty percent.

The FRB’s emergency actions have reshaped American capitalism. Past FRB Chair Yellen says that backing the economy is “why the FRB was invented. The role of the central bank is to take risks and to avoid harm when no-one else is willing to do so”. Scott Minerd, Chief Investment Officer, with Guggenheim Investments (advisor to the New York FRB), further suggested that by intervening “We have now socialised credit risk. And we have forever changed the nature of how our economy functions” (Leonard, 2020).

The Growth of Debt on a Global Scale.

Global debt has reached a new record, approaching 300 percent of world output. Not all debt is the same, nor is it evenly distributed across countries, regions, or
sctors. Three vital determinants indicate clearly that economies are stagnant. Low interest rate levels set to ease the debt plight, record levels of debt against housing and small business expansion, and thirdly, but most importantly, persistent stagnant wage levels could become the new normal. Whilst Australia escaped the worst of the GFC recession the fiscal overhang is severe.

United States economist Paul Krugman, has suggested that this new era of financialisation could be regarded as a “debt-peonage society” whilst United States Economist J. Gabriel Palma (2009) labelled it a “rentiers delight” in which financialisation sustains the rent-seeking practices of oligopolistic capital as a system of discipline as well as exploitation, which is “difficult to reconcile with any acceptable definition of democracy”. United States corporations now carry more direct debt than at any time in history. Contemporary crisis-ridden economies have never more dependent on credit. Evidence of the 2019 hangover of consumer debt levels in Australia, indicates that household debt is amongst the highest in the world, as scrutinised in the accompanying charts (Bank for International Settlements. Aussies Drowning in Household Debt, 2019).

![Household Debt Service Ratio](source: Bank for International Settlements)
The Australian property market, post Covid-19, has one the widest and deepest asset bubbles in the nation’s history. With a predominance of individual commitment to home ownership, Australians have been prepared to structure their finances around personal property.

With the central issue of COVID-19 now creating pressure on public and private enterprise, the outlook of economic resilience of nation states is being challenged at many levels. Australia and global nation states have rapidly entered a new era where economies are undergoing pressures mirroring those of war times. Perceptions of recovery from the epidemic remain uncertain other than the certainty that the capacity of states will be tested to the limit. Unemployment and social services will be tested beyond any recent precedents.

In Australia commonwealth and state debt levels continue to rise exponentially. Between 2020 and 2021 state indebtedness will be more than AU$40,000 for every working age adult. The national test may encompass a new vision of how nation states support citizens through the “new normal” of intense pressure on employment, health care, continuing education, and social housing (Ergas, 2020). Australia endures waves of inequality, through financialisation.
Conclusion.

Financialisation has increasingly become embedded in an argument that recognises its political and socio-economic dominance of nation state and international financial sectors. Financialisation has come to epitomise an increasing role of financial motives and markets, actors, and institutions in international economies. Financialisation, has dominated the capacity and development of nation states. The perceptions encapsulating economic growth through financialisation have underscored growth and prosperity. At a considerable cost.

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GLOBAL INTELLECTUAL PROPERTY AND THE UNEVEN DISTRIBUTION OF KNOWLEDGE

Humberto Merritt¹

Abstract

Since the mid-1980s, intellectual property has become a crucial competitive weapon in the knowledge economy. As a result, industrial innovation has been growing exponentially. However, not all countries tend to protect their intellectual activity, even in their markets. Moreover, the intellectual property rights (IPR) system is highly dominated by just a handful of nations. For many developing countries, the current concentration of technological knowledge means that license fees and royalties must be paid to use foreign-owned IPR. This uneven world distribution of knowledge has emerged from the execution of sophisticated and expensive research and development (R&D) activity, which favors multinational firms from industrialized nations thanks to their substantial financial resources. Even China, which used to be a technology follower and is now rapidly becoming an innovation world power, faces mounting trade restrictions from the United States due to its growing technological progress. In this paper, we postulate that the uneven possession of technical knowledge is emerging as a defining trait of the global inequality that will characterize the second decade of the 21st century.

Keywords: Intellectual Property Rights; Knowledge Economy; Industrial Innovation; Developing Countries

Introduction

Patents are legal instruments granted by nations to provide the exclusive right to exploit an invention. Also, patents represent locational documents because they

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are attached to the government that grants them, and used to recognize inventions from all fields of technology. Yet, aesthetic creations, scientific theories, natural phenomena, or abstract ideas are not patentable due to the institutional rules (Guellec & van Pottelsberghe, 2007). Patents also work as indicators of the knowledge economy by measuring the strength of the Intellectual Property Rights System (IPR). Interestingly, knowledge is encouraged when IPRs provide strong incentives for enterprises to carry out research and development (R&D) activities (Ivus & Park, 2019; OECD, 2020; WIPO, 2019; World Bank, 2019; Siebeck, Evenson, Lesser & Primo, 1990). Consequently, industrial IPR has become a cornerstone of the competitive strategies of large companies in their pursuit of increasing profits and market share (OECD, 2019).

Modern IPR is currently the result of several rounds of intense international negotiations, which took several years to develop. The first rounds occurred during the 1970s when the world economy experienced a long-lasting shock from the upheaval of the 1973 Arab oil embargo. These conditions undermined the then prevailing economic mindset that regulated international trade, paving the way for adopting more liberal approaches to increase competition in world markets. In the 1980s, the largest industrialized nations lobbied to introduce stronger trade regulations to protect IPR, especially those from multinational companies (MNCs) in the pharmaceutical sector (Braithwaite & Drahos, 2000; Correa, 2000; Gopakumar, 2010). The negotiations were derived into the creation of the World Trade Organization (WTO) in 1995 and the corresponding intention of WTO founding members to sign the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Nguyen, 2010). Currently, WTO members must reform their national patent laws to comply with the international standards set up by TRIPS. Among others, TRIPS states the patentability of all fields of technology, minimal duration of patents of 20 years, and limitations of compulsory licensing (Guellec & van Pottelsberghe, 2007).

Although the IPR world harmonization has allowed for greater commercial exchanges, it has also produced mixed results. To some, the strengthening of the IPR system should be helping developing countries (LDCs) to engage in innovative activities (Park & Ginarte, 1996 and 1997). In comparison, others have argued that stronger patent laws would weaken poorer nations’ chances of achieving sustainable technological capabilities (Carolan, 2008; Correa, 2003; Nguyen, 2010). Empirical evidence suggests, nonetheless, that only a few LDCs have benefited
from the newer, stricter regime thanks to harnessing competitive costs in localized sectors, such as pharmaceuticals and electronics, whereas most LDCs have not yet been able to reap the promised benefits. The resulting gap is now reflected in a lower share in the world distribution of patents from the larger part of the developing world (Branstetter, 2017; Graff & Pardey, 2019; Ivus & Park, 2019).

In this paper, we analyze how LDCs face the uneven world distribution of knowledge that emerged from the 1995 world’s IPR harmonization. We argue that the current IPR system is too stringent for developing nations that most of them have not been able to catch up with the new intellectual property rules. We argue that LDCs’ inability to set up an innovative indigenous milieu lies in the persistence of several structural failures, with the main barriers emerging from weak institutional settings, lack of appropriate infrastructure, low education levels, and widespread poverty and corruption. So, the opening of their domestic markets to foreign protected innovations has only worked to diminish their potential to reach a sustainable growth path by undermining their technological capabilities. The paper is structured in seven sections, including the introduction and conclusions. Next, we analyze the evolution of the intellectual property system.

**The Evolution of the World Intellectual Property Rights System**

The origin of legal protection for inventions can be traced to fifteenth-century Europe when the Venetian Republic offered ten-year privileges to inventors of new arts and machines. The name patent derived from the *Letters Patent* (or open letters) were emitted in England in the fourteenth century. Their purpose was to give the new technology’s inventor (or importer) the sole right to use it for a relatively long period, long enough to consolidate her business (OECD, 1997). According to Penrose, Venetian grants were called “the first patent law,” and nearly one hundred privileges for industrial inventions appear to have been granted or applied for between the years 1475 and 1550” (Penrose, 1973, p. 2). The protection (and the grant) to the inventor for exclusively exploiting her discoveries were later adopted by the German, English, and French Kingdoms as well. Penrose also points out that these old privileges “were granted with essentially the same text as those of the modern patent: utility, novelty, and working” (ibid., p. 3). Yet, the foundations of the modern IPR system can be found in the drafting of the United States Constitution, which included an intellectual property clause devised to protect ingenious American inventors. According to Carolan (2009, p.
The founders of the United States believed that patents were a prerequisite for progress and development, and then pursuing the inclusion of patent rights in the Constitution without debate and with unanimous approval.

This framework stemmed from the “inventor’s right” concept of the 15th century, but it did not develop until after 1870 when patents gradually became widely adopted due to international trade (Penrose, 1973). At that time, patents were country-specific rights because every nation used to lay down its own rules for industrial protection to be applied within their borders (OECD, 1997). Soon afterward, the need for setting up international standards was also felt, however. Consequently, many international meetings were promptly agreed, and the Convention for the Protection of Industrial Property was signed in Paris on 20 March 1883, entering into force in July 1884 after years of preparations. Its purpose was to standardize member countries’ industrial property law systems. At the time, eleven countries signed the Paris treaty (Penrose, 1973, p. 57).

Although the Paris treaty gave birth to the first world IPR system, it was still short of providing uniformed guidelines and procedures. That happened until 14 July 1967 when there was a meeting in Stockholm, Sweden to create the World Intellectual Property Organization (WIPO), formally known as the WIPO Convention. Interestingly, Article 2 of the WIPO Convention declared the following topics as IPRs: (i) literary, artistic and scientific works; (ii) performances, phonograms and broadcasts from artists and creators; (iii) inventions in all fields of human knowledge; (iv) scientific discoveries; (v) industrial designs; (vi) trademarks, service marks, and commercial brands; (vii) protection against unfair competition; and (viii) all other rights resulting from IPR activity in the industrial, scientific, literary or artistic fields (OECD, 1997, p. 5). A critical outcome of the 1967 Convention was the Patent Cooperation Treaty (PCT), which helped to facilitate the single filing of an international patent application (Guellec & van Pottelsberghe, 2007; WIPO, 2019).

All in all, the Paris treaty provided some useful IPR guidance, such as the non-discriminatory treatment of patent applications and the rules for determining the priority of rights. These rules are crucial for would-be patentees because the system confers the primacy to whom first apply (i.e., the person first to file or first to invent). It is worth noting that the 1947 General Agreement on Tariffs and Trade (GATT) did not explicitly deal with IPR issues. Instead, provisions were
primarily limited to face counterfeit trade because GATT could not intervene in rows relating to patent violations (Allred & Park, 2007).

Because of the lack of global IPR trade regulations, patent holders in Western nations used to claim that their innovations were being infringed upon thanks to weak (or absent) patent legislation in many LDCs (Park, 2012), pushing for a stricter international framework. As a result, IPR was brought up during the Tokyo Round of GATT (1979-1984), but no resolution was reached. Meanwhile, the U.S. Congress passed a law (Section 301) in 1984 to allow trade retaliation against nations that provided weak patent rights. In 1988, another law (special 301) was passed to require annual surveillance of foreign countries’ practices regarding U.S. IPR (Allred & Park, 2007).

The U.S. Congress announced the dismissal of GATT in 1995 when the Trade-Related Aspects of Intellectual Property Rights (TRIPS) was adopted. TRIPS started in 1986-1994 during the Uruguay Round. Its framework is stipulated in Annex 1C of the Marrakesh Agreement, signed on 15 April 1994, and is based on two main arguments. First, developed countries maintained that the then-existing IPR system distorted free trade because of the lack of intellectual protection, thus producing enormous losses for industrialized companies. Second, TRIPS would provide strong market incentives to innovative firms in LDCs (Correa, 2000, 2003; Nguyen, 2010).

TRIPS ratification is now a compulsory requirement for the World Trade Organization (WTO) membership, so countries seeking access to international markets must endorse the stricter intellectual property laws mandated by TRIPS (Marsoof, 2018). Today, 164 countries have joined the WTO.

The TRIPS treaty is undoubtedly the most important multilateral instrument for the globalization of IPR laws, reaching full-fledged implementation in 2005 (Angeli, 2014). Even some previously reluctant nations, such as China and India, are now prominent WTO members because of its tangible benefits for their economies (Branstetter, 2017; Guo, Zhang, Dodgson, & Gann, 2019).

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3 WTO membership can be consulted in the URL: https://bit.ly/3a8M5J3 [Accessed 31/07/20]
Trade Liberalization and the Intellectual Property Reform

As discussed above, the international harmonization of the IPR system emerged from arduous negotiations between the “North” and the “South.” These talks evolved from years-long controversies in the world trade system. For example, before TRIPS, many developing economies were reluctant to sign each of the previous IPR treaties because they did not engage heavily in trade fluxes, thus tending to overlook piracy (Park & Lippoldt, 2008).

The “North” used to criticize the previous IPR framework on the grounds that patent protection was shorter (and weaker) in the “South” (14 years) than in the “North” (20 years). Besides, LDC practiced compulsory licensing, meaning that industrialized patent holders could be asked to license their patents to third parties if needed (Correa, 2003). No wonder that stricter IPR rules were first set up in developed countries in preparation for TRIPS. For example, landmark U.S. Supreme Court rulings in 1972 and 1980 broadened the coverage of patent rights to software and biotechnology (Allred & Park, 2012, p. 879). Major patent reforms were also undertaken in Japan during the 1980s, allowing patent applications to contain multiple claims. In 1978 the European Patent Office (EPO) was opened to encourage a centralized regional patent filing system to ease filing and granting patent rights in the region (Park, 2012).

As the world tendency for more robust patent protection grew, so did trade liberalization (i.e., globalization), with Taiwan, Korea, and Singapore eagerly embracing the IPR reform (Allred & Park, 2007; Kanwar & Evenson, 2009). To some, there were two clear benefits from TRIPS to LDC patent holders. First, they would exploit their innovations in industrialized markets thanks to the rapid harmonization of the new IPR rules (Ivus, Park, & Saggi, 2017; Park, 2012). Second, they could rapidly embrace technological activities due to more substantial incentives to do so (Branstetter, 2017). Nonetheless, China and India represent two exceptional cases since they have experienced drastic changes in the number of domestic applications for patents after TRIPS, as we shall discuss below.

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4 Park and Ginarte (1996) adopted the terms “North” to refer generally to innovating countries (i.e., ‘industrialized’) and “South” to technology importing and/or imitating countries (i.e., ‘developing’). They concede, however, that the terms are a simplification that helps to shed light on the conflicting and cooperative interests in determining the desired strength of IPR protection (Park & Ginarte, 1996, p. 379).
To some extent, the growing incursion of many MNCs on LDC markets was prompted by their interest in capitalizing their competitive advantages in knowledge-intensive sectors such as pharmaceuticals, electronics, and automobiles (Angeli, 2014; Braithwaite & Drahos, 2000; Ivus et al., 2017). This condition was possible thanks to MNCs’ strong technological capabilities (Correa, 2003). MNCs’ technical strength emerges from their vast expenditures on industrial research and development (R&D), which also explains their tendency to fill applications in several countries to protect their intellectual investments (OECD, 2019).

Not surprisingly, MNCs from the pharmaceutical sector showed the biggest interest in entering LDCs markets. For example, big pharma lobbied for more robust protection to their patents, flexing their muscles and exerting their influence over several government actors. The strategy of linking trade policy to IPR standards can be traced back to the lobbying of top pharmaceutical executives in the early 1980s. Pharma executives mobilized resources to make intellectual property privileges the highest priority of trade policy for the United States. According to Braithwaite and Drahos, the business committee advising on U.S. trade policy was chaired in 1981 by Edmund Pratt, the then CEO of Pfizer. IBM and DuPont also joined this committee, with other U.S. sectors also actively involved in promoting TRIPS, such as the phonographic industry, the computer software, and semiconductor industries (Braithwaite & Drahos, 2000, p. 69).

But there is also the downside of MNCs’ role in promoting stricter IPR rules: patent abuse. According to Correa (2003), pharmaceutical companies tend to use any means to delay the marketing of competing products to maximize revenues artificially. For their part, Henry and Lexchin (2002) contend that big pharma relies heavily on patents and go to great lengths to maintain and extend them. This procedure is known as “evergreening,” which includes the introduction of new formulations before the generic version is released, second-medical-use patents for drugs nearing the end of their basic patent life, and collusion with generic manufacturers to keep products off the market, among others tactics (Henry & Lexchin, 2002, p. 1593).

**Intellectual Property-Led Economic Growth**

A widely used argument to promote the 1995 IPR reform was that stricter patent regulation would encourage knowledge-creating activities in LDCs (Branstetter,
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2017; Park & Ginarte, 1997). However, there is scant evidence supporting this claim. Since 1995 onwards, most developing countries have not yet reaped clear benefits from TRIPS. For instance, developing countries from Africa and Latin America have kept a meager share in world patent applications, as table 1 shows.

Table 1. Patent applications by region, 2008 and 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of applications</th>
<th>Resident share (%)</th>
<th>Share of world total (%)</th>
<th>Average growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>14,100</td>
<td>17,000</td>
<td>15.8</td>
<td>18.4</td>
</tr>
<tr>
<td>Asia</td>
<td>980,000</td>
<td>2,221,800</td>
<td>70.6</td>
<td>83.7</td>
</tr>
<tr>
<td>Europe</td>
<td>345,900</td>
<td>362,000</td>
<td>63.7</td>
<td>59.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>59,500</td>
<td>56,000</td>
<td>11.3</td>
<td>14.9</td>
</tr>
<tr>
<td>North America</td>
<td>498,400</td>
<td>633,300</td>
<td>47.5</td>
<td>45.7</td>
</tr>
<tr>
<td>Oceania</td>
<td>32,100</td>
<td>36,200</td>
<td>12.7</td>
<td>10.4</td>
</tr>
<tr>
<td>World</td>
<td>1,930,000</td>
<td>3,326,300</td>
<td>60.2</td>
<td>71.5</td>
</tr>
</tbody>
</table>

Source: WIPO, 2019, p. 26

According to the figures of Table 1, the largest proportion of patent filings are in Asia, North America, and Europe, with Asia (mainly China) growing at 8.5%. In contrast, Africa, Latin America, and Oceania had a tiny share of total patent applications in 2018 (3.3%).

The idea that more robust intellectual protection can lead to innovative activities misses typically one point: innovation does not happen in the vacuum. It requires a favorable environment together with the commitment of an organization’s managers and staff. Therefore, it should be a continuous and focused effort by firms wishing to harness market conditions because innovation is a resource-intensive, time-consuming activity. Yet, the accumulation of technological capabilities does not necessarily mean that organizations will be innovative and patent-intensive. Hence, the lack of strong scientific and technical skills in many LDCs have produced shallow levels of locally-based industrial R&D and very little patenting activity, let alone profitable innovations.
Regarding the relationship between IPR and economic growth, Park (2012) theorizes that innovation can be lowered because tighter regulation limits Southern imitation, shifting production back to the North. In Park’s reasoning, as labor demand rises in Northern manufacturing, wages in the North will increase, which raises research costs and reduces the labor available for R&D, affecting innovation in the North. The outcome can be nonetheless different if some Northern MNCs produce in the South through local affiliates or subsidiaries. Therefore, stronger IPRs attract MNCs to the South, promoting foreign direct investments (FDI) to that region (Park, 2012, p. 153).

In recent years there has appeared vast literature comparing the economic performance of different countries by identifying factors that influence economic growth. Econometric techniques have helped assess the extent to which IPRs affect economic growth independently of other factors. Some studies have measured different property rights to test their effect on growth (Carolan, 2009).

According to Bessen and Meurer, early analyses measured political instability and civil rights as proxies for the quality of property rights institutions. They looked at variables such as contract enforceability, risk of government expropriation, the enforcement of law, government regulations, and bureaucratic quality. They generally found that the quality of property rights institutions is strongly and positively correlated with a nation’s economic growth rate. Even though these analyses must be acknowledged, they did not attempt to control for a possible “reverse causality,” in which economic growth might have caused improvements in property rights institutions instead of the other way around (Bessen & Meurer, 2008, p. 82).

On the other hand, the direct measurement of IPRs, which includes patents as an independent variable, have produced quite different results, however. For example, Gould and Gruben (1996) use a measure of a country’s strength of patent protection. In their econometric model, the patent index has a positive coefficient, but it is not statistically significant. Their analysis also has two shortcomings: the regressions proposed do not include measures of other property rights, such as copyrights or industrial designs, and they miss to control for reverse causality as well.

For their part, Park and Ginarte (1997) sought for measures of general property rights by producing an index of “market liberalization.” After running their regression, they found that market openness has a positive and statistically significant effect on economic growth. Still, their IPR index had a negative coefficient.
that was not statistically different from zero. Moreover, they found that IPRs did not appear to have a direct positive effect on economic growth, also finding some limited evidence that IPRs were correlated with a country’s R&D spending. According to Bessen and Meurer (2008), Park and Ginarte’s approach exhibits two limitations: 1) it only holds for wealthier countries, and 2) it did not control for reverse causality that can appear if firms spend large sums on R&D, and after they have achieved a sizeable market share, start lobbying for stronger patent laws. In a separate paper, Ginarte and Park (1997) looked at the factors that determine a country’s IPRs. They found that lagged R&D was positively correlated with subsequent IPR legislation strength. Their results suggest that there is, indeed, a significant reverse causality, meaning that there are qualitative differences between general property rights and specific patent protection.

All in all, IPRs appear to have, at best, only a weak and indirect relationship to economic growth. According to Bessen and Meurer (2008), this relationship might apply only to certain countries, although the direction of causality is still unclear. As they point out, IPRs’ effects might be more tentative, being contingent upon the details of the patent system or the particular technology, industry, or state of economic development (Bessen & Meurer, 2008, p. 84).

The Locacy of Patent Applications: Residents vs Non-Residents

As discussed above, the growth of world trade has paid increasing attention to international considerations in the development of IPR systems. To some, there is still a need to stamp out the remaining differences between national patent systems to remove the obstacles for a global environment that will be entirely conducive to innovation (Guellec & van Pottelsberghe, 2007; Ivus & Park, 2019). Accordingly, the world IPR system should then pursue harmonized management styles to avoid sources of needless delays, friction, and litigation.

This condition calls for a description of the patent system. Patents exclude others from making, using, or selling an invention for up to 20 years (in most countries) in exchange for the public disclosure of the information regarding the invention (WIPO, 2019). In theory, a patent confers perfect appropriability by granting a legal monopoly of an invention. These advantages depend, however, on the widespread diffusion of social benefits after the patent’s expiration. Since patents are country-specific documents, they must be filed in a precise nation by
either residents or non-residents (Guellec & van Pottelsberghe, 2007). In most OECD countries, the majority of applications are presented by non-residents (OECD, 2019).

Another way of protecting inventions is to take advantage of the Patent Co-operation Treaty (PCT), which is supervised by the World Intellectual Property Organization (WIPO, 2019). The PCT procedure is an intermediate step between the priority application and the filing for patent protection abroad. It extends the potential protection given by the priority right to a period of 30 months (Guellec & van Pottelsberghe, 2007). During the 30 months, the applicant has to decide in which countries she will exercise (or not) her rights. There are currently 177 PCT signatory states (WIPO, 2019). The PCT facilitates the chances to file future applications abroad, and it is not an actual patent application. Due to its convenience and cost-efficiency, the PCT procedure has met with much success with patent applicants. We report patent statistics based on the PCT treaty.

On the other hand, the non-resident/resident ratio (NR/R) measures (to some extent) the global dimension of patenting. For example, in 1985, NR/R was lower than 1 in only three constituencies: the United States (0.81), Japan (0.09), and 0.62 for the United Kingdom; in 2018, the corresponding N.R./ ratios were 1.09, 0.24, and 0.63 respectively. These ratios had been steadily increasing for the last 25 years. Therefore, since TRIPS, global actors are driving the patent system to higher levels of internationalization. Evidence shows, however, that the trend might yet be amplified by the various international mechanisms established under the PCT treaty.

Drawing on statistics reported by the World Bank through the world development indicators database, the next figure shows the pattern of patent applications under the PCT treaty since 1985 to 2018 for both residents and non-residents for the world as a whole.
GLOBAL INTELLECTUAL PROPERTY AND THE UNEVEN DISTRIBUTION OF KNOWLEDGE

Humberto Merritt

Figure 1. World applications of patents for residents and non-residents on local offices, 1985-2018

Notes: Graphs show the relation of non-resident applications divided by total patent applications under the PCT treaty in each office

According to Figure 1, world patent applications by residents have been growing faster since 2009. This trend is reflecting the increasing patent activity by Chinese nationals since that year (Hu, Peng, & Lijing, 2017). In comparison, non-residents have filed an overseas patent application at a more moderate rate. As stressed before, the NR-R ratio shows the relation between patent applications filed by non-nationals to those files by residents. A ratio above 1 shows the dominance of foreign patentees in a specific local office, whereas a value below 1 demonstrates the opposite. In 2018, the NR-R world ratio was 0.37, which means that globally, domestic patentees are larger than foreigners.

As mentioned above, patent rights are covered by national laws, and in case of patent infringement, the patent holder can sue the perpetrator to enforce her rights. In some industries, patents are an essential form of competitive advantage (i.e., pharmaceuticals), whereas, in others, they are useless (i.e., mechanic inventions)
Because the exclusive rights that emanate from the grant of a patent are territorial, an inventor shall obtain patent protection in all countries in which she wishes her invention be exploited. The process is covered by making use of national registration processes and the right to priority through the PCT treaty (Marsoof, 2018). To shed light on applications around the world, Table 1 exhibits the average NR-R ratio for a sample of selected countries (and regions) for the 1985-2018 period.

Table 2. NR-R ratio for national patent applications filed under the PCT, 1985-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Japan</th>
<th>Mexico</th>
<th>Turkey</th>
<th>UK</th>
<th>USA</th>
<th>Latin America</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVG</td>
<td>3.61</td>
<td>0.75</td>
<td>2.97</td>
<td>0.15</td>
<td>15.7</td>
<td>3.63</td>
<td>0.51</td>
<td>0.92</td>
<td>5.90</td>
<td>0.51</td>
</tr>
</tbody>
</table>


From Table 1, we see how the group of developing nations in the sample all have ratios well above 1. The contrary happens for Japan, the United Kingdom, and the United States, and quite surprisingly, China. We will discuss this situation in the following section.

The Uneven Distribution of Knowledge: Trends and World Shares

After TRIPS, many nations sought to take advantage of the reform by encouraging their MNCs to foray into foreign markets. South Korea, Taiwan, and Singapore were some of the most exceptional and early cases. Yet, a few years later, China also embraced the reforms by joining WTO in 2001, whereas India adjusted its IPR regime in 2005 to comply with TRIPS fully.

In the case of India, Angeli observes an increase in biopharmaceutical innovation during the transition. She argues that Indian firms decided to partner with international pharmaceutical companies to share advanced knowledge by departing from their competitive advantage in generic drugs. She finds that these collaborations produced and increased number in patent filings, not only domestically but also internationally (Angeli, 2014, p. 9).
On the other hand, China has been the main driver of global growth in IPR filings, leading worldwide IPR filings in 2018 (Guo et al., 2019). China’s impressive patenting path peaked in 2011 when the Chinese Intellectual Property Office (SIPO) overtook its American counterpart (the U.S. Patent and Trademark Office) to become the world’s busiest IPR office (Hu et al., 2017). Notably, 80% of the 2011 requests received by SIPO was filed by residents (over half a million applications), exhibiting a yearly growing rate of 30 percent between 2001 and 2011 (Hu et al., 2018). The period shows a filing activity increment of 11.6% in patents, 28.3% in trademarks, and 12.7% in industrial designs. SIPO holds 46.4% of patent filings worldwide (WIPO, 2019, p. 6).

Given the astonishing explosion of Chinese patents, Hu and colleagues asked whether the country’s rise in patents has been propelled by the growing technological sophistication of national firms, or by their much higher propensity to fill patent applications. They found most of the growth has come from the large number of firms that were not actively engaged in applying for patents in the past. They concluded that non-innovation related motives for acquiring patents, such as seeking greater prestige, may have played an essential role in the patenting surge (Hu et al., 2017, p. 107).

Yet, the world distribution of knowledge, measured by patent filings owned by specific nations, is not evenly distributed because the largest proportion of foreign-owned patents are in the hands of either American, European, or Japanese firms, as Table 3 shows.
Table 3. World foreign ownership of patent applications filed under the PCT, 2000-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan (A)</th>
<th>USA (B)</th>
<th>E.U. (C)</th>
<th>Total A+B+C</th>
<th>Total Patents</th>
<th>Three Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>599</td>
<td>5,388</td>
<td>7,382</td>
<td>13,369</td>
<td>102,746</td>
<td>13.01</td>
</tr>
<tr>
<td>2001</td>
<td>595</td>
<td>5,498</td>
<td>7,800</td>
<td>13,893</td>
<td>104,710</td>
<td>13.27</td>
</tr>
<tr>
<td>2002</td>
<td>785</td>
<td>5,544</td>
<td>8,942</td>
<td>15,271</td>
<td>108,587</td>
<td>14.06</td>
</tr>
<tr>
<td>2003</td>
<td>954</td>
<td>6,041</td>
<td>9,514</td>
<td>16,509</td>
<td>118,594</td>
<td>13.92</td>
</tr>
<tr>
<td>2004</td>
<td>1,052</td>
<td>6,729</td>
<td>10,012</td>
<td>17,793</td>
<td>132,449</td>
<td>13.43</td>
</tr>
<tr>
<td>2005</td>
<td>1,105</td>
<td>7,456</td>
<td>10,829</td>
<td>19,390</td>
<td>144,892</td>
<td>13.38</td>
</tr>
<tr>
<td>2006</td>
<td>1,058</td>
<td>7,954</td>
<td>11,338</td>
<td>20,350</td>
<td>154,406</td>
<td>13.18</td>
</tr>
<tr>
<td>2007</td>
<td>1,014</td>
<td>7,845</td>
<td>12,114</td>
<td>20,973</td>
<td>159,880</td>
<td>13.12</td>
</tr>
<tr>
<td>2008</td>
<td>928</td>
<td>7,030</td>
<td>11,881</td>
<td>19,839</td>
<td>150,262</td>
<td>13.20</td>
</tr>
<tr>
<td>2009</td>
<td>1,018</td>
<td>6,839</td>
<td>11,722</td>
<td>19,579</td>
<td>156,622</td>
<td>12.50</td>
</tr>
<tr>
<td>2010</td>
<td>1,136</td>
<td>7,367</td>
<td>12,213</td>
<td>20,716</td>
<td>172,190</td>
<td>12.03</td>
</tr>
<tr>
<td>2011</td>
<td>1,310</td>
<td>8,631</td>
<td>12,459</td>
<td>22,400</td>
<td>188,385</td>
<td>11.89</td>
</tr>
<tr>
<td>2012</td>
<td>1,269</td>
<td>9,101</td>
<td>12,992</td>
<td>23,362</td>
<td>196,348</td>
<td>11.90</td>
</tr>
<tr>
<td>2013</td>
<td>1,543</td>
<td>9,822</td>
<td>12,793</td>
<td>24,158</td>
<td>206,948</td>
<td>11.67</td>
</tr>
<tr>
<td>2014</td>
<td>1,601</td>
<td>9,496</td>
<td>12,369</td>
<td>23,466</td>
<td>207,806</td>
<td>11.29</td>
</tr>
<tr>
<td>2015</td>
<td>1,657</td>
<td>9,296</td>
<td>12,708</td>
<td>23,661</td>
<td>218,227</td>
<td>10.84</td>
</tr>
<tr>
<td>2016</td>
<td>1,893</td>
<td>9,297</td>
<td>12,375</td>
<td>23,565</td>
<td>232,490</td>
<td>10.14</td>
</tr>
<tr>
<td>2017</td>
<td>1,960</td>
<td>8,650</td>
<td>11,993</td>
<td>22,603</td>
<td>235,071</td>
<td>9.62</td>
</tr>
</tbody>
</table>

Notes: Figures are patent applications are filed under the PCT treaty by priority date

As showed above, the share of world patent applications owned by either Japanese, American or European firms has been around 12%, with a sustained declining trend since 2011. These figures are too significant from a worldwide perspective. Still, the declining trends seem to be responding to the pressure of emergent patenting potencies, such as China, South Korea, and Taiwan, which are increasing their presence in other latitudes.

As discussed above, Taiwan, South Korea, and Singapore have succeeded in harnessing the TRIPS regime by achieving extraordinary milestones in innovation.
and patenting (Branstetter, 2017). The other three cases deserve closer attention, however: Brazil, Mexico, and Turkey. Although they are important players in the world context, they have had a lackluster patenting performance after implementing the TRIPS treaty.

In this respect, we can analyze the uneven distribution of knowledge by comparing the number of non-resident patent filings divided by the total number of patent filings in any domestic office. This relationship is known as the dependency rate since it represents the proportion of foreign-owned patents in the local nation (Leal & Powers, 1997). The dependency ratio measures the level of foreign dominance in any given country. That is, the higher the ratio, the higher the rate of dependency. Figure 2 shows the dependency rate for five selected countries; China, Brazil, India, Mexico, and Turkey.

**Figure 2. The proportion of non-resident patent applications on local offices, 1985-2018**

Notes: Graphs show the relation of non-resident applications divided by total patent applications under the PCT treaty in each office
From Figure 2, we can see the contrasting patterns among the five countries. Firstly, China and Turkey have managed to lower their dependency rate, whereas Brazil, India, and Mexico have not. Interestingly, these three nations exhibit a very high rate of dependency, hinting that domestic research is relatively weak, at the same time that foreign companies seek to patent there. Therefore, they can be good examples of the uneven world distribution of knowledge.

In any case, these figures show contrasting patterns. China has managed to become a world technological power that has started to challenge the United States in several fields. Turkey seems to be a relatively self-sufficient nation in IPR terms. In contrast, the data suggest the high technological dependency of Brazil, India, and Mexico on other countries as a source of new technologies. These three nations lack the innovation capabilities that would be necessary to foray successfully into foreign markets.

Conclusions

In this paper, we documented the imbalance that permeates the world IPR system. We have analyzed the reasons behind the shift from the relatively protectionist international trade system that was characteristic of the 1980s towards the stricter regime of TRIPS. This reform has had, nonetheless, divergent outcomes. For industrialized nations, it has represented a renewed opportunity to dabble into LDC markets. In contrast, only a handful of developing countries have benefited from the new regime by exploiting their recently acquired technological capabilities, as the cases of China, Taiwan, Korea, and Singapore shown.

For the vast majority of LDCs, stricter IPR rules have meant larger shares of foreign-owned patent rights, representing higher royalties and fees to be paid. We, therefore, tried to demonstrate that more substantial patent rights have varied effects on innovative activity, depending on the nature of patent reform and on the level of economic development of the country undertaking reform, as Allred and Park have also found. Interestingly, these authors found that patent protection has a U-shaped relationship with domestic patent filings and firm-level R&D in developed countries, and a negative correlation in LDCs (Allred & Park, 2007, p. 895).

While the cross-national differences in intellectual property protection may have decreased post-TRIPs, they have far from vanished. Studies focused on measuring different countries’ commitment to intellectual property protection have
demonstrated that countries with a relatively higher technological base (the developed countries) have an incentive to provide somewhat more robust intellectual property rights. Besides, countries with relatively lower technical support (the developing countries) have little incentive to do so Ginarte & Park, 1997; Kanwar & Evenson, 2009; Marsoof, 2018).

We pointed out that several studies have found that the strength of protection granted by nation-states is determined by the different aspects of their intellectual property laws. That is, the level of technological development has, at best, only a weak positive influence on the strength of intellectual property protection provided by nations. Rather, it is the access to financial resources and human capital that better explains the level of protection nations must provide, following what Branstetter (2017) and Ivus and Park (2019) have also found.

In our opinion, this uneven world distribution of knowledge has emerged from the execution of sophisticated and expensive R&D activity, which tends to favor multinational firms from industrialized nations thanks to their substantial financial resources. This phenomenon is being increasingly contested, however, as the case of China shows. Until recently, the Asian giant used to be a technology follower but now is rapidly becoming a world power in the industrial innovation field, a situation that has brought mounting trade restrictions from the United States due to its menacing technological progress.

Finally, the link between the level of patenting and R&D spending is evident only for developed countries, where creative activities are common practice. In the case of LDCs, the introduction of more reliable IPR conditions has not yet been entirely justified, since these countries have a deficient level of R&D spending. The case of Mexico is dramatic since it allocates only 0.30% of GDP for R&D spending, confirming the shallow status of domestic patent applications by Mexicans.

In this paper, we have postulated that the uneven possession of technical knowledge is emerging as a defining trait of the global inequality that will characterize the second decade of the 21st century. We can, therefore, follow Smith (1993, p. 192) to conclude that the control over technology and the process of technological innovation are [still] critically important elements in the contemporary capitalist world-economy. So far, they have been the key to high rates of profit for giant MNCs and the linchpin in the maintenance of global inequality.
References


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UNDERSTANDING AND FRAMING BIG DATA FROM POLITICAL ECONOMY PERSPECTIVE

Reşide Adal Dündar

Abstract

Big Data now represents a new era in the global capitalist system in which big data is both product and emergent resource. The development of digital technologies and innovative production forces gives the color of the era so-called cognitive, digital, or data capitalism on which the Fourth Industrial Revolution and Web 4.0 rises. Big data, which started to be talked about in the 1990s, has settled in our lives in the earlies of the 21st century impacting and transforming the whole sectors of society. Uncovering its potential and drawbacks would be of great importance. Thus, “what is this big data, what is new and distinctive regarding big data” and “what kind of social, economic, and political relations does it correspond to”, “how is it deployed in several spheres of economy and politics”, and “who owns it” questions need to be explained. Big data will be tried to be placed in an exploratory and descriptive framework within the political economy by being overseen in its relation with the many subsystems of society, science, and methodology.

Keywords: Big data, data science, big data analytics, internet, social media, digital capitalism, digital commons, big technology companies, platform monopoly

Introduction

One of the things brought forward by the pandemic of this century, which will be engraved in the memory of the world, is further digitalization in our daily routines. Within the scope of social distancing in the society, distance education, special or flexible working conditions and home offices became more relevant and
their digital technologies like online meeting and conferencing, contactless and online operations, shoppings and commercial transactions have become more ingrained in our lives. In this period, especially when physical contact and travel around the world stopped, social media became our eyes outside. It was no surprise that online retail and social media companies emerged stronger from this process. Classic manufacturers and vendors also saw the crisis as an opportunity, pushed the button of their digital transformation, and created new technological solutions to keep up with digitalization.

Other actors, on the other hand, nation-states withdrew from the international arena and became more protective. In this period when general and classical factory production, except for basic materials for health and life, slowed down and even stopped, they started to become more interventionist in the markets and switched to the state of emergency and crisis mode. This situation also feeds more authoritarian measures and policies in political and administrative spheres against liberal moral principles and the pushes of neoliberal market economy policies of the capitalist world order. However, among the measures they took, especially the digitalization of the functions of the state and the development of e-government applications gained importance. In addition to the pressures of economic recession and pandemic lockdowns, another challenge was that citizens’ data in the state’s reservation was used as a means of monitoring and control not only in their relations with the state but also in their daily lives. This situation is actually at the same level of analysis as the concessions people have made to private companies through digitalization and the internet use for more than a decade, and big data will be the new Colosseum for neoliberal individualism’s unresolved dichotomies.

As of today, it seems that the new forms of social structure and relations came to the fore by gathering all the distinctive features of a new era under the roof of crisis, uncertainty, and risk. Respectively, the last few centuries’ mainstream social and economic orders were chronologically named as industrial, knowledge, information, and digital ones. There are also many other names given by different scholars from various political and ideological orientations. Although the other phrases and adjectives they use in naming society and economic order change, there are two things they agree on today: “capitalism” and “big data”. Big data is considered the most valuable resource of our age. It is the fuel of Bill Gate’s “friction-free” or frictionless capitalism (Gates, 1995). The main dynamic of big data capitalism is “becoming digital” (Mosco, 2017). This is both the convergence of big data analytics, cloud computing, and the internet of things at the
top of the iceberg, as well as the convergence of technology, industry, services, and content at the bottom (Wladawsky-Berger, 2015). This structure is monopolized by big technology companies like Amazon, Microsoft, Google, Facebook, and in this regard big data is considered as a serious risk and threat to free-market competition and individual rights as well (Radinsky, 2015). Becoming digital also includes new diverse subjects and emerging subjectivities like new producers on the labor market named cognitariat (Berardi, 2005), or cyber-proletariat (Dyer-Witheford, 2015). They are also part of this exploitive surveillance and control society under this technological phase of capitalist relations of production penetrated the whole fabric of society turning it as famous autonomist Mario Tronti phrased social factory (Tronti, 2006).

To describe briefly, in this social factory, big data is a large amount of data produced through a wide variety of sources in structured or unstructured forms. Data sources or producers can be either machines or people varying from climate information sensors, surveillance and security devices, GPS, GSM, Bluetooth, missiles, airplane signals, to any kind of social media post and sharings, digital pictures, and videos of us. It covers and crosscuts the many sectors of economics, society, and politics from accounting, finance, and marketing to manufacturing and retail, from public administration and city planning to agriculture, resources and disaster management so on (EU Commission, Shaping Europe’s Digital Future, Policy Website-https://ec.europa.eu/digital-single-market/en/big-data).

2 The other names of many faced worker and also digital labor are prosumer (Toffler, 1980), netizen (Hauben & Hauben, 1997), multitude (Negri & Hardt, 2004), crowdworker (Howe, 2008), precariats (Standing, 2011), consummariat (Žižek, 2011), task rabbit (Leah Busque Solivan, founder of taskrabbit coined the term), turker (as Amazon calls), in-game labor, on-demand labor (Sholz, 2016) and as neology “datakrats” referring dataKratos, i.e. the god of data. (In Greek Mythology, “kratos” is the god and personification of power and strength.) Ironically, the real subsumed working conditions of multi faced workers of digital age will be the topic of another paper.

3 Some other examples of big data sources are satellite imagery, face recognition devices, digital books, journals and magazines, bank transactions, purchase transaction records, telecommunication activities, and health records, online gaming interactions, digital conferencing and meeting, online educations, e-commerce operations, digitized state documents and archives, digital libraries and databases, criminal records, budget inventories, digital control and maintenance of critical infrastructures, drones and robots, military and national security material and processes, human resources models, media broadcasting, smart devices and materials, driverless vehicles, customer behavior, preference and taste analytics for marketing, product development or public relations causes, digital voting systems, etc.

4 Besides above listed fields, advertisement, business management, energy, healthcare, human resources, labor market, public relations, social and public policies, trade, transportation, sports, utilities are becoming the main user and producer sectors of big data.
If you parked your car away, you can call your car from your mobile phone, and it can pick you up from wherever you are. Smart houses listen to residents’ orders, shutting down curtains, or turning on air conditioners while smart cleaning robots clean the house before the owner or guests arrive home. Mobile operators are promising to stay in touch with loved ones, even they use digital currency for balances and provide services erasing the borders, languages, currencies, and distances. An international team of researchers from 12 different prestigious academic institutions, collect survey data on ‘how citizens prepare and cope with the spreading coronavirus’. With the survey they distributed via social media, the researchers reached 113,362 thousand people in 68 languages all around the world thanks to social media and volunteer translators as crowdsourcing (see https://covid19-survey.org/). In disaster research, big data is deployed to predict, prevent, and respond to natural disasters using drones integrated machine learning algorithms collecting and identifying relevant data. In smart cities like Barcelona, London, New York, Toronto, Singapore, Seoul, Reykjavik, or Masdar, big data analytics is deployed to manage complex urban life, systems, and structures. Socio-cultural and environmental data from traffic lights, city transportation cards, social media, smart litter bins, surveillance cameras, etc. are smoothing transportation and traffic flow, creating innovative touristic attraction points, keeping the environment clean, providing security, and increasing life quality. Physicians or persons collect, follow up, and record health data thanks to advanced medical inner or outer body prosthesis and mobile devices, thus they track symptoms, predict risks, and prevent or treat diseases. In the world’s largest retail or technology companies, there are data scientists and analyst teams to evaluate real-time customers, sales, social media, event, or location information in various forms of data to capture the emerging behaviors and trends for research and development, organizational, marketing, catering or logistic ends. Giant insurance companies use various software and models to re/calculate risk statistics in minutes. Banks or financial institutions can detect fraudulent behaviors, hacker attacks in credit card operations, or their customer repositories before it is too late. Intergovernmental organizations like the UN lead and support many projects of capacity building, climate change, food pricing, crop surveying, energy-saving, water demands, etc. using big data analytics digging in social media or real-time and locations (see https://unstats.un.org/bigdata/inventory/). The biggest retail company or an automobile brand use artificially controlled drones and robots in their warehouses and factories (Wisskirchen et al., 2017; Ghaffarzadeh & Jiao, 2020). Big farmers use unmanned aerial vehicles in coordination with smart mobile devices to plant,
observe, and organize farming tasks. The photo or humidity sensors attached plants on the farm talk to farmers about their humidity, food, or sun needs via signals in zeros and ones (Levy, 2017).

Big data analytics and its methods are deployed in online agenda-setting, targeted advertising, lobbying, campaigning, cultural and political discourse analytics, political communication, electorate affiliations, behavioral models, and predictions during elections (Larsson & Moe 2012, Andrejevic 2014, Bail 2014, Couldry & Turow 2014, Colleoni et al. 2014, Neuman et al. 2014, Fink & Anderson 2015). For example, behind Barack Obama’s 2012 victory, the cloud of Amazon is known as one of the most important tools (Mosco, 2014, p.4) or Facebook voters’ manipulation via social media in the 2016 USA presidential elections was quite effective. Relations between citizens and state institutions, voters and politicians, open and direct communication via social media and the involvement of people in the decision-making processes or following and controlling the politicians through new media platforms can make the whole political sphere more transparent and democratic. According to the UN, from the citizens’ side, rich, timely, and reliable information empowers individuals, institutions, and companies to make optimal choices for their benefits, thus, new digital technologies and distributed knowledge make both governments and citizens connect and control their goods and services while governments tackling various socio-political and economic issues to create the more resilient, improved and democratic economy, infrastructure and collective life under higher quality standards for their citizens. Social media is a unit of analysis for data sciences with political science, media, and communication studies as well (UN, 2014).

Regarding economics and its epistemology, it could be inferred that big data’s benefits and threats, production and consumption, subjects and objects are becoming more complex, abstract, and intermingled as can be seen from the examples above. On the other hand, big data is the dependent variable of physical and industrial production processes, forces, relations, and products chain such as cobalt mines, exploited mining workers, cobalt or other ore dependent personal computers, mobile and smart devices. Without hardware, both software and big data are unthinkable (Whitheford, 2003; Boutang, 2011; Harvey, 2017; Fuchs & Chandler, 2019). They are everywhere producing and transmitting innumerable data giving way to revolutionary human and machine unification ‘singularity’ as well. Information and communication technology products also form scientific
information and thus have all the economic features of the information. This means that products and services also become information that is a commodity itself (Shiller, 2007). Neoliberal economy, scientific knowledge method, and innovation are all intertwined. The reason it looks like an indestructible digital castle is that it and all its abstractions come together. As a solid and pioneer example, now, with the Lisbon Protocol, European Union is trying to include the circulation of data in addition to the free movement of people, goods, and services, and to create a single data market from it. Big data pioneers plan the global change in these uncertain world conditions by transforming old business models into digital platforms supported by the network of ‘social media, big data analytics, cloud computing, the internet of things’, and mobile solutions (www.eesc.europa.eu). While each unit in those systems whether human or nonhuman such as workers with their various faces or machines, all produce big data even while they work or sleep. Big data is a production of enormous quantities of data momentarily from such a variety of sources and formats in this digital phase of capitalism that witnessed the so-called “data big bang” (Pesenson et al., 2010) as a constructive explosion of our global future.

2 Literature

2.1 History of Big Data

The main characteristic of “big data” is multidimensionality because it is so large, its production and flow are so fast and it is much more complex than regular large amounts of information that we used to have before, thus it requires novel methods and techniques to process. It has five dimensions that differentiate it from previous data flow and storage. After appearing in the late 1990s (Cox & Ellsworth, 1997) and gaining its conceptual take off in the early 2000s thanks to economist Diebold (2003, 2012, 2020) and industrial analytics Doug Laney, 3Vs model

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5 Each labor made drones, computers, robots, gadgets, androids, vehicles, devices and people produce big data while they play, risk, fix, construct, read, treat, write, listen, watch, stage, montage, observe, analyze, test, rest, entertain, burn, run, function in a continuous flow of production and consumption cycles.

(Laney, 2001), referring ‘volume’ (size of data), ‘velocity’ (unprecedented transfer speed of data collected and analyzed in real-time/near-time streams), and ‘variety’ (different types and structures of data that come in all forms like from unstructured texts, messages, audiovisual captures and entries, stock data and financial transactions to structured ones like cleaned, organized, tabulated structured data and mixed ones) developed. 4th dimension was ‘variability’ referring greatly varying and often changing data in unpredictable ways and speeds. It also corresponds to value production and big data analytics through extracting valuable information from those erratic data masses by specific methods, techniques, and expertise. Currently, it embraced its 5th dimension ‘veracity’ related to proper data management and ethical concerns. Veracity also refers to quality attribution of data regarding its containment and appropriation in scientific and systematic ways. Giving an order to data out of chaos and adding value to it require special procedures in an organized way by linking, cleansing, transforming, connecting, correlating those different and various data to place them in meaningful relationships, hierarchies, and protocols (Bello-Orgaz et al., 2016; Blazquez, Domenech, 2017).

Invented in military facilities but developed at the academic institutions, the internet became the platform for the world wide web that delivered in CERN by Sir Tim Berners-Lee and became an inseparable companion of big data. It transformed from being information provision to a medium for community building and communication, then to a ubiquitous platform for the new digital economy. 1990 onwards corresponds to its web 1.0, broadcasting and publishing period; then from 2000 onwards is about web 2.0, people-centric, peer to peer

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7 One must remember that neither rational nor digital is new. The story does not start with Steve Jobs and Apple, Bill Gates and Microsoft, Facebook and Zuckerberg, Tesla and Elon Musk, or Jef Bezos and Amazon but cumulative work and contributions of distinctive scholars, philosophers, physicists, mathematicians. Those names are G. Leibniz, I. Kant, A. M. Ampere, C. Babbage, A. Lovelace, A.Bogdanov, L. von Bertalanffy, H. Poincare, H. Maturana, G. Bateson, I.Prigogine, A. Turing, N. Wiener, B. Mandelbrot, F. De Saussure, J. von Neumann, N.Luhmann, T.Parsons so on who carried humanity up to this technological breakthrough. Their works of tectology, cybernetics, system theory, electromagnetism, automation, computers, self-organized and adaptive systems, autopoiesis, complexity studies gave way to personal computers and laptops, the World Wide Web, smartphones, tablets and other mobile devices, satellites and geographical information systems, artificial intelligence, neural networks and deep learning, social media, targeted digital advertising, clouds, and databases, the Internet of Things, Big Data analytics and cloud computing, unmanned aerial and marine devices (Peter et al., 2009, p. 13; Fuchs & Chandler, 2014, p. 2).
(business to business) interaction, collaboration, the emergence of social networking (age of Wikipedia and Facebook), content creativity of users, mashups\(^8\), big data, and data science; Web 3.0 is known as semantic web or internet of things generation from 2010 onwards accompanied by big data bang. The aim of designing the web is linking data sets so, (age of Linkedin) in protocols machines come first, humans later. Primary objects are things so links are between things (Aghaei, 2012). Thus, it's about value extraction and transfer, so money can be programmed and embedded into an application or digitilized like bitcoin. Social media platforms systematically target users’ data, collect, store, and sell them to third parties. By changing the landscape of the internet at this period characterized by the global financial crisis, digital competition, profit maximization, fear of terrorism, and pandemics giving way both corporations and states to develop an interest in surveilling and having control of everything. As of today, the coming age of web 4.0 is also a dream of a symbiotic relationship between machines and humans. Web and machines will be more intelligent evolving into AIs, reading, reacting, executing even better than humans (Ibid).

2.2 Epistemology behind, the superstructure above

According to I. Kant (1770), “Intelligence, rationality, is the faculty of a subject by which it can represent to itself what by its quality can not enter the senses. The object of sensibility is sensuous; what contains nothing but knowable by the intellect is intelligible ‘To the extent to which knowledge is subject to the laws of sensuousness it is sensuous…to the extent to which it is subject to the laws of intelligence it is intellectual or rational’” (para.3, 50). The big data requires algorithmic knowledge of ‘mathematics’ and ‘computing’ that are associated with rational or intellectual faculties of the subject. Algorithms of big data, on the other hand, are continuously developing to the level that can calculate sensual and empirical knowledge by neural networks, machine learning, and artificial intelligence systems that seek patterns, behavioral tendencies, and relationships with emerging ways of sensing, hearing, seeing and adapting to the changing conditions. The dichotomy of rational and sensual knowledge is undermined by algorithms and learning machines that can simulate human experiences and produce automated decisions, and the distinction between the brain’s intellectual capacity and

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\(^8\) Developer term referring combination of maps, graphics, multi audiovisual content and text on the web page, pioneer of social softwares.
sensory organs’ experiential and sensual knowledge disappears. Big data combines knowing and sensing division in unified algorithms (Fuchs & Chandler 2019). On the surface business and home, writer and reader, journalists and commentator, playwright and actor, education and entertainment, content and form, real and virtual intertwine, dichotomies, and boundaries began to become obscure. It is hard to say where anything starts and where it ends.

Not his dualism but Kantian global peace ideals though persist. Technological optimists argue that developing digital technology that has radically transformed the world already will provide the world people with a global communication medium, a common language, ‘promising new forms of community, alternative ways of knowing and sensing, creative innovation, participatory culture’, cooperation, ‘networked activism and distributed democracy’ (Fuchs & Chandler, 2019), so they will live in harmony (Negroponte, 1996). Big data in this respect can be utilized as knowledge pacer to make you live your life in high-quality standards, in ease and comfort reached from a touch of your finger or sound command to AI in your mobile device or IoT. On the same page, the UN considers big data as a developmental cure and tool for fixing every kind problems on its emergence, and by the acceptance of big and more is good, the UN called for a big data revolution for empowering people and mitigating the inequalities and poverty that divide rich and poor (UN, 2014). On the other hand, digital pessimists argue that let alone bringing positive change, digital technologies rather ‘deepened and extended exploitation and domination’ in the very heart of society through new discipline and control forms under networked authoritarianism and digital dehumanization paradigms of capitalistic production relationship (Fuchs, 2008).

Once agreeing on that capitalism is a societal formation and big data signifier of capitalism is relevant with the latest development of the digital production relationships, five positions can be spoken of regarding big data, digitalization, and society adding upon the categories of Fuchs (2019). According to the first one, capitalist modern society radically changed and transformed into something new bringing labor and property relations to the end by the emergence of the knowledge economy, its new structures, and organizations of activities. Structure accounts for organizational arrangements of human relations within production relations including consumption, reproduction, experience, meaningful communication coded by culture. ‘Informationalism’, networking and digitalization are material foundations of this new network society of Castells (2004, p.3) “whose
social structure is made of networks powered by microelectronics-based information and communication technologies” (Shiller 2000, 2007; Aneesh, 2006; Shmiede, 2006; Fuchs, 2007; Fuchs & Horak, 2007).

The second one criticizes the previous one as a techno-determinist and ideologically confusing, and argues that there is nothing new emerged and informationalism legitimizes dominant economic and political relationships of neoliberal ideology and new terminologies like finance, managerial, late capitalisms are producing more confusion (Runciman, 1993; Garnham 1998, 2004; Freedman, 2002).

Albeit with different sub-groupings within its theoretical richness, the third position was taken by autonomist Marxists. Cognitive capitalism is formulated as the latest and dominant dimension of capitalism founded on immaterial labor driven by knowledge-based economy dynamics. As the latest form of society, capitalism passed through from mercantilism and industrialism stages to cognitive one as the third type of capitalism (Vercellone, 2006; Boutang, 2011). It is again an accumulation system but one of its old dynamics, which is material labor, left the place to new intellectual and cognitive labor. Immaterial labor and its social appearance “multitude”, are powered by new existential energy and motivations like communication, cooperation, and production of “affect” in a continuous becoming process (Lazzarato, 1997; Deleuze & Guattari, 1978, 1999; Negri & Hardt, 1999; Hardt, 1999; Hardt & Negri, 2000; De Angelis & Harvie, 2006; Fortunati, 2007 so on). Cognitive capitalism empowers new labor with collective production of knowledge and creative commons as a source of new unscalable value as self valuation as well against the biopower strategies of capital that tries to keep accumulate, exploits, and control commons and its conditions on the other hand. Digital is an aspect of immaterial production as a digital assemblage (Hardt & Negri, 2000). In this assemblage, big data functions as a technical and abstract tool of this new big data capitalism for governance and a replacement for rational and conscious elaborations of tasks, social communication and negotiation, and democratic decision-making processes (Berardi, 2009). In this cognitive communicative economy, technical progress generated by knowledge production is cost, and innovation knowledge, disseminated informally, and going against the possibility of fully protecting their proprietorship, is a public good. What unites the struggle of researchers, flexible and intermittent workers is the contradiction of processes of trivialization of work: the soul and body of immaterial work find its concrete expression based on the financialization of cognitive
capitalism. The struggles of precarious workers and researchers reflect a conflict of capitalism that extracts knowledge by generating cognitive and subjective surpluses to function, “liberating” them from the redistribution processes of social wealth (Marazzi, http://seminaire.samizdat.net/spip.php?article87). Big data capitalism is the ‘production of subjectivity through machinic enslavement’ which ‘means the cybernetic conception of automated’ (Fuchs, 2019). It is an assemblage that makes distinctions between non-human and human, object and subject, things and words disappear for good even going beyond Anthropocene. Human is a part and component of machinistic processes and assemblage, which is a combination of machines, signs, objects and subjects as agents, thus capitalism functions as a semiotic operator, managing all agents and their material flow as a foundation. Technology, economics, money, science sign machines independently act and produce meaning beyond language, signification, and representation. Their coherence and cohesion as a whole is ensured by the governance, regulation, and control mechanism (Lazzarato, 2014).

The fourth position is taken by an argument saying that contemporary capitalism is a regime of flexible accumulation and a form of ‘new imperialism’ powered by dispossession and financialization (Harvey, 2003). All digitalization is a transformative medium or tool for capitalism via time-space compression. Collaborative production and digitalization produce its open-access commons, however now, alike self-skilled labor, they are under overexploitation by big digital capital like Google or Facebook which is the main producer of so-called cultural industries. A redeployment of Marx’s primitive accumulation, a new style of putting-out system of early textile manufacturing labor activities are uncannily emerging in this digital age, and primitive accumulation is going on by dispossession through hyper-exploitation of (free, flexible or digital) labor (under the name of crowdsourcing, and produsage), and (codes, language, knowledge, digital, intellectual, cultural signs) commons. The old struggle of physical labor and capital, and material productions still strong and relevant to digital industries as well. Labor-saving techno-utopia versions of big data and artificial intelligence or automation innovations are ideological fetishes and misleading because poverty, inequality, and racial discriminations are strikingly real at the very heart of so-called smart cities just as real as the collapsing factories of Bangladesh or suicide zones of industrial China or microfinance crisis victims of India. Posing big data or technology as a cure for everything is a distraction from real revolution and political activism (Harvey, 2017).
The fifth position criticizes the first one as changing the whole infrastructure and production relations way too much while asserting the new type of society. It ignores the continuities of political and socio-economical problems created by capitalism. Then criticizes the second one as being static. It denies the socio-economic developments and underestimates the dynamic and complex system of capitalism. It argues that both techno-optimists and pessimists are inappropriate (Morris-Suzuki, 1986; Fuchs, 2019). As a combination of fourth and third positions with critical theory and Luhmanian system theory of cybernetics veins background, this position argues that whatever you name capitalism as knowledge (Machlup, 1962), informatic (Fitzpatrick, 2002), fast (Agger, 1989), virtual (Dawson & Foster, 1996), high tech (Haug, 2003), academic (Slaughter & Rhoades, 2004), financial (Leyshon & Thrift, 2007; Foster, 2010), communicative (Dean, 2013), hyper-industrial (Stiegler, 2014), and so on, it is just capitalism with all of these attributions. Cyberspace is characterized by societal antagonisms and shaped by contradictory development tendencies. Labor is digital as the attribution of age and it accounts for a stage of technological development. Thus, regarding capitalism, even if it manifests itself in different names, or whatever the name labor takes, the universal contradiction of labor and capital is still there and diffuses to every sphere of society. Accumulation logic of capitalism is under the strong influence of (social) media, and corporation capital behind it. Different dimensions of capitalism are carried by multifaceted transnational, informational, and network corporations that are the monopolies. For example, in the retail investments, Amazon plays as a hyper-industrialist while in the digital sector it plays with the digital capitalism’s rules, and all these dimensions are part of a whole and support each other. Thus, contemporary capitalism is a unity of different capitalisms. Exploitation, domination, and commodification persist. “Digital and Big Data capitalism is an antagonistic societal formation that deepens alienation and exploitation while at the same time advancing potentials for liberation” (Fuchs, 2017). Real data producers are users and they are ‘sold as a commodity to advertising clients’ in the social media world by its giants like Facebook, Twitter, Google so on (Lent & Amazeen, 2015). There are certain dangers of instrumentalization of human and its reason into a machine in the case of being used for exploitation and domination. On the other hand, technological benefits of age like antagonistic digital machine computer and its usages enable humans to cooperate, communicate, socialize, and resist to the reduction of the human to computing (Fuchs, 2008, 2017, Fuchs & Chandler 2019).
3 Methods and Analyzes

The study deploys the qualitative method and exploratory and descriptive techniques to locate the big data phenomenon into a political economy framework. The study cuts across several theoretical approaches and then tries to display recent conditions and take the general picture of big data mountain while self-evident data supports the study’s basic assumptions that big data has great potential for more democratic societies and common welfare and it has also some serious gaps and limitations to be cautious about on the axis of have’s or have not’s.

3.1 Use of Big Data in Socio-Economical Spheres

In the political sphere, it empowers governments with promises of faster, smarter, and more personal decision making, policy, and application solutions. However considering that after the second half of the 1970s, the private sector overweighted its role and function in the field of data and then big data being both as owner and seller of it, the private sector has the lion share, and governments are dependent on them like NSA Prism Programme that WikiLeaks disclosed. On the other hand, globally national states and governments are taking the stage since first their governance then the security buttons were pushed. E-state databases and operations, smart and efficient policymaking strategies and tools, national and international security measures, resilient social-economic constructions, environmental services improvements are intended for serving exclusively to their citizens.

In the management and organizational sphere, big data enables organizations to identify new markets, products, brand strategies, gather new management knowledge, manage product life cycle and supply chain, track, monitor, and control workers, choose prospective employees, make consumer analytics for profiling consumers and users’ tastes, satisfaction, interest, preferences, lifestyles, behavioral choices, attitudes, motives, likes, dislikes, etc. for personalized, targeted advertising, product development and marketing (Liet et al., 2015, Hazen et al., 2014; Erevelles et al., 2016; Trunilai & Tellis, 2014; Arrigo, et al., 2016). In human resources management, and organizational behavioral sphere, big data enable managers to screen, refine, improve the skills of workers, and design digitalized labor economy and employment market relations via online job opportunity and career platforms like LinkedIn, academia, research gate, etc in a structured form (Mezzanzanica & Mercorio, 2019).
In the finance and monetary sector, blockchain and cryptocurrencies are a new stage in the new digital economy allowing people to trade without having to trust each other in an open, decentralized market environment. The currency used is completely virtual but can be converted to real currencies, but the most striking aspect of this money is that it cannot be reproduced again (irreversibility). Even though researchers have been surveying the census for a long, there is a new ability as distinctive about the current utilization of “big data” in the political economy. The development of computational data science techniques in natural language processing and machine learning algorithms’ associated with new econometrical models to predict, analyze and interrelate large and complex textual information increase researchers’ capacities for studying the interactional issues between economics and politics. They can analyze many questions they could not do before due to a lack of data, tools, and techniques (O’Halloran et al., 2016). Those are automated record and data set linkages, cheaper OCR recognitions to process older data, geocoding techniques, extracting data from web pages using Python and other tools, advanced computing and digital storage capacities to carry out the vast amount of public surveys, archive and repository searches, draw millions of social security, health, tax, income, wealth share data sets from records, or voting results from supercomputers that is big data issues (Poole & Rosenthal 1991; Piketty & Saez 2003). Again, despite the public sector’ administrative records like population, household income, program and service participations, regional welfare and economic mobility, employment surveys, and statistics, etc. are developing powerfully (Einav & Levin, 2014), the private sector is the main data owner and provider for researchers regarding business, labor, and financial market information and large statistical sets available in various databases and services like WRDS (Wharton Research Data Services) or Standart&Poor’s Compustat, etc. (Mian & Rosenthal, 2016).

In the media, broadcasting, and publishing sphere, media convergence is significant leverage for big data. It includes sub convergences such as technological convergence (smart devices like tv and mobiles), industrial convergence (movie companies, telecommunication companies, and media companies come together), content and service convergence (entertainment, infotainment, communication, gaming, and news corporation acquisitions, mergers (Jenkins, 2008; Chakravartty & Shiller, 2010).9

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9 AOL-Time-Warner merger, Pixar merger with Disney and Apple partnership, acquisition of 21st Century Fox by Disney, in Turkey Doğan and D-Smart merger, etc.). TV broadcasting through IPTV, smart tv, android tv, web tv feed big data and Netflix dominates the global market followed by Disney+ on Apple TV.
3.2 Big Data as a scientific field: Data science and scientist

Big Data analysis is a research area and discipline that is growing rapidly (Diebold, 2012), however, it is highly fragmented. It is at the crossroads of several scientific disciplines that can be phrased as the convergence of statistics, mathematics, logic, methodology, computer science, art, design, and specific expertise areas like economics, politics, environmental sciences, etc. It is a break from statistics whose nucleus could be traced back to John Wilder Tukey’s Exploratory Data Analysis in 1977, and it can be only said that the data science emerged with the web 2.0 period and started to be evaluated within the scope of big data as the new kid on the block. It depends on the method that the analysis is driven by the data, not the theory. Because it aims to reach the decision-making phase in line with the valuable information obtained after a series of transactions. It is a new, non-hypothetical approach which is nonparametric in problem-solving. It uses self-taught techniques such as evaluation of feedback for reliable results, repeated testing, and replacement of analyzes. It covers a range of principles, problem definitions, algorithms, patterns, and processes such as scraping, voiding, cleaning, organizing, sorting, structuring, correlating in large data sets, and areas such as machine learning and data mining (Ibid). It requires data ethics and regulations regarding the use of data. It also emphasizes commercial practices.

Big Data scientists, researchers, or analysts are often preoccupied with their complex data collection and analysis processes. Unlike the statisticians, they need to know linear algebra, numerical analysis, and machine language. They perform the sexiest of 21-century jobs as being all data architect, software architect, system architect, data engineer, and system analyst. They integrate technical perspective with socio-individual analysis skills. In his report, “Building Data Science Teams,” D.J Patil (2011) describes data scientists’ required specific technical expertise and qualifications. These are deep expertise in some scientific disciplines, advanced programming, and machine/programming language such as JavaScript, Java, Phyton, HTML, SQL, PHP, C++, R, TypeScript, Go, Kotlin (see JetBrains, The State of Developer Ecosystem 2020 and previous datasets). They have curiosity and desire to go beneath the surface having storytelling abilities to be able to communicate and associate with the data patterns effectively. Having a hacker mentality is another asset. They produce more accurate input for decision support processes, generate and report results with the help of certain tools by dealing with especially unstructured big data.
3.3 Global Datasphere, Data Architecture, DATCON (DATa readiness CONdition)

The global data-sphere which differs from just data storage is a measure of all new data produced, captured, replicated across the world in a year and its expansion is never-ending. Through analytics new data is generated, that big data requires that big and special stores for sure. Digital content is created and stored in three primary locations: Core, edge, endpoint. The core includes large data-centers and all varieties of clouds like public, private, and hybrid. Edge contains enterprise-hardened servers and edge-specific appliances including cell towers, servers in the field, smaller data-centers, and server rooms. The endpoint includes all devices on the edge of the network like connected cars and wearables, industrial sensors, PCs, people, and smartphones. According to IDC predictions, the Global Datasphere will be 175 ZB by 2025. Every day, more than 5 billion prosumers interact with data. By 2025, that number will increase to 6 billion approximately equivalence of 75% of the world’s population. Every connected individual will have at least one data interaction every 18 seconds in 2025. Many of these encounters are due to the billions of linked IoT devices around the world, which are projected to produce more than 90 ZB of data in 2025 (Reinsel et al., 2018; IDC, 2019).

According to IDC Report’s (Ibid) highlighted analytics and predictions, by 2025, 49% of the data processed worldwide will reside in public cloud environments. These will be the rich micro-level administrative data sets maintained by public institutions like the Social Security Administrations, the Internal Revenue Services, and medical centers. On the private data side, even more dramatic change

10 Big data sizes are measured by the Kilo, Mega, Giga, Tera, Peta, Exa, Zetta, and Yotta scales from less to more.
11 Figuratively, the main difference between public and private cloud use is about sharing the place where you entrust your valuable data and the security of the place. While private cloud provides service that is not shared with any other, contrarily, the public one gives a storage service that is shared between various customers, even though the data and applications of each customer remain secret from each other. Private cloud access and processes are presented as more secure, because it is accessed through private, more secured and separated doors that is network links and protocols, rather than the public internet. Security, control, scalability and premium computing services are what the money buys parts of private cloud. Besides storing their valuables, private and premium cloud customers/companies can benefit from big data analytics (e.g. other market actors’ or buyers’ specific behaviours; firms, stock, price analysis; tracked, collected information or distilled knowledge of everything that regular person could not reach) and solutions according to their needs and problems as long as they pay the price.
in data collection is expected. The private sector is already the main source and custodian of data generation and storage. Firms in every sector of the economy today routinely aggregate data on their market environment, customers, and their organizational and operational business issues. Banks, financial, and insurance companies collect in-depth data on individuals, households, and business financial interactions. Retailers and manufacturers such as Amazon, Walmart, and Target collect data on ‘consumer behavior, camera footages, spendings, wholesale prices, and inventories’. The private firms’ and enterprises’ share are growing in DataspHERE stewardship while consumers generated data share is expected to drop from 47% to 36% by 2025. Amazon, Microsoft, Google, IBM, Oracle, Salesforce, Facebook, Twitter are the main gatekeepers of datasphere while Amazon leads the market in cloud storage by far. In the past, consumers were responsible for much of their data, but as data becomes increasingly centralized across enterprise core and edge infrastructure, the responsibility of maintenance and management is shifting to enterprise/cloud provider data-centers due to the drives of increasingly “always-on” and “sensorized” panopticon world that is 24/7 capturing and analyzing our lives and generating data even while we are sleeping from our wearable gadgets. The international arena on the other hand is expected to be warm-up with data competition. The data sphere of China is on track to become the largest in the World. By 2025, it is projected to increase by 30% on average as China’s digital population increases and its CCTV, security, and surveillance infrastructure continues to spread. Another potential battle area is public shares of clouds while US storage will fall from 51% to 31%, China’s share will double to 13%. Regarding the Data readiness condition of studied four industries, manufacturing, media entertainment, financial services, and health care, index displays the greatest use of edge computing and potential in manufacturing and financial services. DataspHERE involvement of companies concerning industry manufacturing, financial services, and retail share first rows in specific as of 2018 (IDC, 2019).

3.4 Big Data Analytics, Methods, Techniques, and Frameworks

Today most of the socio-economical data emanate from nontraditional social and economic interactions and productions like the internet, social networking sites (SNS), blogs, information search, financial and non-financial transactions, information diffusions, nondeliberate traces of web and app usages, location and personal data. Most of these data are unstructured or semi-structured
heterogeneous raw mess. The treatment procedure of the data composed of three main processes: structuring data, modeling data and their relationships, and assessing models. Structuring of data is mainly semiological and linguistical processes. Mainly two methods of this process are natural language processing and data matching methods, that deploy theme, sentiment, latent semantic, Dirichlet allocation, word embeddings, and discourse analysis techniques in the analyzes. Modeling is another main process that reduces the dimensionality of data sets, applying its techniques to data and obtaining outcomes. Artificial Neural Networks (ANN), Bayesian Statistics, Deep Learning, Decision Trees, Ensemble Algorithms, Support Vector Network/Machines (SVN/M), regularization methods are applied under the two different paradigms for modeling of supervised learning and unsupervised learning depending on the type of data and the objective of the analysis. In the protocol line from bottom to top, there lies data science, deep learning, machine learning, and AI. For now-casting and forecasting objectives, generally supervised machine learning techniques are applied in all disciplines including social sciences. Linear and logistic regressions, Bayesian Structural Time Series (BSTS) are very common in social sciences. Other recently preferred and being developed one SNV is a learning machine and mostly deploys ANN and Deep Learning techniques which are special ones because their learning algorithms can be either supervised or unsupervised, and they are potentially quite useful and promising techniques for complex social models as well. Assessing model main group is about robustness and performance measures. Under MapReduce paradigm, Apache Spark (Hitachi Solutions, NASA JPL-Deep Space Network, Nokia Solutions, and Networks are powered), Flink (Alibaba, Amazon Web Services, Uber), Hadoop (Amazon, Adobe, AOL, Alibaba, eBay, Facebook), Impala (Bank of America, J. P. Morgan, Apple), Storm (Twitter, Yahoo, Baidu, Verisign are powered), are mostly used big data frameworks that is platforms and tools for an architecture for massive data processings by utilization of data mining methods and machine learning algorithms in different domains. There are several libraries like Mahout and SparkMLib especially designed for developing new efficient applications built on machine learning algorithms as well (Blazquez & Domenech, 2018).
3.5 Big Data Science, Digital Positivism and The Exchange Value of Big Data Mess

The big data sphere’s main actors like Microsoft, Google, Twitter, Facebook are developing many internet and application-based tools and big data repositories embedded in computers and mobile devices for the benefit or common uses. In the face of this wealth of data, such scientific questions that what to learn from these new empirical sources and how to utilize them can fairly be posed. Mapping tendencies and building relationships in this gigantic amorphous data pool provide researchers with many practical solutions and quick decisions in response to specific problems and needs but the analyses do not seem to start with theory, rather big data scavenger hunts wait for their theory to be fit into some frame-

work. Many scholars seeking data in the field for theory testing could not access to specific big data repositories if they are not a member of Google or Amazon Web Services’ expert team. There is a conceptual and epistemological gap regarding the practical and pure empirical nature of this newly emerged scientific area and also the collaboration gap among the sectors. Technical experts and engineering approaches are taking over control for the sake of the market and the profit ends instead of higher scientific causes like hypothesis testing methods to identify the problem and understand the underlying phenomenon and philosophy. Big data is not the message itself and it is messy. The infrastructure of big data is one facet. According to analysts, 80% of the effort involved in data processing is cleaning it up at first, so far only 1% of it has been processed (Warden, 2011). This makes big data invaluable with huge potential exchange value due to a scarce amount of processed end products. Then, whose is this valuable mess is quite intriguing?

95% of “y generation” joined social networks and already outnumbered the baby boom generation by 2010. Covid-19 pandemic and lockouts increased the internet and social media use. The number of people around the world using the internet has risen to 4.54 billion. Social media use increased by 40% in recent months. People use social media for getting news, entertainment, building relations and communities, communication, and financial and non-financial transactions.13 Our New Digital 2020 July Global Statshot July updated version, (https://wearesocial.com/; Hootsuite, 2020), states that – for the first time – more than half of the world’s total population now uses social media by June 2020. DataReportal (https://datareportal.com/) analysis shows that 3.96 billion people out of 7.75 billion world population use social media and 99% accessing via their smart mobile devices today, and it is expected that one day everyone using the internet participated in at least one of the social media platforms eventually. More than 5.19 billion people are currently using mobile phones in the world, with usage numbers up 2.4% by 124 million over the last year. Mobile phones are the leader of web traffic by the device with 53.3 % share, just followed by laptops and desktops. Also, World Internet users are predicted to spend a combined 1.25 billion

13 The world’s most used social platforms are in an order Facebook, Youtube, Whatsup, FB Messenger, Wechat, Instagram, TikTok, QQ, Sina Weibo, Qzone, Reddit, Douyuin, Kuaiishou, Snapchat, Pinterest, Twitter (Hoots, 2020). According to GlobalWebIndex, most visited websites are almost same followingly Google, YouTube, Facebook, Baidu, Twitter, Wikipedia, Instagram, Yahoo, Yandex, Pornhub (July, 2020). Facebook also leads the platforms as source of news by the choice of 46% of worldwide survey respondents.
years online by 2020, with more than one-third of that time spent on social media, although the amount of time spent online varies from country to country. For example, it is 9 hours and 45 minutes per day online for the Philippines as compared to 4 hours and 22 minutes per day in Japan. While nearly 70 percent of the total population in Northern America today uses social media, as compared to just 7 percent in Middle Africa (Ibid.). As determined with wealth and infrastructure, internet access differs geographically, so that roughly for 3.96 billion people the internet is out of reach or afford. More than 1 billion of these ‘unconnected’ people live in Southern Asia, and whole Africa with 27 percent of the total, 870 million people yet to come online.

Dissemination and acceptance of new digital apps and gadgets are quite fast that it took 38 years for radio to reach 50 million, 13 years for television, 4 years for internet, 3 years for iPod, and for Facebook, it took less than 9 months to reach 900 million. Now, it reaches 3 billion people. iPhone apps hit 1 billion only in 9 months. New unicorn TikTok even reached 800 million in the last month (Our New Digital, 2020). Social media is a reasonably big data champion by far. The potential of unconnected people and geographies attracts big technological companies’ attention as a strategical target for extending the market and increasing the profits over the internet, mobile devices, and social media.

**3.6 Limits, Gaps, and Ethics of Big Data**

Since the mid 70’s there has been an ongoing struggle between free web developers (Linux and Open source digital and creative commons licensed platforms called “copyleft”) and copyrighters (Microsoft and Android monopoly). As of today, the monopoly and private property rights side seems to take control, most of the big data is neither a public good nor a common. It is commonly and mostly produced by people, but almost all of it appropriated and processed by a multinational, conglomerate, network corporations, or for-profit organizations thus they charge fees for data access, storage, security, and on-demand premium services like data analytics. In the tech sphere, regarding access to software, storage, database, and apps, trial or beta versions are free for marketing or developmental purposes only, and to this end, the big tech companies exploit people

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14 As a digital common, The Wikipedia is licensed under the GNU Free Documentation License (GFDL) innovated by Richard M. Stallman who coined the word “copyleft” in his 1985 dated manifesto.
as underpaid or free crowdsource labor giving small tasks similar to put out system. However, payment does not guarantee all. Almost 90% of globally generated data requires some degree of protection, yet less than half will be protected by 2025 (IDC, 2020).

Even though big data analytics have been profoundly used by law enforcement, national and international security and law agencies including big law firms enabling them to access, examine and use data for their ends, legislation governing the functions and practices of big data is still limited to twentieth centuries fragmented responses that are conditioned by traditional technologies’ misuse, privacy abuses or violations like Computer Misuse Act, Copyright, Designs and Patents Act, Data Protection Act (Casanovas et.al., 2016).

The big data world lacks the necessary general legal frameworks to protect individuals’ unalienated rights, privacy, and dignity especially against the private sector and their corporations that seemed the biggest appropriator of big data. In some dimension of big data, there is no legal regulation at all, just “ethical principles” and “social responsibility practices” voluntarily work but for the benefit of corporations at the last. For example, since the early stages of AI development, for corporate-sponsored Ethical AI Project, the tech industry defends and lobby for the first position (Ochigame, 2019). Corporations also enjoy the moderate legal regulations that only encourages or requires technical adjustments that do not conflict with the corporates’ interest and profits.

The new General Data Protection Regulation (GDPR) of the EU can pose an example of such regulations. GDPR ushered new standards of data protection replacing the 1995 Data Protection Directive (EU Commission, 2018). It newly includes topics like online identification of markers location, genetic permissions, and localization of storage and processes, and it gives more rights to citizens to protect their privacy and rights on their data against corporations. However, underlying principles are the same with the former, which is constructing the Digital Single Market of EU, now applies to big data as clearly disclosed in its first article saying “This Regulation lays down rules relating to the protection of natural persons with regard to the processing of personal data and rules relating to

15 In 2010, the CEO of Google at the time, Eric Schmidt, made a remarkable statement at a media event in Abu Dhabi: “One day we had a conversation where we figured we could just [use Google’s data about its users] to predict the stock market. And then we decided it was illegal. So we stopped doing that” (quoted from Fortt, 2010, Nielsen, 2013).
the ‘free movement of personal data’” (Ibid.). Thus, the commission wants to get more detailed insights into the impacts of data localization restrictions not to harm capital’s scaling up the business and lost profit.

Regulatory authorities are cautious about regulating big data collection and use by corporates because they have a strong influence on politics due to their position in the market. Digital technologies, communication, information, internet, media, and platform market show a tendency towards monopoly consolidating their power through partnerships, acquisitions, and mergers since the last decade of the 20th century. Amazon leads data cloud and big data analytics becoming the world’s biggest online retail department store. Google Android dominates the smartphone operating system market while computer one is overshadowed by Windows. Apple follows them in both markets. In mobile apps Tencent Video and Netflix dominate. In the streaming market, Netflix, Hulu, and Amazon are the main competitors and Amazon regularly approaches Netflix, which is also Amazon’s web services client, to become a monopoly. Google is a monopoly and leader by far in the internet search browsers. Facebook dominates social media and among online forums, Reddit and Quora are the main actors. All of them are capitalist, for-profit and copyright side of the system and they both resist any regulations about big data and anti-trusts for the protection of users and small firms, even manipulating the science and academia through research funds and positions in their boards (Ibid).

Although these corporations are considered to be rivals in the individual market, they prefer to compromise, and even to profit together and with the States as a whole, that might cause to higher prices for citizens/consumers. New small players are doomed to be bought off or killed in this game by corporates with big data and platform advantage. As a platform, for example, Google and Facebook, match demand and supply of both information and advertisement, gaining a powerful position in the middle. They can exploit network effects across

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16 Apple has 109 acquisitions (like Apple’s US$3 billion for Beats, Shazam, NeXT, dialog, Anobit), Microsoft has 225 acquisitions (US$8.5 billion for Skype, Nokia, LinkedIn, Github, aQuantive), Google has more than 200 acquisitions (AddMob, US$12.5 bn for Motorola, for Nest Labs US$ 3.2 bn, US$1.65 billion for YouTube, DeepMind, HTC, Fitbit), and Facebook has 83 (US$1 billion for Instagram and US$19 billion for WhatsApp,Occulus VR) Google’s also buying up the world’s top robotics and the internet of things firms while facebook investing space with Starshot project. (https://www.lowyinstitute.org/the-interpreter/if-it-looks-and-acts-oligopoly-power-facebook-and-other-online-elite)
many different markets and shape the conditions and prices of them. They can subsidize free services at one platform from another market revenues, again advertisers. Their platform position and dominance are also protected from new entrances by strategic barriers of a platform like big data analytics, networking, and price effect. In 2017, EU Commission made Google 2.42 bn dollars penalty due to «search bias» under the name of search engine optimization (SEO) in add traffics, manipulating search and misleading users in product discovery, reserving top places to the names on search results who pay most or killing the competitors in the line. Another case opened by the Turkish Competition Authority against Google for the same breach and the court ruled Google to pay 98 million TL in this antitrust case.

Regarding big data and artificial intelligence, the idea that big tech could police its own use is being met with increasing criticism and legal regulation calls reminding several controversies like Cambridge Analytica, Facebook’s breach of private data on more than 50 million users to a political marketing firm working for Donald Trump’s presidential campaign, Microsoft’s deal with the U.S. Immigration and Customs Enforcement; Google’s contract with the Pentagon for computer vision software likewise IBM’s collaboration with the New York Police Department for facial recognition and racial classification in video surveillance footage, Amazon’s sale of facial recognition technology to police departments (Ochigame, 2019) and its special contract with CIA (Mosco, 2014, p.50). These are aligned with the raised ethical concerns of misuse of data and algorithms as well.

17 Observation of Peter Cohan in Forbes: “...investors have long believed that Amazon would use its low prices to wipe out competitors in many product categories. And having vanquished those competitors, Amazon would be in a position to reap the rewards of its huge market share – by raising its prices with impunity.”

18 Facebook, Google and Twitter collect personal data, that enables their monopoly profits by selling or renting their platforms and data to third parties. Google’s most revenues are from advertisement. In 2011 only, 4 percent of Google revenue came from its business services, whereas 96 percent came from advertising (Mosco, 2014, p.53). Also, Twitter bought its long-time partner Gnip in 2014, ‘a data company that analyzes and sells Twitter data to a host of third parties or companies as the largest provider of social data in the world then. These third parties can then use the Facebook and Google platforms and their vast personal data troves to manipulate what individual users see, read, feel, think and buy. Google thus earned some US$95 billion, while Facebook earned about US$40 billion in 2017 alone’ Greenwatch (2019). ‘Apple also benefits from the Google and Facebook business models. In 2018, Google paid Apple US$9 billion to become the default search engine on Apple products, while Goldman Sachs expects such payments to increase to US$12 billion in 2019’ (Kepes, 2014).
4. Results and Discussion

Big data has been profoundly impacting the social, economic, and political relations of contemporary capitalism. Its production and use crosscut many sectors of society, science, and epistemology. Sciences whether physical or social ones confront and benefit from the big data. Besides having property value, the big data is increasing its use-value by its functions in decision-making processes in various fields from business to the health sector or from statecraft to entertainment. It has big promises besides the threats and risks it poses. Whether it is considered by different parties as a road to Orwellian dystopia or the paradise of Dante, it is still quite complex phenomena to deal with, that is why many socio-economic perspectives and tools were developed to analyze, understand, contain and utilize it. It is developing as well becoming both cause and effect of new social and economic production relations and also it is expected that further developments in big data analytics and artificial intelligence will become real game changers for humanity, societies, and people. Thus, having and managing big data is of great importance to shape the global future, even more counts than what we do with it in the first place.

Cohered on this core reservation, this work attempted to take a multi-layered picture of a world with big data, but the result was a bit hazy photo. Despite the so-called coming singularity and the new epistemological turn blurring dichotomies, the basic same old and bold contradictions persist and catch our eye. The everlasting dichotomy of domination and exploitation theme of humanity is appearing in this photo again irrespective of who is the oppressor whether human, human-machine coexistence or machine. Even though the neologisms and theory developing attempts to frame big data are providing us with tools to define our path to the future, we are in a place there is no way back old family home, thus, we need to be cautious and meticulous with our choices and doings in this architecture of capitalistic production relations.

Under this logic, we may clarify those dichotomies differentiating the big data potentials and threats in our daily lives where each moment the big data touches on. The first reservation is the ownership of the big data. It is apparent as daylight that it is not ours now, even though mostly we, the people and citizens, produce and consume it saving the fact that the corporate share of it is rising in production day by day. The big data-driven businesses in different scales show tendencies to become oligopoly or monopolies. While big data and its other dimensions like
AI are hailed by academicians, experts, business people or politicians as a quite useful toolset for problem-solving, profit-seeking, policymaking, or securing all kinds of valuables including our bodies and lives, in the end, the big data seems to feed corporations more that have power advantageous to appropriate and process it over the individuals, even the states.

Its evolutionary way is also bifurcated regarding socio-political relationships. It is still contestable whether the big data and freedom could coexist, the same treaties apply to big data and democracy relationship as well. Free and democratic society achievements of humanity are confronting the dataveillance control and discipline mechanisms of the capitalist system actors today that are increasingly associated with privacy and dignity violation concerns of individuals. While big data provides a social market with efficiency tools and growth mechanisms, the labor part of this relationship is still under strong capital exploitation and control. Digital citizens or datakratos, no matter what their names are, people are still free citizens, debtors and consumers of this World looking up to the big data as a self-fulfilling prophecy. Not only labor but also other non-human World and the environment will get their shares from this relationship fed by the big data as well. As a sum, we have to know that, we need big data just remembering that it is not going to be an arena for the war of human and machine, but humanity with its demons.

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AN INTERDISCIPLINARY APPROACH TO THE ANALYSIS OF IMF LENDING: A NEW RESEARCH AGENDA

Merih Angin

Abstract

Despite a sizeable literature on International Monetary Fund (IMF) lending, there is still an ongoing debate about the main factors explaining the variation in conditionality shaping IMF programs. Challenging the common belief that the strategic allies of the US or G5 countries always get better deals from the Fund, whereas it is the IMF staff who has the main leverage over the design of conditionality when low-income countries are borrowing, this research develops a novel framework, drawing upon a rich body of literature on the IMF, in order to present a comprehensive model that takes into account all actors having an impact on IMF program design. By creating a comprehensive novel methodology and framework for understanding IMF program design, the research aims to provide an indispensable and extensible tool for international political economy researchers to model the program design and implementation process with high predictive power of the outcomes.

Keywords: International Political Economy, International Organizations, International Monetary Fund, Machine Learning, Natural Language Processing, Computational Social Science

Introduction

The International Monetary Fund (IMF), which is considered as “the most powerful international institution in history” (Stone, 2002, p. 1) by some, is an international financial institution established in 1945 and currently has 189 member

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countries. The IMF, usually simply called as the Fund, is responsible for a) monitoring the global economy and the member states’ economies, b) providing loans to economies with balance of payments issues, and c) giving advice to all its member countries. Whether the Fund fulfills the said mandates successfully has been a debated issue, particularly in academia, however (Helleiner 1987; Taylor, 1987; Killick, 1995; Martin, 1991; Woods & Lombardi, 2006). Following years of legitimacy crisis, the IMF was born out of its ashes in 2008: the difference between the way the Fund treated European borrowers since the global financial crisis erupted and its treatment of developing countries in the late 1990s and early 2000s has made the question of who runs the organization, and how IMF programs are designed with various conditions attached, stand out more in the literature recently. In this context, this chapter suggests an extensive research agenda that focuses on one of the most controversial aspects of the IMF’s primary mission, i.e., lending to its members, and aims to answer two questions: What factors influence the stringency of an IMF program? And how do those factors play into shaping the design of the programs?

The overarching objective of the research is to create a comprehensive novel methodology and framework for understanding IMF program design, shedding light on the processes leading to variation in IMF lending. Through creating this framework, the research will provide an indispensable and extensible tool particularly for international political economy (IPE) researchers to model the program design and implementation process with high predictive power of the outcomes. There are three specific objectives to achieve this:

i) Creating a comprehensive machine learning (ML) model for predicting the loan size, and the number of conditions in different categories, and complementing traditional statistical models to integrate a larger number of variables and provide high accuracy of prediction.

ii) Creating a natural language processing (NLP) tool for automated, fast analysis of IMF Executive Board meeting minutes, which is able to capture elements including individual board member sentiments, alliance between representatives of different countries and G5 country stance.

Creating a comprehensive dataset covering IMF programs between 1978-2015 on the various factors influencing IMF program design to the benefit of researchers and practitioners to advance the state-of-the-art through further studies employing ML techniques.

The employment of ML and NLP techniques in the research are innovative features, which will create a new avenue for IMF and international organization (IO) studies, relieving researchers from the burden of manual analysis and enabling informed decision-making for policymakers with the ability to grasp the full picture of program design. The research will also make a significant contribution to computational social science through developing techniques not explored in the context of IMF studies before and pave the way for future advanced studies in the field.

State of the Art on IMF Lending and A Novel Approach

Why do some countries secure better deals from the IMF? Although the Fund has been criticized for its “one size fits all approach” (Stiglitz, 2003) a rich body of literature reveals that the IMF’s lending policies vary across time and space (Kang, 2007, pg. 685). At the very core of this debate we find IMF conditionality, which emerged as an “operating principle” in the 1950s, when it consisted of tests on fiscal conditions, credit expansion and the balance of payments (James, 1996, p. 323). While IMF conditionality was mainly based on “macroeconomic policies” until the early 1980s, in later years “structural conditions” faced an increase in complexity and scope. Since these ‘strings attached’ to the IMF loans require significant reforms in the borrowing country, and are often politically contentious conditions such as the austerity measures that Greece had to implement starting from 2010, IMF conditionality will continue to lead to heated debates, particularly at the domestic level.

Some scholars consider the variation in IMF conditionality as an illustration of the Fund learning from its previous mistakes (Broome, 2010, p. 37), whereas others perceive them as reflections of powerful states’ interests. Based on a dataset drawn from the IMF’s record of conditionality, Stone finds evidence of US influence in cases where the Fund lends to politically important countries (2008, p. 590), which he terms as “informal governance,” signifying the US intervention in

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3 For details see International Monetary Fund, “Evaluation of Structural Conditionality in IMF-Supported Programs”
contradiction with the formal rules of the institution. By the same token, Cope-
llovitch suggests a “common agency” framework in explaining the variation in the
IMF loan size and conditionality, where the G5 countries, namely the US, United
Kingdom, Japan, Germany and France, exercising a “de facto control over the
Executive Board” act as the “political principal” of the institution (2010, pp. 50-
51). Analogously, based on an analysis covering 314 IMF arrangements, Dreher,
Sturm, & Vreeland (2015) find that political importance, measured by tempo-
rary membership of the UN Security Council, receives softer IMF conditionality.
In contrast to these state-centric views, from a constructivist perspective, Chwi-
eroth (2008) argues that “the Fund staff by and large adopted, interpreted, and
applied the norm on their own” (p.155). Similarly, Momani (2007) criticizes the
reform proposals aiming to change the governance structure of the Fund, which
overlook the necessity of an “organizational change” at the staff level: she argues
that the Fund staff has “intellectual dominance and discretion in the design of
loan conditionality, writing of surveillance reports, and provision of technical and
policy advice” (p. 39). As pointed out by Gould (2006), the Executive Board of
the Fund has to rely on the IMF staff’s expertise “including their experience ne-
gotiating with government.” (p. 305).

This growing empirical literature on IMF lending has so far, to a large extent, ne-
glected the impact of the negotiations between the IMF staff and borrowing coun-
try bureaucrats in explaining how IMF programs are designed, however. Most of
the previous work on the analysis of IMF lending focused on the decision-mak-
ing at the international institution level, however, it is known that IMF programs
are designed not only by the IMF staff; borrowing-country bureaucrats play a sig-
nificant role in negotiations and therefore in shaping the programs. One of the
main findings of Vreeland’s (2003) study on the IMF is that “although govern-
ments turn to the Fund under bad economic circumstances… they also turn to
the Fund because they want conditions to be imposed. IMF agreements make it
more costly for opponents of economic reform to reject the preferred policies of
a reform-oriented executive” (p. 153). Declaring the IMF as a scapegoat is indeed
not an uncommon practice, especially in developing countries. Reform-minded
bureaucrats of a recipient country might also use an IMF program to push for
reforms they deem essential for the borrowing country. This leads us to open the
black box of negotiations, which is a process to be traced meticulously in order
to account for the variation in IMF conditionality.
Conditionality is a product of negotiations between the IMF staff and recipient country authorities. It stands to reason that the negotiation process is not detached from the domestic politics of the recipient country and politics at the Executive Board. In this context, based on a detailed review of the Fund activity, Woods (2006) argues that the work of the IMF is affected by “the preference of their most powerful members, by their own bureaucratic motives, and by politics within countries with whom they work” (p. 179). Building on this line of argumentation, and taking into account the notable contributions made by Stone (2008, 2011), Copelovitch (2010), Chwieroth (2009) and Vreeland (2003) to the study of IMF lending behavior, the model I develop for this research challenges the common belief that the strategic allies of the US are always favored by the Fund, whereas it is the IMF staff who has the main leverage over the design of conditionality when low-income countries are borrowing from the Fund. I instead argue that what we observe in reality is that the difference between those two cases is more subtle than expected, and in some cases, reform-minded bureaucrats of the borrowing country also use an IMF program as an excuse to push for reforms to be implemented in a country facing a severe economic crisis.

The rest of the chapter is organized as follows: The next section outlines the IMF decision-making flow, followed by the application of principal-agency (P-A) theory that this research is taking on board to build an analytical framework. Then the working hypotheses will be explained, followed by the research design, including how ML will be utilized. The conclusion summarizes the contributions of the research.

**Decision Making at the IMF**

Decision making at the IMF starts as early as the phase during which the staff prepare proposals. The Executive Board cannot amend them, since the recipient country signs the letter of intent (LoI) before the corresponding Executive Board meeting. Although the Executive Board does have the right to reject a proposal, which would then be sent back for renegotiation, it has not done this in “recent memory” (Stone, 2011, p. 60). According to Stone, extensive “authority” delegated to management weakens the Executive Board and causes a great deal of “information asymmetries.” (Stone, 2011, p. 52). Executive Directors do not take part in the mission to countries or the negotiation process for the programs, with the exception of the recipient country’s representative. Moreover, they do not have
access to confidential documents that are crucial for the negotiation process, including the mission briefs and back-to-office reports. (Stone, 2011, p. 57). Given the said operation of the IMF, using a principal-agent model can be considered as the most natural way of capturing the mechanisms behind the decision making at the Fund. Copelovitch’s research on IMF lending suggests that the rationalist approach, which has a state-centric view with a particular focus on P-A problems when addressing the question of the influences of bureaucrats and states in IOs, and the constructivist approach, which considers bureaucrats as “authorities in their own right” are complementary approaches (2010, p. 11). In a similar fashion, this research will address what is considered as the main shortcoming of the P-A tradition by having a more nuanced view of agent interests.

As Gutner points out, the application of the P-A theory to IOs customarily focuses on the relationship between the member states and the IOs, which is certainly useful in questioning why state principals “delegate” authority to IO agents (2005, p. 780). However, when we stop the “chain of delegation” with the IO, we neglect a potential exogenous variable, namely the relation between the IMF staff and recipient-country authorities, which might be significant in explaining the variation in the number and scope of IMF conditionality. Conditionality has been considered a P-A issue, as it involves recipient countries being asked to change certain policies by donors “in return for aid.” This fact draws a similarity between the “traditional P-A relationship” of private lenders/borrowers and the international financial institution (IFI) principals lending to recipient country agents, and the P-A problems arising from “asymmetric information” is common to both. (Gutner, 2005, p. 14). However, this approach assumes no country ownership of the programs and neglects the possibility of bureaucrats and/or governments having reformist mindsets. In this regard, studying IMF lending behavior as a single-level P-A problem between the IMF (as the principal) and the recipient country (as the agent) fails in explaining the cases where reform-minded bureaucrats/governments use the Fund as a scapegoat to implement reforms that they otherwise cannot due to domestic opposition. Therefore, both the relation between the IMF staff and the recipient-country authorities, who are the negotiators of the programs, and the relations of these two sets of actors with their own principals, namely the IMF Executive Board and the recipient-country government, matter in explaining the number and scope of conditionality.
As explained earlier, this research aims to shed light on how IMF programs are formed, and the previously mentioned shortcomings in the literature inspired me to form a comprehensive model taking into account the impact of the relation between the IMF staff, the collaborating institution staff and the borrowing country bureaucrats, who are all delegated authority by their political principals, on program design. Figure 1 shows the P-A model I developed for this research:

**Figure 1: P-A model of IMF lending**

**Working Hypothesis**

Although the conventional wisdom expects the Fund to ease conditionality when a strategic ally of the G5 countries is borrowing, what we observe in some cases is many strings attached to the loans, which is contradictory with the principal’s preferences. We can thus surmise that in some cases, the staff had the leverage to push for more strings attached to the loans, owing to the information asymmetry, based on the argument that “international bureaucrats have the same utility function as national bureaucrats and that the economic theory of bureaucracy applies to both of them. Both try to maximize their power in terms of budget size, staff and freedom of discretion... Both enjoy some freedom to pursue these objectives because, in many respects, they have acquired an information monopoly...
and because the politicians need their cooperation” (Vaubel, 1986, p. 52). By the same token, I hypothesize that the recipient-country bureaucrats gain more autonomy if the government is facing a severe economic crisis, therefore, the scope of the crisis can affect the design of a program in two ways: the first one is straightforward as it is an economic variable; the magnitude of the crisis is proportionate to the number of conditionality. The second one is an indirect cause, as explained. In this context, we should expect increased conditionality especially if there is consensus among technocrats of the international institutions and the recipient country regarding the benefits of the conditions suggested in a program.

The second hypothesis (H2) to be tested considers what Gutner (2005) terms as antinomic delegation as a possible cause of the principal-agency problems in IMF program design: P-A theory recognizes the presence of “multiple or collective principals” in bureaucracies, who try to achieve goals that might sometimes be in “conflict” (p. 21). “Antinomic delegation” is defined as “delegation consisting of conflicting or complex tasks that are difficult to institutionalize and implement;” in the presence of antinomic delegation, we cannot blame “performance problems” only on “agency shirking,” as they might as well be caused by the difficulty agents have in implementing goals that are challenging to specify and balance (Gutner, 2005, p. 11). Therefore, I infer that the number of conditionality is proportionate to the antinomic delegation. It is a challenging task to tailor a program that is supposed to save a country facing a deep economic crisis. However, when the Executive Board tells the IMF staff to sign an agreement regardless; this is risky for the institution because if the program fails, the legitimacy of the Fund, which has been periodically questioned since the collapse of the Bretton Woods System, will be damaged. Therefore, the IMF staff may design tough programs with many strings attached in order to ensure that even if the program fails, the staff will not be criticized by the Executive Board that had revealed its discontent regarding the design of a previous program.

**Research Design**

Given the complexity of P-A problems in the design of IMF programs, how can we best trace the mechanisms creating variation in conditionality? Answering this research question requires more than a simple statistical analysis. Despite his rigorous quantitative research on IMF lending, Copelovitch (2010) acknowledges that statistical analyses “do not offer much insight into the actual process of Fund
decision-making” (p. 27). In this regard, we need to move beyond the generalizations a large-N study can provide in order to uncover the causal mechanisms at play. This research will take on board data and methodological triangulation. I will start with the appropriate statistical regressions to test my hypotheses. Statistical methods may have explanatory power, however, using ML techniques with high predictive power will strengthen our model.

Dependent Variable:

To test the hypotheses of the research, I will utilize a novel dataset on IMF conditionality from Kentikelenis, Stubbs, and King (2016). The analysis will focus on two outcomes of interest: the first dependent variable is the size of the total loan disbursement divided by the total population of the recipient country, and the second dependent variable is the number of different types of policy reforms imposed by the Fund.

Main Explanatory Variables:

*Crisis Scope*

As there is no index in the literature measuring the scope of economic crises countries faced, the research will use the tally of the 6 indicators, i.e., banking crises, currency crashes, domestic default (or restructuring), external default (or restructuring), inflation crises, and stock market crashes, from Reinhart and Rogoff’s crisis dataset (2009). Therefore, the crisis scope variable is a measure of the scope of the crisis in the borrowing country, which is an integer between 0 and 6 as in Reinhart & Rogoff’s data.

*Executive Board’s Discontent*

The arduous part is measuring the Executive Board’s discontent based on the Executive Board meeting minutes, since it requires us to form a variable based on our own intuition. In this research I aim to develop an automated analysis technique for Executive Board meeting minutes, which relies on NLP to extract the Executive Board members’ stances on IMF programs, including the discontent they express, level of solidarity between board members from different countries, and the views of G5 members on the program design.
NLP is a subfield of artificial intelligence, which aims to make human language understandable by computers. NLP starts with the formation of a corpus, which states the rules and associations between words in text. The process involves parsing text into a syntax tree, removing stopwords, i.e., words that do not add value to meaning, stemming the words and extracting the meaning of the text by utilizing one of the many information retrieval/ML algorithms used in NLP.

While some NLP tools have been developed for daily language and special domains such as analysis of FED meeting minutes (Zadeh & Zollman, 2009), automatic analysis of Executive Board meeting minutes with NLP requires integration of domain knowledge into the building of the corpus. I will build a corpus by manual analysis of selected Executive Board meeting minutes, and an NLP model will be trained on the corpus. The model will then be utilized to analyze the whole set of meeting minute documents to extract the sentiments of the Executive Directors regarding the design of programs.

I will start by measuring the sentiment using built-in packages in Python, such as TextBlob. TextBlob is a general-purpose package to measure the sentiment in texts. It assigns a number between +1 and -1 to respectively denote positive and negative tone of any given text. There are three benefits that TextBlob provides. First, it can handle negation statements. Secondly, it can consider intensifier words. Thirdly, it is possible to train it by introducing a training set. The following examples show how TextBlob assesses the tone in texts:

This is a book. 0
This is a good book. 0.7
This is a bad book. -0.7
This is a very good book. 0.91
This is not a good book. -0.35

The first sentence is neutral and TextBlob assigns 0 to this sentence. The second sentence has a positive whereas the third example has a negative sentiment. The fourth and the fifth excerpts exemplify how intensifier and negation words affect the sentiment in a text. Intensifier words magnify the strength of the tone. On the other hand, negation words revert the tone.

Even though built-in general-purpose packages are easy to implement, they may fail in correctly measuring the sentiment in special topics such as finance and
Using a method which utilizes a domain specific dictionary would resolve the shortcomings of the ready-to-use packages. The studies that utilize dictionaries use the following metric to measure the tone of a text:

\[ \text{Sentiment} = \frac{PW - NW}{PW + NW} \]

Where PW and NW denote the number of positive and negative words, respectively. However, these kinds of dictionaries may have two drawbacks. The first impediment is related to the coverage of these dictionaries; they may ignore the widely used words. For instance, LM dictionary does not include the words “increase” and “decrease”. These are two instances of the most frequently used words in finance-related texts. The other issue related to the dictionaries is that they may not enable the researcher to account for the differences in the sentiments of subject-specific terms. The word “decline” has a negative connotation in LM dictionary. However, for instance, in economics “a decline in economic growth” and “a decline in the inflation rate” have different economic implications.

**Statistical Models**

As mentioned earlier, the idea behind employing traditional statistical techniques is to compare its predictive power to that of machine learning. Because the logged measure of IMF loan size is continuous and normally distributed, while conditions are count variables, the research will test each of the hypotheses using different econometric methods. For the analysis of IMF loan size, I will first estimate an ordinary least squares (OLS) model with standard errors clustered on country. Since conditions are count variables, a negative binomial model will be used to estimate conditions if there is overdispersion in the data, and if goodness-of-fit tests of Poisson models suggest that the Poisson distribution is a poor modeling choice.

**Machine Learning**

Recent advances in artificial intelligence and high-performance digital data processing architectures have made it possible for researchers in a variety of fields to efficiently extract useful knowledge from various data sources in an automated/semi-automated manner. ML, which enables not only the extraction of useful
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patterns, but also accurate forecasting of future events based on past events and current conditions is becoming an indispensable tool for economists at international organizations to make estimations about macroeconomic variables in countries. Recent work has demonstrated that the use of ML techniques provides more accurate predictions of financial crises (Ahn, Oh, Kim, & Kim 2011, p. 2966; Kim, Lee, Oh, & Kim, 2009, p. 260), currency crises (Lin, Khan, Chang, & Wang, 2008, p. 1098), stock market volatility (Son, Oh, Kim & Kim, 2009, p. 4951) and economic variables (Jung, Patnam, & Ter-Martirosyan, 2018, p. 1; Tiffin, 2016, p. 1) than traditional statistical models that place tighter restrictions on the relationship between dependent and independent variables. While statistical models have high explanatory power for the relationships between variables in past data, ML models have high predictive power, which makes them a powerful tool for tasks involving future predictions based on past data.

This research will take an ML approach to understanding the design of IMF programs by discovering how various economic and political variables and processes play together into shaping the program design outcomes in terms of conditionality. As opposed to statistical approaches taking a hypothesis-driven approach to discovering correlations between independent and dependent variables as discussed above, ML models take a data-driven approach, which enables us to more effectively build models with high predictive power. The data-driven nature of ML models allows for discovery of latent structures in large data, which could go unnoticed by humans and facilitate integration of many independent variables into the prediction process, whose relative importance for the predicted outcome is revealed by the ML model itself.

Figure 2 below provides an overview of the ML process:
Although the complete mechanism depends on the specific algorithm chosen, at a high level, the ML process starts with the acquisition and cleaning (pre-processing) of data to make it ready to serve as input into the algorithm. For this research, this step will involve formatting IMF program data including the economic and political variables, as well as data extracted from Executive Board meeting minutes at a high level of granularity according to the requirements of the specific algorithms ML chosen. After the data cleaning stage, a training set and test set are formed from the data, where care is taken to separate the data into distinct subsets with the training set containing sufficient samples for each class/category to prevent biased predictions.

In this research I will employ supervised machine learning techniques, where each sample in the training dataset has a class label attached to it, and the label indicates whether a specific conditionality category existed in a specific IMF program. The task here is to predict the class label (dependent variable) of each data point, where each data point is composed of a set of feature values (i.e. a feature vector), which are the values of the independent variables in IMF program design as discussed above. The ML model will be trained with the prepared training set, which will enable the model to learn the relationships between the independent and dependent variables and how values of the independent variables varying together affect the program outcome, without having to introduce control variables. The accuracy of the model will be evaluated by letting the trained model predict the class labels of the data samples in the test dataset and comparing the prediction results with the actual class labels. The model parameters will then be refined through repeating the training procedure until the best possible prediction results are achieved.

The prediction problem in IMF program design has a time-dependent nature, where the evolution of conditionality especially during program implementation is affected by the history of interactions between the actors involved in the program in addition to the political and economic indicators of the borrowing country. Therefore, ML algorithms that are able to capture path dependencies and make accurate predictions about future data points are expected to provide the best performance. Below are the descriptions of three ML algorithms, whose good performance in time-series prediction problems in various domains is promising for adopting them in IMF program design prediction tasks. I will utilize a
robust, open source machine learning framework such as TensorFlow, which supports multiple ML algorithms, for the development of the models:

- **Support Vector Machines (SVM):** SVM is an ML algorithm that has proven successful in both classification and regression problems. When used for classification tasks, it finds an optimal hyperplane that separates training data into distinct classes with very high generalization performance (Ahn, Oh, Kim, & Kim, 2011, p. 2967). The high generalization performance of the algorithm provides high classification accuracy on previously unseen data points. Variants of SVM have been applied with success to time-series problems such as stock price index prediction (Kim, 2003, p. 307).

- **Long short-term memory (LSTM) recurrent neural networks (RNN):** Neural networks try to simulate the functioning of the human brain in learning tasks. LSTM is a special class of neural networks that is effective in tasks that require learning long-term dependencies, i.e. reasoning about the outcomes of events taking place now or in the future based on events in the distant past (Fischer, & Krauss, 2018, p. 654).

- **Random Forests:** Random forests is an ML algorithm that constructs multiple decision trees from training data and performs classification by taking the mode of the class labels output by the different trees. Random forests have been successfully applied to various prediction tasks including price impact in financial markets (Booth, Gerding, & McGroarty, 2015, p. 1823).

**By way of conclusion**

The contributions of this research to the literature on the IMF and study of IOs will be four-fold: First, this research will develop a comprehensive theoretical model for understanding IMF program design and implementation that integrates all explanatory variables from the existing literature as well as novel ones to be introduced through the analysis of Executive Board meeting minutes. Second, the research will develop ML-based models of the IMF lending process to provide high predictive power for the outcomes of program design under various macroeconomic and political conditions, providing a new methodological contribution to the field, which has traditionally used statistical prediction models. Third, the research takes on board an eclectic approach, using mixed methods involving Machine Learning, Natural Language Processing, and statistical
analyses to account for the variation in the terms of IMF programs. To the best of my knowledge, this will be the first research using the said methods together. Last but not least, by developing a tool for automated analysis of Executive Board meeting minutes to extract data for Executive Board views on IMF program design, the research will greatly facilitate future research on IO document analysis. The ML framework to be developed is also expected to be an important tool for political scientists to apply ML-based modeling to different problems in IOs and other domains alike.

The interdisciplinary nature of this research requires collaboration between political science/international relations, economics and computer science disciplines. Through bridging the gap between these disciplines by introducing the applications of machine learning and natural language processing to the study of international organizations, this research aims to lay the ground for further interdisciplinary research and make pioneering contributions to computational social science.

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EUROPEAN STABILITY MECHANISM AS A STRATEGY FOR FUELLING COMPETITIVENESS: ECONOMIC RESTRUCTURING IN BAILOUT COUNTRIES

Özgün Sarımehmet Duman¹

Abstract

This paper evaluates the establishment of the European Stability Mechanism (ESM), a permanent intergovernmental institution with financial adjustment programmes and conditionalities, for the recovery of the failing economies. It inquires how the ESM intended to end structural imbalances in the Eurozone by a competition-based economic restructuring under the legitimate framework of the Eurozone crisis. It highlights the direct correlation between competitiveness and labour cost/productivity in capitalist market economies – economic competitiveness is only possible by introducing a more profitable environment to the capital at the expense of labour. Based on this, the paper scrutinises key economic indicators of competitiveness (labour cost, labour productivity, part-time and temporary employment, and social protection and health care expenditure) in bailout economies that received loans within a macroeconomic adjustment programme, namely Ireland, Greece, Cyprus and Portugal. The paper argues that the ESM functioned as a strategy for fuelling competitiveness in the Eurozone, and hence, strengthening the ultimate aim of capital accumulation in global market economy.

Keywords: Bailout, competitiveness, economic restructuring, European Stability Mechanism, Eurozone crisis

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Introduction
The economic breakdown in the early 1970s strikingly changed the capitalist relations within national markets by shifting the priorities towards increasing productivity, efficiency and competitiveness. Increased volume of international trade, transnational production networks and supply chains, globalisation of production with foreign investment, financial innovation and rise of currency markets brought internationalisation of production, which engendered a real challenge for individual capitals and national states. This transformation broadened the necessity of offering higher rates of profit and attracting foreign capital investment. This had a dual consequence on the market relations – it transformed the relationship between labour and capital, and also intensified the competition among individual capitals.

In specific to the Eurozone, this pressure of competitiveness on individual capitals and national economies increased with single market mechanisms and common currency practices. Transmission of the 2008-2009 global economic crisis to the Eurozone further revealed this pressure by generating an urgency to manage the crisis in the failing economies. The common currency mechanism in the Eurozone posed a severe challenge not only to the peripheral economies with current account deficit and other structural problems, but also threatened the core countries by facing them to deal with a weakening currency, breaking currency union and loads of credit under the danger of default.

This article analyses the new mechanism introduced by the European Commission (EC) to manage the economic crisis, European Stability Mechanism (ESM), and its relationship with the bailout economies in terms of structural adjustment programmes and conditionalities. It examines the scope of economic restructuring in the post-crisis years by reviewing post-programme surveillance reports and country-specific statistics on increasing competitiveness. The paper inquires a correlation between the structural adjustment programmes in the bailout agreements and economic reforms in Ireland, Greece, Cyprus and Portugal within the framework of the Eurozone crisis and the ESM.

Eurozone Crisis as an Impulse for Boosting Competitiveness
An analysis of the capitalist market economy requires a thorough understanding of competitiveness with reference to the relationship between labour and capital.
The key impulse of capital is to attain higher levels of competitiveness in the productive market, and this is only plausible by disciplining labour to extract higher amounts of profit. Absolute surplus value strategies are introduced to increase the competitiveness of the economy by decreasing production costs – increasing working hours, intensifying work, reducing direct and indirect wages, increasing labour productivity and lowering unit labour cost (Şarımehmet Duman, 2014a, pp. 245-246). These strategies also go along with cutbacks to health insurance and retirement pension benefits (Moseley, 2011, p. 61). Ultimate aim is to bring a striking change into efficiency and productivity of labour, and hence, to increase competitiveness of both individual capitals and national markets in the global market.

In the framework of economic crises, there are conflicting explanations on the reasons as well as remedies, the key difference of which resides in the dualism between the financial bubble versus structural features of the productive market. Based on this, Trídico (2012, p. 19) classifies three main groups in the explanation of the 2008-2009 economic crisis: excess of money (‘money glut’) (Taylor, 2009); excess of global saving (‘saving glut’) (Skidelsky, 2009); and structural problems in the economic system (Fitoussi & Saraceno, 2010). Following the third path of explanations on the gravity of struggle within the productive market, this article argues that crisis was an outcome of this structural challenge, which further intensified the asymmetries and imbalances within and among capitalist market economies. The crisis, hence, functioned as an “opportunity to actually drive forward the recalibration agendas” that have dominated absolute surplus strategies for much of the 2000s (Clasen, Clegg, & Kvist, 2012, p. 8).

This scholarly choice for prioritising structural features of the productive economy in the analysis of the Eurozone crisis needs to be elaborated by reference to the endless struggle between capital and labour. During economic crises, the “new normal” is falling wages and increasing poverty, inequality and unemployment, which are “the consequences of the need to restore capital profitability” (Mateo Tomé, 2019, p. 49). It brings into light the importance of discussing the law of the tendency for the rate of profit to fall (LTRPF), i.e. unsustainability of the balance between the composition of capital and the rate of exploitation, in understanding the origins of the economic crisis (Clarke, 1994; Giacche, 2011; Savran, 1988; Sweezy, 1942; Tonak, 2009). LTRPF highlights the growing pressure of capital accumulation on profitability that “the means of production are mainly means for the extraction of surplus labor” (Mateo Tomé, 2019, pp. 42-44,
emphasis in original). Crises are “a constant feature of capitalism”, and it is crucial to theorise “their unavoidability, their necessity” (Carchedi, 2011, p. 169, cited in Mateo Tomé, 2019, p. 30).

In the Eurozone, tight economic integration was institutionalised by mechanisms such as Single European Market (SEM) and the Economic and Monetary Union (EMU), accelerating the diffusion of the crisis. SEM policies aimed for the removal of physical, technical and fiscal barriers to trade within the European Union (EU), reinforcing market competition and pushing labour market structures to attain similar levels of profitability. EMU requirements sealed these goals by substituting national currencies with a European currency. In that sense, the EMU inactivated the strategy of regaining competitiveness through exchange rate regulations (Talani, 2015, p. 359). It left the following as the only mechanism for adjustment to an increasingly competitive economic structure: “change in the real exchange rate – that is, changes in wages and prices” (Kaelberer, 2014, p. 427) and “austerity policy and the internal devaluation” (Sawicki, 2102, 10).

However, significant differences in the levels of competitiveness among Eurozone economies have not been corrected. Single market policies and monetary requirements worsened the economic imbalances and asymmetries among different regions of the Eurozone, usually framed as core and peripheral countries (Kaelberer, 2014, p. 420). There existed economic and trade imbalances due to differing levels of competitiveness, productivity and efficiency.

The Eurozone crisis unveiled the structural asymmetries within the single currency zone that less competitive economies with no instrument of devaluation for boosting their economic performance in the international markets fell into balance of payments problems (Milios & Sotiropoulos, 2010, p. 236). Core and peripheral regions of the Eurozone “grew apart in terms of competitiveness, investment, unit labour costs”, exposing the currency union to a risk of disintegration (Varoufakis & Holland, 2012, p. 241). Under the influence of the Eurozone crisis, the EC intended to fix the structural asymmetries within the Eurozone by “solving issues of long-term competitiveness” through absolute surplus value strategies (Clasen, Clegg, & Kvist, 2012, pp. 8-9). Major initiatives aimed to put in place a more resilient framework for the euro (Begg, 2012, p. 107).

The crisis proved the previously set mechanisms inefficient under the conditions of deep economic bottlenecks. The EC introduced new mechanisms for
both strengthening its crisis management processes and fuelling competitiveness throughout the single currency zone. Furthermore, some have argued that “more assertive structural reforms focused on competition in markets for goods, labour and capital” could have prevented the economic crisis (Hall, 2012, p. 358). The economic crisis, in this respect, framed a legitimate context for the failing economies to focus on increasing competitiveness and implementing absolute surplus value strategies for decreasing labour cost and increasing labour productivity with mechanisms including removal of labour market regulations and development of atypical forms of work, contracting out, part-time work, temporary work, telework. These strategies also included regulations on social security and pension systems to decrease public debt and manage balance of payments.

In this respect, absolute surplus value strategies aimed to increase profitability and competitiveness of national markets, leaving the “burden of adjustment” to be shouldered by “the regions with lower competitiveness and greater deficits, with swingeing cuts and painful austerity” (Varoufakis & Holland, 2012, p. 241). While the burden of the crisis was expected to be shouldered by the peripheral economies in the Eurozone, the cost of the crisis management was unevenly distributed within these economies by worsening the working and living conditions of labour. Put plainly, labour in the peripheral economies were forced to adjust to tight economic restructuring policies for securing higher levels of competitiveness and productivity in the Eurozone.

**European Stability Mechanism: Structural Adjustment Programmes and Conditionalities**

With the diffusion of the global economic crisis to the Eurozone (Sarmehmet Duman, 2014b; Ioannou, Leblond, & Niemann, 2015; Warren, 2017), the flaws of the tight economic integration got more obvious that peripheral economies started to have significant balance of payments problems. As a quick response to the devastating effects of the crisis, the EC introduced new mechanisms following the initial signs of the crisis: a new growth strategy launched to improve growth and competitiveness in the Eurozone, Europe 2020 (Begg, 2012; Copeland and Daly, 2018; Zeitlin and Vanhercke, 2018); a new European fiscal framework, Six-Pack, Fiscal Compact, and Two-Pack (Schelkle, 2012; Ryner, 2015; Ioannou, Leblond, & Niemann, 2015); new European Central Bank (ECB) programmes for managing interest rates and liquidity in the market, Long-Term Refinancing
Operations (LTRO) and Outright Monetary Transactions (OMT) (Varufakis, 2013; Bellamy and Weale, 2015; Ryner, 2015); and lastly, new crisis resolution mechanisms, the European Financial Stability Mechanism (EFSM), the temporary European Financial Stability Facility (EFSF) and later the permanent European Stability Mechanism (ESM) (Arestis & Sawyer, 2012; Salines, Glöckler, & Truchlewski, 2012; Bianco, 2012; Gocaj & Meunier, 2013; Closa & Maatsch, 2014; Hein, 2014).

The EFSM was the initial action taken to provide loans to failing economies. It then gained an institutional structure by the introduction of EFSF, which aimed to stop the epidemic nature of the crisis by convincing the markets that strong Eurozone economies support the common currency to “preserve financial stability in Europe” (Gocaj & Meunier, 2013, pp. 239-244). Creation of the EFSF held an “intergovernmental modus operandi” by framing member states’ responses to the economic crisis (Gocaj & Meunier, 2013, p. 240, emphasis in original).

ESM, which turned EFSF into a permanent intergovernmental institution, was designed to provide financial assistance to Euro Area countries with severe financial problems. It put competitiveness of the peripheral deficit countries at the centre of its focus and reaffirmed the commitment of Europe to make the single currency work (Begg, 2012, p. 122). ESM strengthened the relationship between structural adjustment programmes and conditionalities. It granted liquidity assistance, “subject to … strict conditionality under an adjustment programme and guarantees of long-term solvency” (Buti & Carnot, 2012, 909). Hence, there existed a direct correlation between conditionalities put forward for the release of loans to bailout economies and implementation of structural adjustment policies in these countries, bringing significant “restructuring” in their economies (Sawicki, 2012, pp. 13-14). This had significant repercussions on the relationship between labour and capital in these economies.

ESM framed an agenda for economic recovery including rescue packages, austerity measures and structural adjustment programmes. It developed a number of instruments such as loans within a macroeconomic adjustment programme, primary market purchases, secondary market purchases, precautionary credit line, loans for indirect bank recapitalisation and direct recapitalisation of institutions (European Stability Mechanism, 2017). Only two of these instruments were actively used to rescue economies – Ireland, Greece, Cyprus and Portugal received
loans in the form of adjustment programmes in return for implementing structural adjustment reforms, whereas Spain was the only country receiving loans for indirect bank recapitalisation.

A closer look at the bailout economies reveals high current account deficits as symptoms of imbalances (Begg, 2012, p. 115), and strengthens the correlation between competitiveness and structural adjustment policies mandated as a conditionality to release of loans in Ireland, Greece, Cyprus and Portugal. To elaborate on this, the article inquires how the ESM intended to consolidate a competition-based understanding of economic growth under the secure and legitimate body of crisis management. An overview of ESM’s relationship with bailout countries, the scope of adjustment programmes and structural changes in their economies helps to monitor its functioning in attaining a balance of international competitiveness within the Eurozone. This also provides hints about the changing relationship between the labour and capital, with certain reservations for the future economic structures.

Eurozone countries encountered the economic crisis with different market structures and weaknesses. In line with their specificities of the financial market, the banking sector, the productive market, labour regime and other aspects of industrial relations (mainly the class relations), EFSF/ESM designed different programmes to structurally alter these economies. Crisis generated different policy responses in economic restructuring across Europe (Clasen, Clegg, & Kvist, 2012, p. 25). Conditionalities presented as requirements for disbursements of loans had diverse characteristics according to the weaknesses of these economies to reach similar levels of competitiveness as their European counterparts. In this respect, EFSF/ESM also turned into an instrument to trim the imbalances in the Eurozone with structural adjustment policies at the cost of labour. An analysis of country-specific adjustment programmes and conditionalities provides indications on the distinctive features of the emergence of the crisis as well as the presented remedies in Ireland, Greece, Cyprus and Portugal.

**Ireland**

Ireland requested loans from the EU and the IMF in 2010 and received a total of €67.5 billion until it exited the EFSF programme in 2013. Total financial assistance of the programme reached up to €85 billion with IMF and other contributions.
Major reasons of the emergence of the crisis in Ireland were listed as the vicious cycle of construction boom, excessive credit expansion and housing bubble, which resulted in the loss of external competitiveness during the credit boom (EFSF, 2013, p. 2). The EFSF programme aimed to implement adjustment policies for Ireland to regain its financial strength with specific strategies to reorganise the banking sector; restore fiscal sustainability through expenditure restrains, tax reforms and mechanisms to generate additional revenues; and structural measures to underpin growth, competitiveness and job creation (EFSF, 2013, p. 5). Loan repayments were planned to be made from 2029 to 2042.

In the Irish programme, there were 848 conditionalities offered to make significant changes in different sectors. Out of these, only 44 were related with structural policies aiming to secure economic competitiveness in the productive market whereas 532 were in the category of financial sector policies. Conditionalities related to boosting competitiveness of the economy included increasing state pension age; sale of state assets; reforming the unemployment benefit system; contracting model of activation services to private providers; reforms to sectoral wage-setting mechanisms; preventing distortions of wage conditions across sectors; and reducing the national minimum wage (ESM, 2020a).

Ireland’s 3-year programme mainly focused on correcting imbalances and the banking system with financial reforms and fiscal restraint in order to regain credibility in the global market. The final review of the programme stated that Ireland had a tendency for economic growth and financial sector improvement, decline in unemployment, and hit the target of fiscal deficit falling from 30.4% in 2010 to 7.4% in 2013 (EFSF, 2013, p. 6). 2019 Annual Report (ESM, 2019, pp. 24-26) outlined that Irish growth significantly outpaced the euro area average, domestic demand grew at an annual 2.9%, and unemployment decreased to its lowest level since 2007, 4.7% (ESM, 2019, p. 23). Moreover, tight labour market reforms resulted in a striking increase in 2019 earnings, and general government debt decreased from 63.5% in 2018 to 58.8% in 2019 (ESM, 2019, p. 23). Ireland was presented as a success story in terms of its fiscal consolidation, ability to receive funding from private debt markets and reaching high levels of GDP growth (EFSF, 2013, p. 11). The review concluded the programme with a “sustainable and credible growth path” (EFSF, 2013, p. 2).
Greece

Greece participated into three structural adjustment programmes aiming for economic recovery: the first under the bilateral Greek Loan Facility (€52.9 billion), the second under the EFSF (€141.8 billion) and the last under the ESM (€61.9 billion). The total amount Greece received during the programmes were up to €288.7 billion. Major structural problems of the Greek economy had been stated as “long-standing financial, economic, and structural weaknesses” (ESM, 2020b, p. 13), “wage rises outpacing productivity gains” and Greece “losing the ability to compete with other countries” (ESM, 2020c). The ESM programme aimed to restore public finances; safeguard financial sustainability; enhance growth, competitiveness and investment; and fix the functioning of the public sector (ESM, 2018, p. 2). Loan repayments were planned to be made from 2034 to 2060.

Greece had to review 4542 conditionalities, 147 of which were on measures taken for economic restructuring to fuel competitiveness under the category of structural labour market policies. These reforms included collective bargaining; adjustments in regulated professions; establishment of an independent privatisation and investment fund (HCAP); and opening up the energy market. A detailed analysis of conditionalities embodied policies such as an intensive privatisation plan; labour regulations to attract investment and support job creation; eliminating administrative burdens to competition; changing employment protection legislation; reviewing and modernising collective bargaining, industrial action and collective dismissals for promoting growth; an overhaul of the national collective bargaining system, replacing the wage rates with minimum-wage; setting up the framework for temporary employment; and strengthening labour market institutions and promoting employment (ESM, 2020a).

Greece concluded the EFSF/ESM programme in 2018 with comprehensive structural changes including a growing tendency in the economy since 2017; fiscal adjustment as budget deficit decreasing from 15.1% in 2009 to a surplus of 0.6% in 2017; fiscal surpluses in 2015, 2016 and 2017; improved competitiveness as current account deficit fallen from -15.8% in 2008 to -0.9% in 2017; reforms implemented in the fields of public administration, product, service and labour markets, pensions, personal income tax and VAT, the financial sector; and also return to the bond market in July 2017 (ESM, 2018, p. 1). A closer look at the Greek economy in 2019 Annual Report (ESM, 2019, pp. 24-26) affirmed that
Greece reached its fiscal target for the fifth consecutive year, growth being stabilised at 1.9% in 2019 and rising labour demand further reducing the unemployment rate. Greece strengthened its capital market presence in the last years. The report also stated that private investment remained weak overall, and there is a need to improve business environment and competitiveness in Greek economy. The report concluded that further actions needed to “safeguard financial stability, enhance productivity through labour and product market reforms, speed up privatisations, and modernise public administration” (ESM, 2019, p. 26).

Cyprus

Cyprus had a 3-year ESM programme, which disbursed a total of €6.3 billion from the ESM and an additional €1 billion from the IMF. It exited the programme in 2016. The origins of the economic crisis in Cyprus stemmed from the rapid expansion of financial sector and oversizing of the banking sector, with significantly poor previous lending practices (ESM, 2016, p. 2). Rapidly rising wages turned its products uncompetitive in both European and global markets, which resulted in macro and fiscal imbalances during the Eurozone crisis. Repayment of loans planned to last from 2025 to 2031.

The ESM programme aimed for macro/fiscal adjustments, financial sector regulations and structural reforms that included labour market reforms, privatisations and freeing the services market. Out of 763 conditionalities put forward during the execution of the adjustment programme, only 51 were in the areas of increasing competitiveness in the productive market, 341 in financial sector policies and 247 in fiscal-structural measures. Competition-based conditionalities included compulsory health care contribution for public servants and public servant pensioners; privatisations; enhancing the administrative capacity of the public employment services; and reform of the wage-setting framework for the public and private sector (ESM, 2020a).

The clean exit report stated that Cyprus concluded the programme with a modernised economy, restructured and recapitalised banks, improved financial regulation, smaller fiscal deficit, and sustainable public debt (ESM, 2020d). Economic indicators improved – it reached economic growth of 1.6% in 2015, from -5.9% recession in 2013, unemployment declined, public deficit declined from 5.8% in 2012 to 1% in 2015, liquidity and capital position of the banking sector as well as
market access was restored (ESM, 2016, p. 6). According to the 2019 Annual Report, economy grew at a faster pace in 2019 than most of its euro area peers, the unemployment rate declined further, and economy grew by about 3.2% (mainly driven by domestic demand) (ESM, 2019, p. 28). Cyprus was presented yet another success story of the ESM programme.

**Portugal**

Portugal received €52 billion loans from EFSF and an additional €26 billion from the IMF. It exited the programme in 2014. Major reasons of the emergence of the crisis in Portugal were listed as the “long period of weak economic growth”, also being accompanied by low interest rates creating an illusion of prosperity and high debt levels, wage growth above productivity gains, and decreased levels of competitiveness due to decreasing productivity and structural inefficiencies in the European as well as global markets (ESM, 2020e). The country also experienced problems in the banking sector that it lost its access to international market funding (ESM, 2014, p. 2). Loan repayment was planned to start from 2025 until 2040.

The EFSF structural adjustment programme mainly aimed to ensure fiscal consolidation by implementing revenue-raising and expenditure-reducing measures, stabilise the financial sector by strengthening banks’ liquidity and capital, and also executing in-depth structural reforms to address “external and internal imbalances and to raise potential growth” by labour market reforms and liberalisation of services (ESM, 2014, p. 5). The EFSF programme put forward a total of 1993 conditionalities, 118 of which were directly linked to structural reforms for boosting competitiveness. A close look into these reforms outlines reducing costs in state-owned enterprises, pension expenditure, public sector wages, spending of the national health service; increasing competition among private health care providers; accelerating the privatisation programme with a PPP framework; and implementing organised decentralisation and wage moderation (ESM, 2020a).

Portugal implemented serious structural reforms, leading to 1.2% increase in GDP growth and 4% decrease in budget deficit in 2014 (ESM, 2014, p. 6). However, according to the 2019 Annual Report (ESM, 2019, p. 29), the economic indicators worsened towards the end of the 2010s. Growth moderated, trade deficit increased, and fiscal deficit target exceeded. On the other hand, public debt
slightly declined from 122% of GDP in 2018 to 117.7% of GDP in 2019, and four major credit rating agencies rated Portugal at investment grade. The report concluded that “Portugal’s high public debt burden remains an important vulnerability” (ESM, 2019, p. 29).

**Economic Indicators in the Bailout Countries**

As mentioned above, bailout economies entered the crisis with diverse market structures, and hence, their structural adjustment programmes and conditionalities significantly differed. Taking a closer look into structural adjustment programmes putting conditionalities at the centre of economic recovery indicated that increasing competitiveness was the ultimate aim in economic restructuring in the bailout economies. Based on the direct correlation between competitiveness and labour cost/productivity in capitalist market economies, conditionalities mainly focused on restructuring the relationship between labour and capital by turning productive market into more efficient ground for accumulation.

This section is allocated to the comparative analysis of key economic indicators of competitiveness, i.e. labour cost, labour productivity, part-time employment, temporary employment, and social protection and health care expenditure. This will enable to monitor how these economies entered the crisis, how the intensity of the programmes overlaps with the economic structure, and also how markets responded to the reforms and conditionalities proposed. It also provides an overview of how these economic restructuring policies bring a change in the relationship between labour and capital, imputing the burden of reforms to labour.

![Graph 1: Labour cost (2016=100)](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lc_lei_r2_a&lang=en)

Labour cost had an increasing trend from the early 2000s. It reached a pre-crisis peak levels around 2008 in Ireland, Cyprus and Portugal and around 2010 in Greece. It then started to decline in all countries between 2010-2016 with an exception of Ireland, where a stable pattern was traced. Taking the year of 2016 as equal to 100, these statistics show that the declining tendency in labour cost started to have a slightly upward tendency from 2016 onwards. Based on this, it can be argued that bailout countries had a significant decline in their labour costs during the adjustment programmes. Once they exited the programmes, labour costs started to have an upward trend. Greece, on the other hand, had experienced probably the firmest programme that labour cost had a prominent decrease during the initial years of the programme and had only a minor increase in the following years.

Labour productivity is another key element in the competitiveness of an economy in the global market. Taking the year of 2010 as equal to 100, this data outlines that real labour productivity per person did not fluctuate a lot in the pre-crisis years. As the countries started their adjustment programmes in the early 2010s, there commenced a slight increase in labour productivity in Euro area countries, as well as in Portugal and Cyprus. Whereas Ireland was the only country that had a very steep increase in its labour productivity, Greece had a continuous decline starting from the year of 2008.

*Graph 2: Real labour productivity per person (2010=100)*

Flexibilisation policies promote a ‘distinctive type of labour process’ to boost competitiveness by combining ‘multiskilled and unskilled workers in flexible ways’ (Jessop, 2007: 98). Part-time employment, as an important form of flexibilisation, reshapes the labour market into a deregulated and unstructured one, causing hourly minimum wage imbalances and uncontrolled production environment. As it is clearly seen in Graph 3, part-time employment had an increasing tendency even in the pre-crisis years, and gained pace in Ireland, Greece and Cyprus during the implementation of adjustment programmes. Number of people employed as part-time had around 30% increase. Greece had an enormous upsurge from 273 thousand in 2010 to 340 thousand in 2019. Portugal had a sharp peak in the first year of the adjustment programme, but this increase then sloped down towards the end of the decade. It seems that the increase in the part-time employment became a structural feature of these markets, Portugal being an exception.


Similar to part-time employment, temporary employment is also a major element of labour market flexibilisation that counts on increasing competitiveness of the economy. Temporary employment had an increasing tendency in the pre-crisis years until a downward movement started with the emergence of the economic crisis. Sharp decrease in temporary employment in Greece and Portugal can be explained by cumulative dismissals in 2010 onwards. Numbers started to increase in 2013 in Greece and in 2012 in Portugal. Ireland and Cyprus, on the other hand, had a steady expansion with no downward movement during the crisis.
Expenditure on social protection and health care are usually not categorised among reforms aiming for increasing competitiveness, but rather as fiscal strategies designed to decrease government expenditure. However, these strategies have striking influence on people who are taking an active role in the market (and their small families) as well as pensioners. Hence, it is worth categorising social protection and health care expenditure among structural reforms that have a direct impact on the competitiveness of an economy.

Increasing trend in expenditure on social protection continued until 2010 in Ireland, 2012 in Greece, and 2013 in Cyprus and Portugal. A sharp decline commenced in all countries along with the adjustment programmes. Expenditures on social protection reached pre-crisis levels in Greece, Cyprus and Portugal, whereas it dropped to its lowest level since 2006 in Ireland. Similarly, health care expenditure had a major downturn in Ireland and Greece with the emergence of the crisis and start of the adjustment programmes. It reached at its lowest levels in 2017. Cyprus had a relatively steady continuity whereas Portugal had a slight decline.

**Graph 6: Health care expenditure (% of GDP)**

![Graph showing health care expenditure (% of GDP) for Ireland, Greece, Cyprus, and Portugal from 2011 to 2017](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hlth_sha11_hp&lang=en)

**Conclusion**

The Eurozone crisis posed a real challenge for the Euro area countries by unveiling the structural asymmetries in their productive markets in terms of profitability and competitiveness. Based on the key purpose of attaining higher levels of competitiveness at the national as well as international markets, the EC presented the economic crisis as a legitimate framework for bringing the Euro area countries to similar levels of economic attractiveness. Among many others, ESM functioned as an important strategy for fuelling competitiveness in the bailout economies at the cost of labour.

This paper highlighted the relationship between adjustment policies and conditionalities with a prime focus on their reflections on the economic structures. It
presented a comparative analysis of certain economic indicators that have direct impact on competitiveness, i.e. labour cost and labour productivity. This inquiry indicated that the declining tendency in labour cost during the execution of the adjustment programmes started to gradually reverse once the bailout countries exited the programmes, with the only exception of Greece. In terms of labour productivity, there started an increase with enrolment to the adjustment programmes. Part-time and temporary employment indicators showed that market flexibilisation accelerated during the implementation of adjustment programmes, becoming a structural feature of these markets, with the exception of Portugal. In the areas of social protection and health care expenditure, a sharp decline commenced in all countries during the execution of the programmes.

Changes in these indicators evidenced that economic competitiveness is only possible by introducing a more profitable environment to the capital at the expense of labour. To put it bluntly, the aim of increasing competitiveness worsened the working and living conditions in these countries by resulting in the cost to be borne by labour. Moreover, under the impact of the adjustment programmes, the bailout countries only started to restructure their productive markets. These programmes put certain reservations for the future of these economies that debt payments will commence earliest in 2025. Debt repayment processes will surely have some further repercussions on the class relations through policies of minimum wage, flexibilisation, public expenditure, and so on in the coming future.

In sum, the Eurozone crisis served as a legitimate framework for Europe to face its structural imbalances and to take action for closing the gap in the levels of competitiveness. It presented economic restructuring as a way out of the crisis in the Eurozone. ESM acknowledged the direct correlation between conditionalities put forward for the release of loans and implementation of structural adjustment policies in bailout countries. It functioned as a strategy for fuelling competitiveness throughout the Eurozone, and hence, strengthening the ultimate aim of capital accumulation in global market economy.
EUROPEAN STABILITY MECHANISM AS A STRATEGY FOR FUELLING COMPETITIVENESS: ECONOMIC RESTRUCTURING IN BAILOUT COUNTRIES

Özgün Sarımehtet Duman

References


TRANSFORMATION OF THE DISTRIBUTION AND MARKETING NETWORKS OF THE MEXICAN TEXTILE INDUSTRY: THE TEXTICUITZEO BAZAAR

Armida Concepción García1, Guadalupe Margarita González Hernández2

Abstract

With the development of the maquiladora textile industry, Mexico saw a significant economic growth over decades. It is worth asking: What was the impact of the global transformation in the textile industry’s productive processes in distribution and commercialization? With the aim of exploring the path taken by clothing as it moves throughout the country, we visited the Texti-Cuitzeo bazaar in Michoacán, Mexico; it is a market for regional textiles which development combines the traditional tianguis (open-air market) model with features of a larger-scale shopping center. Given the characteristics of access to the bazaar, we pursued a multi-site ethnography. As such, we found a productive space which operational characteristics allowed us to determine the origins of global products in that sector.

Key words: Retail and wholesale trade, logistics, textile manufacturing.

Introduction

This article aims to contribute to knowing the impact of the global transformation in the textile industry’s productive processes through exploration of the distribution and commercialization channels that occur in the famous “textile bazaars”, spaces of great tradition in the sale of apparel merchandise in Mexico.

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The current neoliberal model has given a big blow to the industry by introducing consumables (breaking the productive chain), as well as by allowing the introduction of international low-cost products to the Mexican market (damaging the textile industry).

The textile sector has had significant participation on Mexican economy over the decades. Its historical process and economical rearrangement have been recurring topics on several academic investigations (Alos, Moreno, and Carpio, 2005; Arroyo-López and Cárcamo-Solís, 2010; García-Castro, 2004; García-Guzmán, 2009; López and Rodríguez, 2016). However, there is still to know the impact of its transformations in the industry’s productive chain; particularly, the changes in the distribution and commercialization processes under the new globalized textile model.

At the beginning, a brief essay on the rearranging of the Mexican textile sector is presented. The current behavior of the textile industry in Mexico has been the product of national development strategies, especially during the second half of the 20th century and the changes generated in the international market. At an international level, the process of imports substitution introduced during the fifties allowed the consolidation and strengthening of the textile industry, along with its distribution, commercialization, and internal market networks; at the same time that the country managed to enter global economy thanks to the maquiladora model, increasing its importing potential and foreign economical investment by taking advantage of its cheap labor. During the first years, this industry reached an exponential growth throughout the whole country, and it is considered as one of the most important job sources, productive investment generator, and GNP contributor (Contreras & Munguía, 2007). Nevertheless, the model called “fast fashion” has contributed to the changes in the productive processes, placing several businesses as assembling plants for the big multinational maquiladora companies. Finally, the entering of textile products of questionable quality and origin (called “pacas”, Spanish for bulks) to the country has intensified the contradictions of the process: smuggled products, remains of big clothing stores and factories from the United States enter Mexican territory and are offered with no kind of restriction in open-air markets and stores.

As a consequence of production changes and relaxation, the arrival to the textile market of all kind of merchandise (legal and illegal), and the recurring crises
caused mainly by income’s lack of elasticity in the Mexican market, the sector has lost competitiveness against foreign companies turning into a precarious, unsafe, and informal job source.

The distribution networks from the sector have been interleaved with internal channels, with the purpose of getting the products to their sale destination faster. This process is in the middle of practices developed in fields that, at certain execution levels, escape from authority control. Alarcón (2008) attempted to reveal the path that a product from Asian origin follows up to its placement in the markets of Mexico City. As a result, he managed to reveal the existence of highly organized informal trader networks, with purchasing power and multinational connections, results as the ones obtained in this article.

**Work methodology**

In order to understand the effects and changes of the distribution and commercialization models of clothing in Mexico, the subject matter centered on the Texti-Cuitzeo bazaar, in Cuitzeo, Michoacán, under the multi-site ethnographic observation (Marcus, 2001) done from 2017 to 2019. In contrast to the classical way of doing fieldwork of classical ethnography, Marcus’s methodological proposal for multi situation ethnography is mainly based on the researcher “moving from one place to another following his object of study” in order to draw extended links, connections and relationships that occur between two or more places, as well as to explore the social relationships that are built and developed between them. This method establishes the theoretical-methodological bases to follow objects, follow life stories, follow metaphors and follow conflicts moving between multiple places, which allows to discover the routes of connections and associations between various places and reveal from the ethnography itself, economic contexts and broader politicians.

In addition, we worked with data from the tourist services survey done in 2017 by the Department of Economic and Touristic Development of Uriangato, a municipality from the state of Guanajuato, about the textile activities of the region.

While performing field work in the municipalities of Moroleón and Uriangato, fifteen key informers pointed out the existence of a regional commercial center in the area, which sales and recognition had turned it into the place of choice for outside buyers, undermining the sales for these locations. This revelation made
us evaluate the possibility of performing a specific study to know its formation, access, and way of working. As we pursued this goal, we toured the marketplace of Texti-Cuitzeo for \textit{a year and a half}, during which a space exploration was performed. Then, semi-structured interviews were applied to wholesale clothing merchants through December 2017, July-August 2018, and January-February 2019. It is worth mentioning than one of the main obstacles when trying to get the information, was the existing \textit{criminality} in the area. The zone where this commercial space is located is currently in dispute by criminal organizations, which made it impossible to interview the founding or administrative members of the place, and while some lessees refused to talk, some others gave valuable data in informal anonymous conversations. This marketplace is a \textit{concealed} information place for those who are not part of their system.

\textbf{Textile industry in Mexico and its economic reconfiguration}

The Import Substitution Industrialization (ISI) model promoted by Mexican government halfway through the 20\textsuperscript{th} century was essential for the consolidation of the national textile industry. The protection exercised by established tariffs allowed this industry not only to grow with no competition, but also to have the Mexican consumer as a captive market, allowing the establishment of productive chaining in consumables as well as in production, distribution, and commercialization. Nevertheless, direct foreign investment could interlock with domestic investment in order to enter the closed national textile market (Huerta, 1994; Arroyo & Cárcamo, 2010). Meanwhile, illegal merchandise entered the country, mainly from the United States, initially known as \textit{fayuca} and later on as \textit{pacas}, offering low quality garments and in amounts that did not question the protection, consolidation, and strengthening situation of the national industry. Finally, in a lower importance rank, but that established the prioritization of the consume and purchase patterns, was the importing of \textit{haute couture} clothes destined to cover the needs of the Mexican elite. These imports were reduced and covered the legal requirements necessary to not affect the national industry.

Under this development model, textile industry allowed the creation of a whole network of stores with different productive scales based on the intensification of the workforce and the Mexican social security model (English style working days, benefits such as retirement, vacation, or medical assistance). However, micro or family shops, facing the competition generated by large scale textile industry, had
to renounce this social security benefits, leaving the workforce on an initial precarious situation (Huerta, 1994).

Mexican textile sector encompasses manufacture and commerce of textile and footwear products. Since the eighties, textile industry in Mexico has had important participation in job creation, productive investment, and gross domestic product. You can't deny its historical contribution to the industrialization process of the country. In light of the world changes that occurred during the nineties, its reconfiguration processes circulate between the search for competitiveness and successfully enter the globalized markets.

Textile and clothing industry has had a constant growth of its total gross output and its gross national product. A relevant piece of data is that its occupied staff has displayed a slight reduction, as shown on Table A1, while their gross outcome has increased (INEGI, 2018).

Table A1. Textile industry in Mexico

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP (Millions of pesos) (1)</th>
<th>GNP % (1)</th>
<th>Total gross output (thousands of pesos)</th>
<th>Occupied staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>65.108</td>
<td>2.5</td>
<td>118,554.664</td>
<td>227,538</td>
</tr>
<tr>
<td>2014</td>
<td>69.895</td>
<td>2.4</td>
<td>124,672.911</td>
<td>224,849</td>
</tr>
<tr>
<td>2015</td>
<td>74.205</td>
<td>2.5</td>
<td>134,588.913</td>
<td>224,233</td>
</tr>
<tr>
<td>2016</td>
<td>80.472</td>
<td>2.9</td>
<td>143,189.917</td>
<td>222,396</td>
</tr>
<tr>
<td>2017</td>
<td>81.588</td>
<td>3.6</td>
<td>151,047.768</td>
<td>222,964</td>
</tr>
</tbody>
</table>

Source: Domestic accounts system, INEGI (1) This section includes subsectors 313: Manufacture of textile consumables and finishings; 314: Manufacture of textile products except items of clothing; 315 Manufacture of items of clothing.

As a response to the world capitalism crisis of the thirties, textile industry modified its production patterns by promoting the import substitution model, and establishing a neoliberal development strategy that contributed to industrial development (García-Guzmán, 2009), until the model's demise in the sixties.

The country has had an important growth as a textile industry exporter thanks to three conditions: a) the external debt crisis in the eighties, that marked the end of the import substitution era, b) the implementation of the World Trade Organization (1994) and the General Agreement on Tariffs and Trade (GATT), and c) the signing of the North American Free Trade Agreement (NAFTA), that
came to complement the economic regulations on the trade of textiles and clothing (Arroyo-López & Cárcamo-Solís, 2010).

One of the main outcomes of the international trade agreements was the implementation of several maquiladora companies, which emerged in the year of 1965 as a part of an alternate industrialization project for the cities on the border with the United States, which objective was to provide work to hundreds of workers due to the end of “Programa Bracero” (Martínez de la O, 2006, p. 96). At the beginning, they settled in the “free zone and border strips”, which turned into a strategic place and a “favorable site for companies of the fiber, textile, manufacture, and American department stores that were pursuing to establish a close and low cost provider market nearby” (Martínez de Ita, Sánchez and Campos 2005; García-Castro 2004). In fact, such border zones industrialization project had a positive effect on foreign investments, since they installed their highly intensive on workforce production stages taking advantage of their low cost. That border location and the workforce low cost turned into essential comparative advantages facing the access to the American market for transnational companies.

Analyzing the performance of the maquiladoras generally involves an evaluation of the national industrial development model (Contreras & Munguía, 2007). Their insertion in Mexican economy has been considered as a decisive factor in job generation (Mendoza and Calderón, 2001), and as a tool for modernizing the productive structure of the country. Still, their limitations lay on the increase of economic dependence regarding American economy, scarce contribution to the generation of added value, and a lack of interweaving with the local productive tissue, which translates to weak links with local providers (Gómez-Vega, 2004, p. 73).

The geographical location of the maquiladora industry followed different logics for its implementation, seeking to effectively take advantage of the competitive assets of each region and the abundant workforce, aiming to produce low cost standardized clothes. A big number of companies devoted to textile maquila settled in the north of the country during the sixties. During the eighties, they settled in northern, northwestern, and northeastern Mexican cities. And they successfully placed themselves in the center, west, and south of the country in the nineties in regions that were highly recognized by the production of textiles and garments for the Mexican market (Martínez de la O, 2006).
With the beginning of the 21st century, economic challenges derived from the commercial opening arose; some of the national companies with greater capability increased their exporting potential by taking advantage of productive and commercial alliances, while some smaller ones saw their productive capability decrease (García-Castro, 2004). Small and medium-sized businesses, along with the maquiladoras that manufactured commodities, could not integrate complete productive chains due to their shortage of workforce, scarce entrepreneurial abilities, limited economic and financial resources, as well as low tech (Arroyo-López & Cárcamo-Solís, 2010). The integration of China to the World Trade Organization (WTO) and the American textile market signified a hard blow to the Mexican industry that until the year 2000 relied on a wide participation in national production.

As tons of textile merchandise arrived from the Asian region, the market was invaded by low cost clothes, both informal and illegal. This process became a strong disloyal competition for Mexican producers, since eastern manufacturers have managed to direct their production to international markets for decades, adapting effectively to their demands, needs, and idiosyncrasy (Pinheiro-Machado, 2008). Though to a lower scale, something similar happened to the competition from Central American and Caribbean countries. The deal granted by the United States as of 2000 to the countries of the Caribbean Basin Initiative (CBI) “violated Mexico’s capability to compete in the American clothing market, especially since the labor costs of these countries are lower than in Mexico” (Contreras & Munguía, 2007, p. 83).

The contraction of the internal market and the increase of large maquiladora companies, drove several Mexican companies to work as assembly plants for the export market, creating bonds with large clothing companies, mainly of American origin (Carstensen, 2012). Their performance moved to depending on the commercial tactics of the big world corporations that control production. An example of the latter can be found in the state of Puebla and the region of “La Laguna”, in the border between Durango and Coahuila, significant textile producing regions for the domestic market that currently have an important participation in United States’ textile manufacture.

Several municipalities of these regions reshaped their local economy and productive processes: they moved from agricultural work and other complementary
activities to the maquila of international brand clothing. A significant number of the companies of these regions now have economies of scale and are highly competitive. Just in the Puebla municipality of Tepuacán, they reached a production of 50 million pieces of clothing in the year 2000, 80% of which was assigned to the export market, billing around 450 million dollars a year (Barrios, Santiago, & Castro, 2004). Production lines of transnational maquiladoras, such as Tarrant Apparel Group3, Grupo Navarra, and Exportadora Famián, were installed in this municipality.

Conversely, there is a traditional sector set up by small companies that don’t have the faculties to improve their technological levels and/or productivity (Alonzo, 2015). As a result, the production is carried out in a wide range of conditions, which developed two kinds on productive chains for the manufacture of clothing in the country: global and local. The importance of maquila in national employment had an increase, facing the perspective of selling their production in the domestic market, if remaining under a framework of cheap labor and fiscal incentives offered by local governments (Martínez de la O, 2006).

Along its formation process, the textile sector has shown a reproduction pattern with a double economic tendency; on one hand, a long and continuous loss of national competitiveness in the textile area (especially of its soft fiber elaboration component); on the other hand, a significant growth of the clothing branch from its integration to the world productive chain via the ‘maquilarization’ of processes (Martínez de Ita, Sánchez y Campos, 2005, p.15).

In brief, the implemented strategies led to the dismantling of the thread-textile-national confection value chain, which brought up a greater capital concentration and inequality in the sector as an effect. Yet, Mexico has managed to successfully export denim fabric, padded textiles, and synthetic fiber yarns. It is worldwide recognized on finished goods by the quality in jeans, cotton t-shirts, and synthetic fiber sweaters (Patlán, Delgado y Musik, 2008).

3 The company Tarrant Apparel Group had maquiladora plants in Los Angeles, California (their headquarters), Hong Kong, and Thailand. They manufactured jeans for brands such as Levi Strauss, The Gap, Guess, and Tommy Hilfiger. Nevertheless, “since different non-governmental organizations denounced labor abuse in their factories, various multinational companies demanded that they were subject to an inspection, which resulted in the temporary closing of the company” (Proceso, 2007).
Labor of the textile sector

The economic conditions of the textile and clothing industry have work insecurity generation processes exacerbated by production relaxation, outsourcing on certain stages of manufacture, and strategic alliances between companies (Velasco, 2017). The need of creating greater competitiveness provided the conditions to transform and making work conditions more precarious, in addition to unhealthiness and labor exploitation conditions (Arroyo-López & Cárcamo-Solís, 2010, p. 54).

Standing out is the formation of a work sector linked to outsourcing chains, underground maquila shops as well as uncertain hiring agreements, conditions that promote occupational vulnerability by emphasizing temporary, unstable, and lower benefit jobs (Martínez de la O, 2006). Without underestimating the increasingly wider presence of self-employed workers, precarious family shops, and informal businesses (Sales-Colín & Martínez, 2014).

Under this accumulation phase, “workers are immersed in more uncertainty and job insecurity accentuated processes than in the past” (Mancini, 2017, p. 337). Contracts between local companies and transnational corporations have established certain quality and delivery demands known as “just in time” and “fast fashion”, which have resulted in new productive paces and hiring processes that don’t always benefit the worker (García-Guzmán, 2009). In terms of salaries, a great number of workers of the textile sector operate under the payment-by-the-piece system, whereby the base salary (usually multiple of the local minimum wage) is added additional income “by the piece” when they reach certain productivity levels or cover the production quota set by the company (Gereffi y Bair, 2003, p. 353).

Since the eighties, maquiladoras were recognized by their low-cost labor absorption capability. Nevertheless, with the coming of the new century the textile sector has deepened its already marked job insecurity represented in the absence of work contracts and social protection inclusive outlines, low levels of income, partial or extended shifts, and ununionized workers. According to data obtained by “Root Collective” (2016, p. 15), “the profile of labor requested by textile maquiladoras is aimed to young population, with an average education level of middle school, looking for stable income”. It is worth emphasizing the considerable contribution of female labor to the sector. In 2017, women’s participation was 58.1% against 41.9% of men (INEGI, 2018).
The textile sector has established intensive production and commercialization ways, sustained by a labor group in structural conditions of profound precariousness. Nowadays, it has a significant technological lag, shortness of competent personnel, low integration capability of the textile productive-commercial chain, a strong competition from the illicit sector and/or counterfeit goods, as well as crime; factors that have an impact on the development and competitiveness of the Mexican textile sector transforming their production and commercial insertion processes in the national and international markets (De la Garza-Toledo, 2018).

**Distribution and commercialization: last link of the textile chain**

As it’s been pointed out, the insertion of textile industry to global economy has happened mainly through an outsourcing process in international maquila (García-Castro, 2004). At the same time, the textile and clothing sector has experimented a significant change in its production processes through the last decades. The market has been highly impacted by *fast fashion*, which strategy “aims to increase the variety of fashion and the reduction of the products’ life cycle, which requires to place new merchandise to an increasingly faster pace and shorter time ranges” (Martínez Barreiro, 2008).

The challenge for the manufacturers is to have a high response capability to the changes in the consumer market, which involves generating strategies to have greater organizational and labor flexibility, increase production volume, reduce manufacturing time and delivery of textile merchandises of questionable quality to low prices. In this type of business model, closeness with target audience is vital to reduce manufacture and commercialization cycles. Production must get to the market in less time and greater amount. This way, large maquila companies use production and distribution networks in regions that allow easy and quick access to the target consumer audience.

With the end of adapting to the commercial pressure that generates from consumer demands, manufacturing companies have resorted to flexible production, consumer market diversification, and cost reduction, negatively impacting the quality of the clothes, overproduction of merchandise, and above all, the work conditions of their personnel. In accordance with the manufacture “short circuits” of national and international products (Martínez Barreiro, 2007), in order to get merchandise to its destination, *traditional distribution channels* (Diagram
A1) have diversified in order to mobilize tons of clothes around the world. Informal and/or illegal networks with enough experience and logistics for the mobilization of products have gotten on the bandwagon of big distribution commercial companies (Alarcón, 2008; Alba-Vega, Lins-Ribeiro y Mathews, 2015).

In terms of added value, commercialization is the stage with the most economic participation in the textile-manufacture chain (García-Castro, 2004, p. 79). In Mexico, large clothing distribution companies have a greater advantage and profit concentration thanks to their corporate links, better distribution capability, and specialized sales staff (Patlán, Delgado and Musik, 2008).

However, textile merchandise commercialized in the country can be distributed through other channels (see Diagram A2): national wholesaler factory or textile shop owners (produce and sell to medium scale on local markets); manufacturer retailers (lower production capability directed to a local/regional audience); domestic and foreign brand distributors and/or intermediaries; companies focused on recognized brands and products import.

Some of the channels’ links may be informal and/or illegal, which makes them more complex to analyze. There is also a strong presence of textile products that escape the radar of authorities and arrive to the country with no control whatsoever. Such is the case of the well-known *pacas*⁴ (bundles). Buyers with differ-

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⁴ Remaining clothes due to being out of fashion or season; having manufacture faults or mishandle; being too long in warehouses or not meeting the quality requirements requested by the company (Saldaña, 2017).
ent purchasing power buy and introduce tons of bundles to Mexico and Latin America and are part of a wide market specially directed to a low-income population sector (Hernández & Loureiro, 2017; Valenzuela, 2018). The presence of illegal bundle providers is such, that it is estimated that 60% of the nationwide sales of popular and/or open-air markets in the outskirts come from them (Hernández, 2017).

Despite all the information we know about the distribution channels, the whole operation of the latter is a phenomenon that we have little theoretical knowledge and ethnographic type investigations of, due to its complexity and dimension. The process under which textile products make it to the final buyer is in the middle of practices developed in both legal and illegal areas, both formal and informal, that on certain levels escape from the scrutiny of customs and government authorities.

With the beginning of the new century, the capitalist accumulation patterns sustained on a search for a faster response speed and spatial reconfiguration of production and commercialization (Arias, 1988; Ianni, 1996). It is extremely difficult to see the path that a piece of clothing or item follows to get to the market (Alarcón, 2008). Import and export merchandise distribution networks are so tangled that there are still cases in which a product can start its path being legal and end up being sold in markets as street vending.
Complexity of globalized commerce

In the eighties, textile and clothing industry characterized by mass production of standard garments that did not vary much from one season to the other. Production cycles were predictable. Providers used to be regional and collections were presented in two seasons (spring-summer and fall-winter) (López & Rodríguez, 2016). Nowadays, items, fashion, and styles are created and scattered around the world faster than ever by international trade and digital networks (Martínez Barreiro, 2007, p. 188). So as to reach high levels of production and cover the clothing demand, the fashion industry has promoted an exacerbated consumerism, characterized by offering more products more often.

In order to place a great amount of merchandise in the market, it is necessary to accelerate production. The industry developed “productive chains destined to the buyer” through decentralized manufacture networks in a number of exporting countries (Gereffi, 2001). That is, an important part of the industry is constituted by a kind of manufacturers with no factory; their production process separates physical production from the design stage and commercialization. Each stage is generally done in different regions (usually developing countries), but logistics are controlled by the large manufacturers of recognized brands and commercializing companies\(^5\) which headquarters are in developed countries.

As a consequence, they have high competitiveness and decentralized production systems; they move from one place to the other, looking for opportunities and articulating networks consisting of all kind of productive variants, special hiring, and workers, which sustain the production and commercialization chains (Alarcón, 2008).

Numerous investigations have demonstrated how a large part of the merchandise that is offered in big malls comes from the manufacture of clothes in precarious and unhealthy conditions, mainly from China, Korea, Bangladesh, and Indonesia; conditions that reveal how globalization processes do not only fail to inhibit but strengthen and increase the informal product distribution circuits (Alarcón, 2008; Hernández, 2016; Hernández y Loureiro, 2017). This type of chains allows us to understand the local economic dynamic, build important economy\(^5\) Some examples of companies whose production is made in developing countries are: Grupo Inditex: Zara (Spain), Forever 21 (United States), H&M (Sweden), to mention some of the most representative.
cores, social contention networks, and modes of the subalterns of adaptation to the global world (Alba-Vega, 2012).

Merchandise flows mobilized by big corporations rely upon their formal channels, but also upon informal and illegal channels. An illustrative case study can be found in the retail commerce sector in Mexico, which includes extensive components (formal and informal), in line with the establishment of commercial relations with large companies that offer their products freely, with no control, in popular markets (Denham and Tilly, 2013).

In Mexico, distribution chains of counterfeit and smuggled goods have knitted a complex, highly flexible network, connecting remote production points and imposing entangled distribution mechanisms, which has generated an increase on the number of street and informal markets for merchandise sale (Hernández & Loureiro, 2017).

Commerce perceived as “globalization from the bottom” (Lins-Ribeiro, 2012) is composed by popular markets and merchandise flows administered by staff not associated to the elites. Although it could be called “internationalization of informal economy”, not only is it a commercial fact assimilable to the automatic response to commercial opening, but it is deeply superimposed in local, national, and transnational power systems.

Those who participate in this system of new subalternate exchange logics, in these “links from the bottom” (Alba-Vega, Lins-Ribeiro y Mathews, 2015, p. 27), don’t intend to replace or destroy capitalism but to benefit from it. Being in or being part of an “informal” system allows many of its members to earn a living and generates ascending social mobility. The activities that are at the bottom are the ones that offer access to flows of wealth and allow survival to the most vulnerable classes. Their networks exist because there are legal and social institutions that benefit from the moving of people and merchandises (Alba-Vega, 2012; Lins-Ribeiro, 2007). For social actors, the forming commercial networks are not a problem, but a solution that gets products and services to the less privileged, giving them a sensation of power by having them take part of the decisions of the productive and commercial chain (Gago, 2012).
The textile outdoor market model in Mexico

Within the commercial chain of the textile sector are moving open-air markets, also known as “tianguis” (bazaars), or great tradition markets in Mexico. Besides being commercialization centers of organic, cheap, and traditional products (Paré, 1975), they are spaces where textile products of different quality and origin can be found. Because of their historic configuration and the significant socioeconomic role they fulfill in farming regions and low income urban sectors, they have been recognized for “displaying the expression of local economies, being places for social bonding, goods supply, livelihood mechanism, and articulation spaces with the national and global economy” (Licona, 2014).

Bazaars are thus traditional markets that gather buyers and merchants from different regions and different economic specializations. Popular traveling commerce finds in them convenience, and the possibility of obtaining greater benefits than the ones it would outside them.

A starting point to understand their operation to make the differentiation between markets enclosed in a specific zone and the market that is disperse, and/or lacking a permanent space. Licona (2014) defines “market” as the permanent space where exchanges of the economic type (transactions) are made. The called “tianguis” or “plaza” (bazaar) is defined as the moving exchange space (physical space) and the “mercado-tianguis” (open-air market) includes both. The latter is understood as an economic and social space where products are exchanged to satisfy supply, accumulation, and service needs (2014, p. 140).

Paré (1975, p. 86) considered that the tianguis “is in accordance with work division, production diversity, regional differences, and the volume of market production”. These commercial spaces are integrated with a wide regional network of merchants and buyers that allow the exchange of a volume of goods that ensures commercial specialization.

For Gayosso Ramírez (2009, p. 60), the remarkable growth of popular commerce and open-air markets is a condition to “understand and analyze the practices and meanings of those who work and perform there. Which implies elaborating on norms (formal and informal), regulations, and the types of control exercised on production and work”. The commercial process of open-air markets has transformed systematically, from the traditional market that sells products to the final
consumer, to the commercialization of tons of products that exceed the definition of survival by economic profit reproduction forms in terms of capital accumulation.

Bazaars specialized in textile products are one of the greatest impact channels in clothing selling. There are municipalities and regions in Mexico where their subsistence economy is largely supported by these commercial spaces. With their peculiarities, each textile commerce center is strongly associated with local economy. Trying to perform a count of those devoted to the sale of textile products is complicated, since a lot of them try to elude control from the State, settling as informal markets.

Some other spaces work certain days a week following a calendar and don’t have a fixed selling space; some producers with greater selling power can diversify it by offering their products from the typical street space (that merchants own for a few hours), to occupying commercial spaces of larger size, highly organized and specialized. According to Gayosso Ramírez (2009, p. 63) work performed at open-air markets is not disorganized or totally informal, but “it is widely structured, with a wide variety of formal and informal norms and regulations, written or spoken, that delimit the activity of merchants in their work process”. They are places where we can find first-hand the reality of trade in the country and the changes emerged from the demands of population consumerism.

Texti-Cuitzeo textile bazaar

It is early morning when the movement of people, yelling, and music fill the atmosphere with energy. On an unpaved road lay organized hundreds of cars and passenger buses that transport buyers from different parts of the country to buy all kinds of clothing. In the middle of the hubbub of tens of buyers the voice of a man can be heard who, through a speaker, calls a few buyers to get his products in “the best textile market in the world”. This scene happens in the bazaar or commercial place of Texti-Cuitzeo located in Cuitzeo, Michoacán; one of the most popular places in the region for the (mainly) wholesale purchase of low-price textile clothing.

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6 As in the case of the bazaar of San Martín Texmelucan, Puebla; bazaar of Guadalupe Ixcotla, Tlaxcala; the clothes bazaar of Chiconcuac de Juárez and the Plaza del Vestido in Tulancingo, both located in the State of Mexico. Along the country we can also find the famous bazaar of Uriangato and Moroleón in the state of Guanajuato.
This commercial space is located in the zone known as *tierra caliente* (hot land) for its high temperatures and dry climate, but also for being one of the regions with greater influence and presence of criminal organizations in Mexico. Ten-minute highway trips from this textile commercial place are the municipalities of Moroleón e Uriangato, from the state of Guanajuato, two of the cities with the greatest tradition in the production and commercialization of clothing in Mexico. An urban area that stands out not only for textile manufacture, but that also has a wide commercial corridor in its streets and roads which is visited by thousands of buyers (Vangstrup, 1995).

In the last years, Moroleón and Uriangato have seen their sale potential decline due to challenges in their production chains, criminality (robbery, extortion, kidnapping of manufacturers and merchants), the illegal entrance of products from the Asian belt, the lack of municipal road planning to allow for the thousands of cars and buses of buyers that are looking for a parking spot, and, especially, the construction and set up of the bazaar of Texti-Cuitzeo.

This textile commercial place was devised by an anonymous group of investing partners, under the political sponsorship and economic interest of power groups from the state of Michoacán and the State of Mexico, to take advantage of the reputation and the recognition of the area, and have the opportunity to place their products in a commercial real estate development that offered better sales and distribution conditions. Initially, small and middle capability outside manufacturers from other regions arrived in the zone and set up on a precarious piece of land with no utilities, on the limits of the municipalities of Moroleón and Uriangato. The possibility of having better space was enough for them to try to get a spot in this commercial place.

The project for the creation of this commercial complex drew in and absorbed so four small outdoor markets from the area. Those who managed to get a spot went to occupy spaces in a large industrial warehouse with all the basic utilities: restrooms, parking lot, paving, and food court. With about 1,500 commercial premises, the facilities include a platform to organize season fashion presentations, in addition to being covered by a huge dome to protect the premises.  

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500 commercial premises are currently being built additional to the existing ones. Rent of the spaces is annual and has a cost of 120,000 Mexican pesos (approximately 6,400 USD) for the smallest space with no warehouse nor basic utilities.
The administrators of the place have administrative and logistic control of the space; they set a series of fees to the lessees, organize and control parking spaces, as well as dictate the rules of order that must be followed by those who go and sell their products. Despite its sales potential, it works only as a traditional open-air market: they conduct activities only two days a week; their transactions are done during the early morning; merchants travel from different parts of the country to sell their products, and the relation with their customers is closer (the typical face to face transaction).

The insertion of this commercial center in this area has modified the commercialization and sale patterns, thanks to the preference the buyers show for the products it offers, as well as its organization and logistics. According to data extracted from the survey done by the Department of Economic and Touristic Development of the municipality of Uriangato, 61% of buyers that visit the region buy only in this commercial center. Small adjacent open-air markets have closed after not being able to compete with this center.

With a greater sales capture capability on opening days, thousands of buyers come from different municipalities of Michoacán, Guerrero, and Guanajuato, as well as from farther locations such as Veracruz, Mexico City, San Luis Potosí, Zacatecas, Monterrey, Tijuana, and even from Los Angeles, California. In this commercial zone you can find products made in shops and factories from the State of Mexico, Guanajuato, and Puebla, as well as from family shops from Moroleón and Uriangato. You can also buy imported clothes coming from India, China, and Bangladesh.

With a significant offer of manufacturers, merchants, and distributors, the zone of Moroleón-Uriangato and Cuitzeo is amid a commercial and political dispute. There are tensions between municipal and state authorities because the presence of manufacturers of this commerce center represents a “disloyal” competition for the textile entrepreneurs of Moroleón and Uriangato.

Industrial sectors and commerce chambers of the region have denounced that the control of this outdoor market is conducted by the power and influence of criminal groups that operate in the area, which offer protection and support in exchange of occupying a space and/or premise. Despite all that, those who have a space in this outdoor market have not been immune to the wave of violence unleashed in the region and have been victims of kidnapping, extortion, robbery,
and threats (Sierra, 2017). Even so, they have not stopped working and the place is on a stage of expansion and modernization.

Conclusions

Resulting from the ethnographic exercise and data analysis, what we found in the commercial place of Texti-Cuitzeo is the reflection of what happens in the Mexican textile sector. For almost twenty years, this industry has lost productive capability facing the international production system. From the year 2000 on, countries from the Asian belt (China, Taiwan, and India) have established a globalized textile model with a huge capability of production and distribution. The arrival of thousands of tons of products to the country has brought as a consequence that Mexican manufacturers of small and medium capability try to place their production in the internal market by moving along the country. Some others have changed their focus to textile assembly plants, relaxing their production and generating precarious working conditions for their labor.

Mexican textile markets, places, and bazaars offer not only national products, but they also offer products of foreign manufacture, generating inequality on national manufacturers, who find it hard to compete with the quantity and quality of the products that come into the country. Hence, internal distribution and commercialization chains have become more complex. Textile commerce has pluralized, increasing the quantity and quality of textile products, from different origin and manufacture, in regional markets. The so called bazaar of Texti-Cuitzeo is an example of highly-organized spaces, with a high potential for local and international commercialization, that has managed to effectively take advantage of the productive reputation and clothing sale that Moroleón and Uriangato have had for years.

Mobilizing great amounts of products along Mexican territory is in no way an individual effort. The constitution of commerce spaces and those who have access to them is thanks to the networks that have been created for such end. Also, the incoming of foreign products is made easier by groups with a great capability of resources and international connections, who lean on informal and illegal activities for commercialization.

Texti-Cuitzeo is a place with impossible access for those who are not part of their connections. The constant presence of criminal structures in the zone is one of the factors why it is a closed social and economic space. All in all, this commercial
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development has perfected a special distribution and commercialization circuit. A space for regional textile commerce, which activities take on by combining the traditional outdoor market with the modernity of a commerce center as a survival strategy. Because of its product mobilization capability, it represents a new monopoly in clothing sale in the region. Its operation features make it a worth-noting case to follow the investigation on globalization from the bottom, commerce of global product, and commercialization of clothing in Mexico.

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TO LOOK AT THE ECONOMICAL ONE WITH THEATRE: “GIVE SOME LIGHT TO THE STAGE!”

Pelin Vildan Kokcu Delikaya

Abstract

The purpose of this study is to have a critical approach to the capitalist system through the Sam Shepard’s “Curse of Starving Class” play and to interrelate capitalism and theatre in addition to finding out the fundamental economical structure of 1970’s, in which the play was written, and it’s reflection on the society in the context of the play. In this sense, to look at the economical one through theatre and examining a crisis has both given us the sociological reflection of the financial one and has shown us that there could be a relationship between theatre and capitalism.

Keywords: Capitalism, theatre, crisis

1. Introduction

The purpose of economics which is a social science is to shed light to the societal truth, just like theatre. However, in 20th century, social sciences has gotten technical under the adjective of ‘discipline’ and got oppressed by a reductonist understanding of science. Then, is it possible to have a theatrical perspective of the economical problems in order to reach the societal truth? Does this perspective open new doors for us in interpreting the societal truth?

The purpose of this study in this context is to have a critical approach to the capitalist system through the Sam Shepard’s “Curse of Starving Class” play and to interrelate capitalism and theatre in addition to finding out the fundamental structure of 1970’s.
economical structure of 1970’s, in which the play was written, and it’s reflection on the society in the context of the play. Furthermore, this study purposes to reveal the role of overcoming the traces of the crisis tendency innating the capitalist system on society by tools that were determined and enforced by the hegemonic powers and to work on them through the play.

2. On Life-Play-Theatre Relation

‘Life is a stage as a whole;
Men and women, all are actors;
One goes in, other goes out and all of them,
Play a lot of roles in the time that was given;
Seven stages of a person are seven curtains.’

(Shakespeare, 2002).

Theatrical plays are a reflection of reality where the explicit and secretive realites become tangible through the actors/actresses therefore they are a lot more committed to the tangible reality than other sorts of art since their material is life and their tool of expression is humans. Theatre’s reality emphasis presents it’s ability to interfere the relationship between life and play while it is always just a play and it will always be since it is a reflection and even an illusion.

The main function of theatre which is an act of impersonation is to reveal the play in life through it’s structure and to confront us with our play of life. The reason why theatre is especially valued in all the other sorts of art is because it allows us to take off our masks, enables the acknowledgment of our role which sometimes adopts the shape of subject and sometimes the object in a play of life which is usually shaped by historical, societal, cultural, political and economical conditions (Şener, 2010, p. 13).

When the theatrical plays are examined, we realize that the fiction and the remark changes and become more complex with the changed dominant class, shifted societal relations and consciousness. This is the reason why tracking the theatrical plays is, in a sense, tracking the history of intellectual production (Marx & Engels, 2009).

which changes simultaneously and depending on with the history of material production. Therefore, examining the history of theatrical play from the beginning to this day allows us to monitor the direction of civilization development.

The art works’ function of reflecting the reality depends on them including the features of the era, typical persons and events in addition to correctly analyze the societal and materialistic setting (Marx & Engels, 2001, p. 51). In this context, according to the reflection theory, because they include the typical persons and events of the era we can say that theatrical plays reflect the societal reality.

Is it possible to create a relationship between theatre which is a product of intellectual production that can explain the societal reality and capitalism which is a mode of production and how?

3. Avant-Garde Theater versus Capitalism

It is observed that throughout history, undergrown circumstances caused art, just like Marx stated. However, art which is an immaterial production could not become friends with the capitalist production understanding. Marx says that for a capitalist, in a context of productive and unproductive labor, the productive labor of an artist is considered productive as long as it provides riches to the publisher of the said artist’s work (Marx & Engels, 2001). Therefore we sense a contradiction between capitalist mode of production and art, specifically theatre. This way of contradiction generates from theatre’s feature of questioning life.

“World is only World to me Gratiano; it is stage that given forcefully to everyone; I took the gloomy role.” (Shakespeare, 1992).

Therefore, the power of theatre which is able to demonstrate the play that was arranged without people’s will and even in some theatre movements this arrangement is criticized and stands against which is a valuable power for us. In other words, like it can be seen when the theatre history is examined, theatre has always been a field where the meaning of life is questioned.

Questioning the meaning of life for theatre is to reflect the materialistic conditions of history. Right at this point, theatre crosses our paths with its ability to resist and the ability to correctly analyze the materialistic and societal environment of theatre which can go as far as the history of Ancient Greek. In this context, theatrical plays and their authors, although it cannot be said for all plays,
are of high significance for analyzing the capitalism thanks to their standing towards the existing order. Theatre has an ideological and educational feature (Şenel, 2004, p. 111) that provides social order and passes and reinforces the aristocratic values, which are the dominant values of the time, from generations to generations. For instance, when the comedies of Aristophanes are examined it can be seen that the corruption of the administration, injustice of the jurisdiction and the passion for war is criticized while humanistic values, peace, tolerance and such values are held high.

After all, our realization of the relation between capitalism and theatre corresponds within 19th century. This relation can be composed with the theatrical plays that bring the new issues and wherreted human relations that generated from the World War 1 and the societal structure that was changed by the industrilization which was written in the period of time between the mid 19th century and mid 20th century to daylight; with the epic theatre movement that publishes the plays that were played by capital owners and had the role of informing the society of such plays; and with the theatrical plays and authors of this approach that were used in defining the current forms of art that supports that idea (Innes, 1992) and not specifically the art of theatre that was qualified as avant-garde in 20th century an became a cultural symptom of expression of the discomfort caused by the bourgeoisie which is the synonym of collapse for Marxist critics.

In this framework, the examination of theatrical plays that reflect the critics of financial and economical crisis and the political and societal outcomes of the capitalist system which is in essence is one of the counterrtrend theatre styles which had started to be written in late 19th and mainly in 20th century and which we will qualify as avant-garde is of great significance for us to widen our perceptual extent of capitalist system.

Capitalism, demonstrates that ‘last magnificent moment’ of America which is trying to maintain the capital stock by financialization and had gone through the 1973 ‘indication crisis’ like it was stated by Arrighi (2000) in the last quarter of 20th century, as well as it demonstrates things about theatre. While crisis, which is a structural feature of capitalism, is happening capitalism also changes the line of theatre plays that differs reality and theatrical plays. This change demonstrates a moment that we can relate capitalism and theatre through avant-garde characterized plays.
This is caused by a socio-economic order that cannot be fully understood by individuals which reflected to theatre as complexity, confusion, identity search or propensity for violence which led to the play taking the place of reality. Now, the issue is neither to get an edge over by having a distant perspective of reality through plays like it is with epic theatrical plays, nor to keep the play consciousness awake that makes the absurdities visible like it is with absurd plays (Şener, 2001, pp. 33-65). The impersonation of those who search for a way out and works to overcome the obstacles in the process, gets into the sources of their problems were replaced by the impersonation of those who struggle in an environment of which (s)he has no idea of the way out, whose reactions are either senseless violence or unconditional submission. The tendency that dominates our modern-day theatre is to give a place to the reflection of the drame of those who have to be a part of something which (s)he cannot unlock the mystery of and therefore always have to play a game that (s)he can stumble any minute and to urge upon the identity shattering and to give place to the abrupt violence that appears because of the identity issues (Şener, 2010, p. 122).

This shift in theatre appears simultaneously with the shift in capitalist system. System is in a crisis as a necessity of its structure and like it is with all crises it will come up with new scenarios in order to overcome the blockage of capital stock. Sam Shepard’s avant-garde play called “Curse of the Starving Class” which was examined in the framework of this study is a play that discusses the accumulation crisis of 1970 from the economical, societal and political perspectives and puts forward the tools that will be used in overcoming the said crisis very clearly: Indebtment and dispossession.

In this context the play, which allows us to relate capitalism and theatre also very clearly reveals the ruling structure of capitalism that proceeds through indebtedness, the structure innating crisis and the inequality which is the structural feature of global capitalism, societal power relations and class consciousness of the era, criticizes against capitalism. This criticism is made through the ‘family’ structure which we can consider the smallest reflection of society in a moment when the capitalist accumulation process which we all live in, “exposed to” and which is trying to make us orient, is in a deadlock.

How the capitalist crisis can be experienced in a structure called “family” which we can consider the smallest part of the society beyond the economical and political
indicators? What this “family” means for the capitalist system during this capital accumulation process? And how could it be used in order to overcome the stocking crisis is the system?

In this framework, this study will examine how the economic, societal and political ones are analyzed in the play carrying the purpose of overcoming the understanding of a social science that is limited and became technical through the play called “Curse of the Starving Class”.

3. One Play⁴, One Crisis: To Look at the Economical One with Theatre

Sam Shepard’s “The Curse of the Starving Class” is an avant-garde play written by Sam Shepard in 1978 and it includes fundamental economic findings on

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⁴ The summary of the play is as follows: The Tate family, who owns an avocado farm in the West side of America, although they always say that they are not one of the “starving class” they never leave the sight of the refrigerator with hopes of finding something to eat. Weston is an old war pilot who was fired a long time ago. Weston, who is in his middle ages, spends his days drinking in a bar without coming by the house for days, increasing his already existing debts by purchasing cars, goods that do not bear profit like fields in the desert believing tricksters and advertisement around him. Wesley, Weston’s eldest son, is trying to keep the place where he lives up on its feet by doing all the work in both the farm and in the house. Ella, cheats on her husband with Taylor who is a land speculator and secretly tries to sell their lands. Emma, who is a young woman thinks that the only way to succeed in life is to leave the farm and unlike Wesley cannot adopt to the place where she lives. Weston, not knowing that his wife wants to sell the house, sells the house which is their shared property to the bar owner where he very frequently visits while he is drunk in for an amount of Money equivalent to his debt. While the swindler speculator who aspires the house is quarreling with the bar owner who brought the amount of money he and Weston had agreed upon when Weston was drunkenly asleep on the kitchen table, the news that Emma, furious of this sale and could not bear the idea of her father being defeated, had made a foray to the bar on a horse and hence was in custody arrives. The bar owner takes back the money he brought as policy reserve. Although Wesley tries to save their money, he fails. Weston, who has no memory of what he did whatsoever an even is ready to leave all his mistakes behind, to stick his heart and soul to his farm and wishes to dress the wounds of the past, notices shortly that his family is now in a swamp of debt. He is convinced by Wesley to escape in order to slip through the net of his creditors. Wesley, who takes on the clothes of his father along with his identity and his curse is now the new head of the household. Emma, having achieved to escape from custody arrives home while her mother Ella is asleep on the kitchen table; Emma says that she will run towards the criminal life which she always considered as her way of escape from that farm with the money and the car keys she finds in her mother’s purse. After Emma leaves, the creditors of Weston enter the house after an explosion is heard outside and see Wesley as their new indebtor in consequence of Ella mistaking her son Wesley with her husband Weston. The car explosion is just a small warning of what could happen in case they do not pay their debt. The play ends while Ella and Wesley are brooding over how they fell head over heels into the lap of death together.
American economy in addition to the transparentized impacts of those findings on societal life (Innes, 2004). When the perception of reality of the play is examined it is necessary to consider and remember the theatrical mentality of the last quarter of the 20th century, as mentioned above. Theatrical play writer Sam Shepard who will be examined in detail in the following chapter has written plays after modernity in which the reality is replaced and the disidentified that had split in different identities both live and play. In Shepard’s play called “The Curse of the Starving Class”, there is a fiction where an individual becomes alienated of him/herself after (s)he starts to lack communication and becomes estranged with the environment.

In this framework, this study of examination of Shepard’s play whispers to us of the sociological projection of the crisis and the base lines of the shift in capitalist system which had started to be experienced with the deadlock of capital accumulation process in 1970’s.

The play shapes around a family which is seduced with the American Dream5 and is living within the disharmony in the embodiment of the global capitalist economy and the effort to adopt to the said system and the unchanged curse of the starving class. Dearie individuals of the American economy that stimulates the consumption had fallen into an ideological and economical void with the collapse of the American dream and the mortgages that were provided to said individuals solely because it was unwanted for them to lose their consumer characteristics were harmonized with the indebtment relation and said individuals errantly thought that the American Dream is continuing but they got shattered, thrown away from fundamental values of family and became the prisoners of the immutable system so much that they cannot get rid of the idebtment in this system.

Another change is that in those years when the stocking was in a deadlock “… high indebtment burden that snared the people, corruptions and commandeering

5 The American Dream is an ideology that stands for the stimulation of consumption and had started to spread in 1920’s America. It is an ideological creation which had started to generate in 1920’s for the benefit of capitalist system. This ideology considers the control system above labor, it creates a perception the employees can purchase and own the things they produce, having more materialistic goods will bring happiness and its production model that includes a hedonistic approach. It had started to be known as the ‘American way of life’ after the war and said model also includes Fordism and tries to keep the pieces of the Fordism together (Harvey, 2004).
their assets through credit and share manipulations.” (Luxemburg, 2004, p. 122) are some of the resorts that were betaken against the crisis that directly erupted in a central country. In the fictional world of this play that was written in 1978, both the new tools that were created in order to overcome the excessive stocking crisis that happened after 1973 (Harvey, 2004) and the hints of the depression that the people were in was examined through the family that was subjected to the play. This era which was presented by Arrighi (2000) is the era when the ‘indication crisis’ had happened in 1973 and was passed to the second stage of fiscal expansion which means that the financialization tendency has started. In this sense the general feature of this era is to betake financialization in order to overcome the deadlock in the process of capital stocking and to apply to new tools in this context. Stocking by seizure and commandeering that generated as a way out of the excessive stocking problem that became chronic and which had appeared because of the expanded re-production, became even more widespread after 1973 and the main tools of this expansion are financialization and mostly the international fiscal system under the dominion of USA (Harvey, 2004).This financialization tendency that had passed to borders of nation states and it’s implementations and that had trespass into the relations of an ordinary family appears before us in the following sentences of Ella, the mother of play: ‘...A curse!...It is in the very air we breath, it is all over us. It is bigger than the state. And it is expanding. We are the ones that expand it...we are infecting others...without our will, it is breeding and persisting as if we do not exist...’ (Shephard, 2000, pp. 236-237) In this sense, said era is a one when the excessive stocking crisis had happened and the crisis had multiple reflections on the society.

America of this era, which is a monopoly capital era (Mandel, 2008, pp. 628-659), is a place where the neo-liberal ideologies are on the rise (O’Connor, 1995), the individualistic ideology is situated, the judicial system is based on the interests of the bourgeoisie and the capitalist interests are represented by powerful companies. Taylor’s ‘... there are big holdings backing me, high level administrator and you have to agree with it...’ (Shepard, 2000) lines explain the structure related to the monopoly capitalism.

It can be seen that the state is processed through the judicial system and the police that brought the news that Emma was in custody an in this sense it is observed that that the state is an object of the capital and the biased relations that are related to the capital (Brunhoff, 1992).
The structure of capitalism that is always ready for a crisis and how the neo-liberalism actually does not create a society where everyone lives in prosperity but how it increases the social inequality under the name of free market can be found in the play through the starvation and idebtment of a family that lives in an economy which is in a crisis.

The fact that the USA’s structure related to the system is established on the basis of idebtment in stocking depression (O’Connor, 1995) beyond big companies and economy and that it is even placed within the behavioural pattern of families as a new tool that was created in order to maintain the consumption can be clearly observed through the family of the play which owns nothing but the house which Weston later finds out that his wife Ella tried to sell it in cooperation with her boyfriend Taylor and through Weston’s sentences -which are the best demonstration of how the idebtment behaviour is placed within the families- said in cold blood are as follows: “…Each of you are swindling me! I’m the one who is working! I’m the one who brings food to the house! I bought this house and I will be the one to sell it because you owe me! That woman cannot steal this house from me! I’m the one who owns it!” (Shepard, 2000, p. 231) The dispossessional character of the system is revealed by the family finding themselves homeless at the end of the play and how the systems like idebtment and mortgage credits just like this new way that was tried to overcome the stocking crisis dragged them into a deadlock against the unsustainability of the idebtment relation through the family that had turned against each other in order to be the one to sell the house which the only thing they own.

In addition to this we can understand that the newly developed ways of overcoming a stocking crisis are the new causes of another stocking crisis just like O’Connor (1995) stated. We can observe the correctness of O’Connor’s (1995) words through the family which got into more debt in order to be relieved from another debt and sold their house but still arrived to a deadlock.

The play is interesting in a way that it allows us to see the emphasis on the relations of how the credit system and the fiscal capital became tools of pillaging, theft and fraud (O’Connor, 1995) just like Lenin, Hilderfing and Luxembourg had drawn attention in the 20th century when Marx’s principle stocking mechanism had changed. The fundamental elements that were revealed in the context of the play are ‘commoditization of land’, ‘idebtment of families through
mortgages’- especially the families with low income-, and dispossession of those families and lastly ‘pawnbroking’ which are qualified as Marx’s current tools (Luxemburg, 2004, p. 121) of primitive stocking process. Meaning that the first criticism of the play related to the system is dispossession through indebtedment. The new tools that were developed in this era to overcome the stocking crisis are told through the indebtedment of the low income segment of the society, commoditization of land, leaving landowners landless and mortgages, building and land investments in the play (Shepard, 2000, p. 204): ‘…banks are giving loans of money everywhere. Little mortgage credits for families, people have sacrifices themselves to buildings, everybody wishes to own a piece of land, the only safe investment. It cannot lose its value like a washing machine or an automobile…’ and ‘…It is agonizing to see that agriculture has receded into background day by day in order to afford cheap need of housing but it is one of the necessities of the time!’

In this context, two fundamental cases that were emphasized bring the purpose and the reflection related to the era to forefront: The relation between the starving class and indebtedment is dispossession and the commoditization of land which reflects the efforts of opening new fields of interests. Taylor telling to the father of the house that he will have to sell the house because of his debt to everyone (Shepard, 2000, p. 204) is one of the examples of the indebted system and dispossession.

The ‘We don’t belong to the starving class! There is a starving class of people, and we are not part of it!’ sentences and Wesley’s and Ella’s dialogue’s:

“Wesley: ‘I’m hungry’.

Ella: How can you be hungry all the time. We’re not poor. We’re not rich but we’re not poor. Wesley: What are we then?”

(Shepard, 2000: 199) that was emphasized when the characters of the play cannot find anything to eat in when they go in front of the empty refrigerator gives us a hint on the societal structure of the era. ‘Starving class’ emphasis ironically symbolizes the indigent state of the family which was shattered in the class conflicts and that now another stage is taken rather than the labor class pain point. In this play where Shepard processed the traces of the fallen American Dream on a family he gravely the idea of that the American Dream is actually based on the fact that an individual can be successful as result of his/her hardwork and high efforts (Ergin, 2005, pp. 23-24) no matter which class the individual is a
part of or no matter who the individual is to the characters. However, the characters denote the said ways with different derams and arrive to the deadlock of the immutableness and the of the system and to the delusiveness of it. Ella dreaming of moving to Europe and climbing the social ladder by selling her husband’s house with her boyfriend Taylor, Emma who is the youngest of the household planning of running away from the house and entering the world of crime because she thinks it’s more profitable, Wesley who is the son of the household not wanting to sell the house and trying to make things right are actually all desperate revolts against the system. Weston’s last sentences of the play signalize his dream of turning a new page on his life (Shepard, 2000, p. 259) by having his own production tools and producing in his house and farm emphasizes the wish of not being a ‘fool of debt’ (Shepard, 2000, p. 239) and the impossibility of it.

The secondary personations in the play stand for the representatives of the system in different stations of societal order. Taylor is a pawn who works for the big holdings. Ellis, is one of the small owners of money. Malcolm is a small officer of the system, he is a policeman. Slater and Emerson, are the representatives of mafia/pawnbrokers which is placed in the system as validators although it is illegal and could be thought of as internal system of the system.

In this context, it is observed that the play has a parallel fiction to the fundamental qualifications related to the era.

“What kind of a family is this?” (Shepard, 2000, p. 200) This question that was asked by Emma concludes the play and the shattered society that was reflected by the play. While talking about the “Mr. And Mrs. America. The ideal couple” (Shepard, 2000, p. 224), we speak of the family that has never achieved to be included in the societal structure of American Dream. Neither women nor men had achieved to become suitable individuals in their gender roles. They are the individuals that were excluded from the society. Invalid and identityless according to the system. They cannot recall neither their true identities nor what they truly are but they can sense that cannot be with instant poundings. They could not accommodate themselves to the system no matter how much they wanted to and therefore could not take place in any pattern within their liquid form. Wesley’s sentence that was said after he cut an ill sheep towards the end of the game and quoted from an advertisement in a world where they are trying to accommodate that goes “Eat American sheep. Twenty million coyotes must know something!”
(Shepard, 2000, p. 215) has evidential value that the chauvinist dream which is tried to be maintained is still tried to be maintained on new generations. Nevertheless, the same lines could be an exposition of the Bible by the author. In a society where the sheep are dying and are beaten the ones that stand are no longer sheperds but they are coyotes; the establishment of identicalness of capitalist system with coyotes demonstrates that the hopes of recovery of a sickened society are now lost because it proceeds in a mechanism that grinds everything that crosses its path.

“Do you know what is the worst part of getting used to an excessive comfort? You forget your own roots. It breaks the bond. You think you are getting somewhere, but you always lose. You are a always dropped behind. It’s like sleeping like the dead scattered on the ground. Like you’re hypnotized. Your body becomes lull. Then you slip into a coma […]” (Shepard, 2000, p. 225).

With these words Weston narrates the impact of the system on people and briefly concludes the trap he and his family fell into. The American society was numbed by the dreams of a laid-back life style and were deracinated. They set their own bodies as victims in order to provide the necessities of the capitalist system. Now they are rootless, memoryless and unhappy. They have no hope for the future. They will either be included in the system or will be destined to disappear. The system rejects to contain the invalid and ill ones within itself like the Tate family’s ill sheep. Because the capitalist sysem is in need of healthy individuals that works for it and keep the wheel turning through them (Harvey, 2008, pp. 125-147).

“The eagle keeps coming constantly, settles on the roof of the penthouse and then flies away again […] A monstrous cat is coming. All the way to the farms. Jumps up on the roof. To smell the intestines of animals or whatever it is that is up there. Then the eagle makes another dive. It flies away shouting and screaming as soon as it catches the cat with its claws[…] Then they have a fight. They fight like crazy in the sky. The cat digs out the chest of the eagle. The eagle tries to let go of the cat but the cat will not let it. Because the cat knows if it falls, it will die. And the eagle is being torn apart in the sky. The eagle is trying to save itself from the cat but the cat will not let go. And he crashes the ground, fluttering. Like they are one.” (Shepard, 2000, pp. 266-267).

This story that was witnessed by the father and we listen to from the mother-son at the end of the play indicates the point where the nations, especially America, that proceed in the capitalist system has arrived. The system is constantly
wounded by the people that generate the system itself, by its own laws. The more the people try to hold on the more they dent the system they are trying to hold on to. These two forms that are interwoven are doomed to disappear together.

“[…] You think that World revolves around your small and pathetic lives. Like everyone and everything has hold their breaths and are waiting for what you will do next. But the truth of the matter is different. Nobody is waiting. Everything is progressing. Everything is progressing without you. There is nothing you can do to turn it back. […]” (Shepard, 2000, p. 242).

Says Taylor, a man of the system. He emphasizes that the individuals that had failed to be an agent in the system are destituted of the right of representation and their existence or non-existence has no meaning within the system. Sam Shepard grants the right of representation to a family that is not visible in the system by creating them as subjects via Taylor who speaks the same language with the system and therefore tries to question the whole system that was built upon, the American dream, sex and gender conceptions.

4. Conclusion

‘WESTON: I remember now. I am in debt, yes. I am in debt up to my ears. I had hopes for the future, do you understand? I trusted the future. I had faith that everything was going to be alright. Things could not have been worse, which means they would be better. They are constantly selling things, which means things will be alright. Buy a refrigerator. Buy a car. Buy a house. Buy land, invest. Would they be as generous if they did not know the debt will eventually be paid. I took a leaf from others’ books. Everybody wants me to be in debt already. Banks, installement sellings, investors… everything is going around some money that is not visible to the eye. The sound of money cannot be heard anywhere. Everything is by credit. Everything is in the minds of the people. If that is so, I said, I shall have my share. If everything is about the numbers, what could happen if I were to be in debt for a couple thousand? Since everything is objective and there is nothing tactable then a share shall fall for me. I dragged after them, I went after the caravan.’ (Shepard, 2000, p. 260).

Theatre in all eras has made the economical problems’ sociological reflections visible, demonstrated us the roles that were given to us by the environment we live in, showed us that we are placed in a play of life which is shaped by the history, society and culture because it looks for the true identity to overcome the
confusion against new developments and because playing games and the tendency to deceit is a part of individual and societal identity. In this context, the citation that was made from the tirade of the character called Weston in the play called “The Curse of the Starving Class”, is actually only one of the lines in the play that proves how the American Dream stimulates and bewitches the individuals and even the society for which economical purposes and therefore how it transforms, them into subjects that serve for it’s interests.

How the loss of class consciousness, indebtment and dispossession was instrumentalized in overcoming the crisis and how it became widespread in the society was observed. This play reveals that capitalism is a game that is always expecting new crises and proceeds by indebting others and lacks equality. It is a game because capitalism which is a mode of production and relations of production cannot be thought of the class issue seperately. This game is in between the capitalist class and the others and has an unequal relationship. While the capitalist class is the one to know the story of the play, its lines and even the end of it, through a family that has lost their class consciousness and was seduced by the American Dream and does not even accept that fact they are starving by saying that ‘they are not rich but they are not poor either’ we see that the real interlocutor of all the financial tools is the class against the wealthy which was mandated to keep up in the game by indebment rule in overcoming the crisis and will be dispossed the minute they fail to pay their debts.

In this sense, to look at the economical one through theatre and examinig a crisis has both given us the sociological reflection of the financial one and has shown us that there could be a relationship between theatre and capitalism.

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Inequalities are increasing across the world and living conditions are very unequal between different parts of the world. Some people can live healthy, rich, and happy lives while others continue to live in poor health, poverty, and grief. Inequalities have greatly strengthened the economic and political power of those people at the top. This volume is titled “Global Inequalities and Polarization” and contains eight selected articles that approach inequality and polarization from different angles.
GLOBAL INEQUALITIES
& POLARIZATION

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