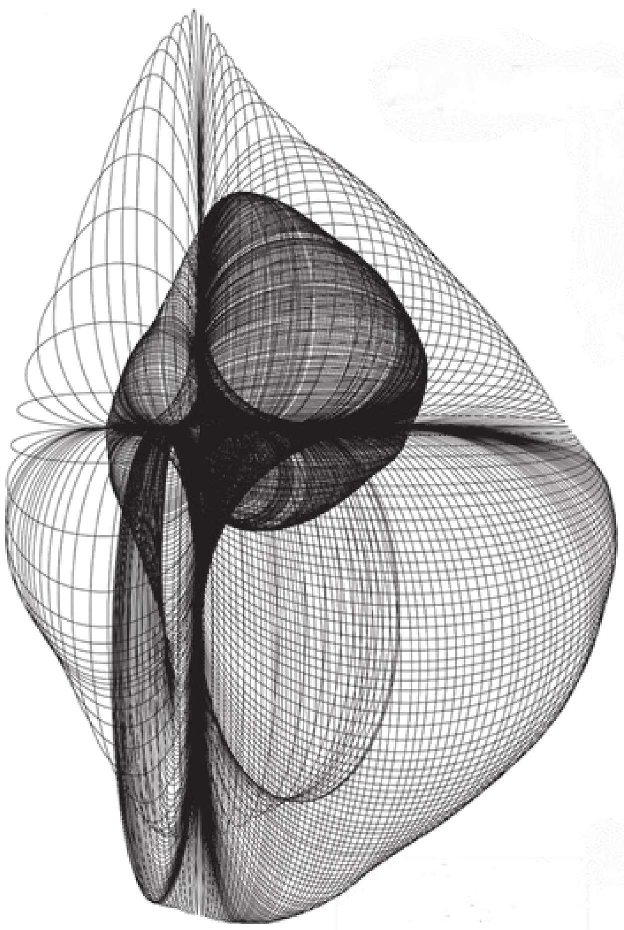
Greek Association
of Political Economy



POLITICAL ECONOMY VS ECONOMICS *in a turbulent multipolar world*

Proceedings from 17th WAPE Forum

Edited by

Greek Association of Political Economy

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Contents

INTRODUCTION

The 17th WAPE Forum took place in Panteion University (Athens, 2-4 August 2024). It was co-organised by WAPE (World Association of Political Economy https://wapeweb.org/), Panteion University (https://www.panteion.gr/) and GAPE (Greek Association of Political Economy https://politicaleconomy.gr/main/).

The broad theme of the Forum focused on the long-standing controversy between the two main alternative traditions in economic analysis: Political Economy versus Economics. Economics (with their individualistic, non-social view of the economy) have historically failed to grasp how economies work and forecast and confront competently economic crises. On the other hand, Political Economy and especially its Marxist variant (proposing a social understanding of the economy, linking economic analysis to social and political factors and to class struggle) has been far more successful in comprehending the actual workings of the economy and in analyzing economic crises.

Economics' shortcomings have become even more pronounced as the 21st century ushered a period of global political-economic turbulence.

The increased frequency of economic crises (among which is the 2008 global capitalist crisis) remains always an unsolved puzzle for a theory that considers crises as either an exogenously caused exception (Neolassicism) or a conjunctural policy failure (Keynesianism). In contrast, Marxist Political Economy provides a realistic and sophisticated theory of economic crisis based on its understanding of crisis as an endogenous feature of the capitalist system and as the outcome of falling profitability.

The aggravation of international conflicts and the end of 'globalisation' represents another major problem for Economics as almost all major mainstream approaches are geared on free trade and competition (either as a systemic norm or as a policy target). On the contrary, Marxist Political Economy – using its theory of *imperialism* - argues that the international capitalist system is a 'battlefield' with winners and losers and not a mutually beneficial game. This perspective can explain efficiently why there is nowadays a resurgence of protectionism, trade and currency wars instigated by the very countries that were previously the bastions of free trade (e.g. USA).

The recent resurgence of state economic interventionism is another conundrum for Economics. It is perennially divided between those that abhor state interventionism (Neoclassicism) and those that consider it a necessary support for the private sector (Keynesianism). Against this schizophrenic mainstream debate, Marxist Political Economy argues that state economic interventionism is a permanent necessity of the capitalist system. The state functions as *collective capitalist*, safeguarding the general and long-term interests of the system and surpassing private capitalist myopias. Depending on the course of capitalist accumulation, state economic intervention might increase or decrease and be more effective or less effective.

From the standpoint of Political Economy, the economic policy of the current U.S. administration comes as no surprise, nor is it seen as a disturbing deviation from the so-called virtuous path of free markets. On the contrary, it follows the trajectory set in the aftermath of the 2008 crisis, aiming at the reinvigoration of capitalist profitability and the reinforcement of U.S. hegemony. Similarly, the European Union's recent turn towards war Keynesianism -ideologically framed as deterrence against the Russian threat - can be interpreted in the same light.

However, despite Political Economy's explanatory superiority - especially in a period when old certainties are collapsing (e.g., de-globalization, the rise of the so-called new emerging economies (BRICS etc.), and growing geopolitical instability due to intensifying imperialist rivalries) - mainstream Economics continue to dominate academia and policymaking, particularly in the West. This dominance persists because of Economics' class-less individualistic approach and its unconditional support of the capitalist system. The small cosmetic shift that took place after the 2008 crisis – the dethronement of Neoliberalism by New Keynesianism – does not represent a genuine change of perspective and continues to misapprehend the real modus operandi of contemporary societies and their economies. The *new macroeconomic consensus*, while rejecting the short-term market efficiency and reinstating state economic interventionism, continues to support capitalism and capitalist accumulation and profitability. Moreover, its stance towards the working class is equally aggressive with its neoliberal predecessor.

The collective failure of Economics has rightfully fomented unrest both within the academia and in society. The 17th WAPE Forum – and indeed the whole work of WAPE and GAPE – aims to direct this dissatisfaction with Economics towards Political Economy. It supports that Political Economy (and especially its Marxist variant) represents the main credible alternative for analysing and managing the economy.

In this vein, the presentations in the 17th WAPE Forum juxtaposed Political Economy and Economics and contrasted their arguments and proposals in various fields and areas of economic analysis. During the Forum, 150 papers were presented by economists from 20 countries. They spanned a wide range of issues and subjects. It is worth mentioning the participation of several workgroups (more permanent networks of researchers) that organized special streams with several panels (e.g. Marxist Macroeconomic Models, Geopolitical Political Economy).

The volume at hand presents a part of these presentations that have not been submitted for publication to the journals supporting the Forum (*World Review of Political Economy*, *International Critical Thought* etc.).

They are divided into six different thematic sections.

The first part explores the dynamics of economic crises, public policy, and transformations in the financial system through the lens of Marxist and Political Economy approaches. *Themis Anthrakidis and Nikos Astroulakis* assess the trajectory of the Greek economy in the aftermath of the Eurozone crisis, questioning the narrative of "recovery" and highlighting persistent structural contradictions. *Hiroshi Onishi* offers a Marxist critique of anti-austerity policies in Japan, arguing that such measures fail to confront the deeper mechanisms of capitalist accumulation. *Shaun K. Brog and Yeo Hyub Yoon* analyze the institutional evolution of the U.S. financial system, providing a critical review of the dominant interpretations of the 2008 crisis. Their second contribution reverses roles to examine, through the lens of liquidity preference theory, how corporate bond yields reflect deeper structural changes within U.S. finance. Together, these papers underscore the limits of mainstream crisis theories and affirm the relevance of Marxist macro-financial analysis.

The second part focuses on inequality and development, particularly in the Global South and peripheral economies, deploying tools from Marxist and heterodox traditions. *Jiang Haozheng* critiques mainstream accounts of inequality in East Asia, proposing instead a Marxist interpretation that centers on exploitation and global capitalist dynamics. *Zois Gerasimos Katsimigas and Christos Papatheodorou* use stock-flow consistent modelling to trace the impact of demographic trends on income inequality in Greece, emphasizing the structural interlinkages between macroeconomic conditions and class-based distribution. *Ramanamurthy V. Rupakula and Vijay Kumar Venna* investigate India's financialization and its integration into the U.S.-led neoliberal world system, showing how external dependence reinforces domestic inequality. Finally, *Kostas Kappos, Ioannis Zisimopoulos, George Economakis and Dimitris Groumpos* examine the key sectors and structural leakages in Greece's tourism-related exports, contrasting them with the German economy to reveal the unevenness of trade and value-added flows. These contributions collectively reveal how inequality and dependent development are constitutive elements of global capitalism.

The third part of this volume includes presentations that delve into questions of regional development, spatial inequality, and sustainable policy practices. *Charalampos Daltzoglou* and *Alexis Ioannides* examine the regional dimension of poverty in Greece, analyzing how the debt crisis and its aftermath reshaped patterns of inequality. *Rong Kang* investigates the case of Yuwan Village in China as an example of rural revitalization, emphasizing the role of both public policy and entrepreneurial initiative in fostering sustainability. *Eleni Axioti* revisits the formation and decline of the post-war Keynesian consensus in Britain, focusing on how the planning of the built environment enabled and later eroded social citizenship. Finally, *Danyang Mao* and *Rong Kang* assess the political economy of climate change policy, contrasting the limitations of carbon markets with the redistributive potential of the Fee and Dividend system.

The fourth part turns to questions of nationalism, imperialism, and international conflict. *Anoushka Sinha* explores the compatibility between Hindutva ideology and neoliberal economic reforms in India, analyzing how nationalist mobilization is sustained within conditions of inequality and precariousness. *Mustafa Türkeş* offers a historically grounded reading of the war in Ukraine, foregrounding the diplomatic failures and geopolitical miscalculations that led to the conflict. *Sreyashi Choudhury* contrasts the collectivist vision of the Chinese revolutionary tradition with the individualistic ethos of Western self-help doctrines, proposing a critique of capitalist subjectivity. *Zhongxin Sun* investigates the potential of video game culture as a medium of Chinese soft power, focusing on the international reception of Genshin Impact.

The fifth part consists of a single chapter by *Wolfgang Homola*, who presents key concepts from the opening chapter of Capital (Volume I) through a series of infographics designed for educational use. His visual interpretation offers an accessible entry point into Marx's theoretical framework, particularly for new readers.

The sixth part features two keynote interventions by *Alan Freeman*. His first presentation calls for abolishing the current Institution of Economics—which includes banks, governments, universities, and think tanks—because it monopolizes economic policymaking in ways that serve elite interests and cause widespread harm. He proposes creating a strict ethical Code of Conduct for economists to ensure responsibility and public accountability, similar to other professions, and recommends breaking this monopoly to democratize economic decision-making. In his second presentation, Freeman argues for a complete reconstruction of economic theory, freed from traditional economics, to make market knowledge transparent, accessible, and controlled by the broader public. He envisions this new framework, including Noönomy and Geopolitical Economy, as essential for ethical, democratic policy-making that genuinely serves society rather than narrow interests.

GAPE

PART I

ECONOMIC CRISES, POLICIES, FINANCE AND DEBT

A POLITICAL ECONOMY ASSESSMENT OF THE GREEK *ECONOMY: A 'CRISIS' AFTER THE CRISIS?*

Themis Anthrakidis[1] and Nikos Astroulakis[2]

Abstract

The study assesses the Greek economy's trajectory before, during, and after the Greek Economic Crisis (GEC) of the years 2010 - 2018. Originating from a mix of long-standing macroeconomic vulnerabilities and institutional deficiencies in conjunction with the 2007-2008 Global Financial Crisis (GFC), the Greek economy was exposed to severe fiscal and institutional weaknesses in 2009-10. During the years 2010-2018, the Greek economy confronted one of the largest sovereign dept crises of the advanced economies and was assisted by the largest financial package in the worldwide economic history. In the same period, Greece came in for three Economic Adjustment Programs (EAPs) based on Troika's (EC, ECB, IMF) policy conditionalities that mainly affected the macroeconomic and institutional landscapes of the Greek economy, through fiscal adjustment and structural policies. To what extent did the Greek EAPs address pre-2010 macroeconomic and institutional weaknesses, and reduce the risk of future economic crises? Using a political economy analysis, the study assesses the evolution between the pre-GEC and the current macroeconomic and institutional landscapes of the Greek economy. The analysis reveals a setting of responses to the abovementioned question. Specific policy recommendations for the future of the Greek economy can be extracted on the research findings.

Keywords: G*reek Economic Crisis, Global Financial Crisis, Economic Adjustment Programs, Macroeconomic landscape, Institutional landscape, Political economy*

1. Introduction: From the Global to the Greek Economic Crisis

The Global Financial Crisis (GFC), originated in the US in 2007, spread worldwide and placed several EU countries in the challenging position of struggling to meet their debt obligations and finance fiscal deficits, ultimately leading them to seek official assistance (Tosun et al., 2014, p. 195). The sovereign debt crises in Greece (early 2010), Ireland (late 2010), Portugal (early 2011), and Cyprus (early 2013), placed substantial strain on the Eurozone and its governance mechanisms (Hein et al., 2011, p. 2). Greece was the first Eurozone member to seek official funding, followed by Ireland, Portugal, and Cyprus. In each of these cases, joint Troika's rescue programs were established on the condition that the recipient countries implement Economic Adjustment Programs (EAPs) focused on fiscal austerity, structural reforms, and deleveraging of the banking system (Lane, 2012, p. 57). Successful execution of these programs goes beyond simply economic aspects and encompasses political and institutional elements. The implementation of the EAPs led to the establishment of an entirely new institutional and macroeconomic framework shaping

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a new domestic political economy landscape in the recipient country, aligning with the policy conditionalities of Troika (Anthrakidis, 2024, p. 47).

The limitations of the Eurozone architecture were critical not only in precipitating the GFC but also in the ineffective management of the crisis itself, ultimately resulting in post-crisis stagnation (De Grauwe and Ji, 2015, p. 27). The banking and financial systems were fragmented, the transmission of the common monetary policy was ineffective, and the European Commission (EC) struggled to mediate disputes among member states. Even though policymakers were cognizant of the structural issues within the Eurozone, they downplayed the risks, which ultimately exacerbated the crisis (Wyplosz, 2014, p. 2). On the one hand, the single member states were unprepared to face the GFC and struggled to grasp its magnitude. On the other hand, the EU's reluctance to adequately help the struggling EU economies worsened the situation (Collignon, 2012, p. 35). The effects of the GFC that was transmitted to Europe were multifaceted and extended beyond a simple economic or financial phenomenon. This crisis encompassed a banking crisis, a sovereign debt crisis, macroeconomic turmoil, institutional deficiencies and political unrest, all closely intertwined with a decline in public confidence among European citizens (Tosun et al., 2014, p. 198).

A purely economic analysis frequently overlooks the significant role of politics, governance, and institutions in the emergence of a crisis. The eruption of the GFC exposed the limitations of the mainstream economic perspective and raised questions about its adequacy, thus creating opportunities for alternative economic approaches (Beinhocker and Hanauer, 2014, p. 2). In this study we accept the position that the interpretation of the crisis extends beyond economic variables and should encompass the parameters of a political economy perspective to underscore the interconnectedness of political and economic systems (Copelovitch et al., 2016, p. 813). Further, the impact of the GFC varied across Eurozone economies, as did the consequences of the stabilization policies and adjustment strategies implemented. Distinct initial conditions, fiscal positions, financing constraints, and national political economy factors concerning institutional structures can account for the differing economic outcomes in each country. Optimal policies also diverged among countries, with governments often deviating from the best possible policies due to country-specific considerations (Bénétrix and Lane, 2015, pp. 2–3). Consequently, the Eurozone crisis, beyond its conventional economic repercussions, raised political and institutional questions regarding the governance structures within countries and the broader framework of the EU crisis management. Attributing the root causes of the crisis exclusively to economic factors would be inadequate for an in-depth analysis. Political economy elements, such as an immature domestic political system and the institutional underdevelopment, played significant roles. Thus, we can argue that the situation here makes parallel with the broad view that “the economic has always been political, just as the political has tended to be economic” (Green and Hay, 2015, p. 339).

Originating from a mix of long-standing macroeconomic vulnerabilities and institutional deficiencies in conjunction with the 2007-2008 GFC, the Greek economy was exposed to severe fiscal and institutional weaknesses in 2009-10 (Marangos et al., 2023, p. 207). During the years 2010-2018, the Greek economy confronted one of the largest sovereign debt crises of the advanced economies and was assisted by the largest financial package in economic history (Colasanti, 2016, p. 71; Sapir et al., 2014, p. 27). In the same period, Greece came in for three Economic Adjustment Programs (EAPs) based on

Troika's[3]policy conditionalities that mainly affected the macroeconomic and institutional conditions of the Greek economy, though fiscal adjustment and structural policies implemented in the period 2010-2018.

Given the impact of the EAPs on the Greek economy, it is crucial to provide an overview of the EAPs' policy framework from the beginning of the analysis, referring to the original documents of the international agreements for the Greek bailout, as ratified from the Greek parliament. As mentioned, the Greek EAPs focused on fiscal consolidation and structural institutional reforms. In the first EAP, Law N.3845/2010 (Greek Government Law Gazette, 2010), among the main program objectives were:

"Sustainability-enhancing fiscal consolidation […] to improve competitiveness and alter the structure of the economy toward a more investment- and export-led growth model", also, to "implement an ambitious structural reform agenda to strengthen external competitiveness, accelerate reallocation of resources from the non-tradable to the tradable sector, and foster growth" (European Commission, 2010a, p. 15).

Also, the second EAP, ratified with the Law N.4046/2012(Greek Government Law Gazette, 2012) aimed to meet the revised fiscal target, by committing to reduce expenditures by 1.5 percent of GDP through various measures including cuts in pharmaceutical spending, overtime for doctors, military procurement, and the number of deputy mayors. Additional reductions were made in central government operating costs, election spending, and subsidies to remote areas. The plan also involved cutting grants to ministry-supervised entities, reducing the public investment budget, modifying pension schemes, and decreasing special public sector wages by 12 percent (European Commission, 2012, pp. 25–26). In a similar logic, the third EAP (Law N.4336/2015), is categorized around four pillars: i) Restoring fiscal sustainability, ii) safeguarding financial stability, iii) achieving growth, competitiveness and investment, and iii) creating a modern state-public administration (Greek Government Law Gazette, 2015, p. 5). As seen, Greek EAPs were designed to restore the viability and confidence in the Greek economy mainly through a dual-strategy approach focusing on the macroeconomic and institutional conditions related with the domestic economy and its external relations. In other words, the Troika's reform agenda implemented in Greece integrated macroeconomic and institutional measures with the aim to transform the national political economy. The fundamental issue that arises is to what extent the EAPs effectively addressed pre-2010 macroeconomic and institutional weaknesses, and mitigated the risk of future economic crises. The current situation raises pertinent questions about the resilience of the Greek economy. This study, therefore, aims to provide a critical assessment of whether the post-crisis improvements are sufficient to sustain long-term stability and growth, aligning with the overarching question posed by the title: Is Greek economy facing a "crisis" after the crisis?

Methodologically, our analysis progresses in two research fields: the macroeconomic and institutional landscapes of the Greek economy, from 2009 to the current available data[4]. This approach is adopted for two reasons. First, these fields collectively better describe the performance of an economy and give rise to a more inclusive political

[3]The term "Troika" refers to the trio - European Commission (EC), European Central Bank (ECB), International Monetary Fund (IMF) - which under its authority the EAPs were implemented.

[4]An **Appendix** of four Graphs and a Table assists the analysis on the fundamental macroeconomic and institutional landscapes of the Greek economy.

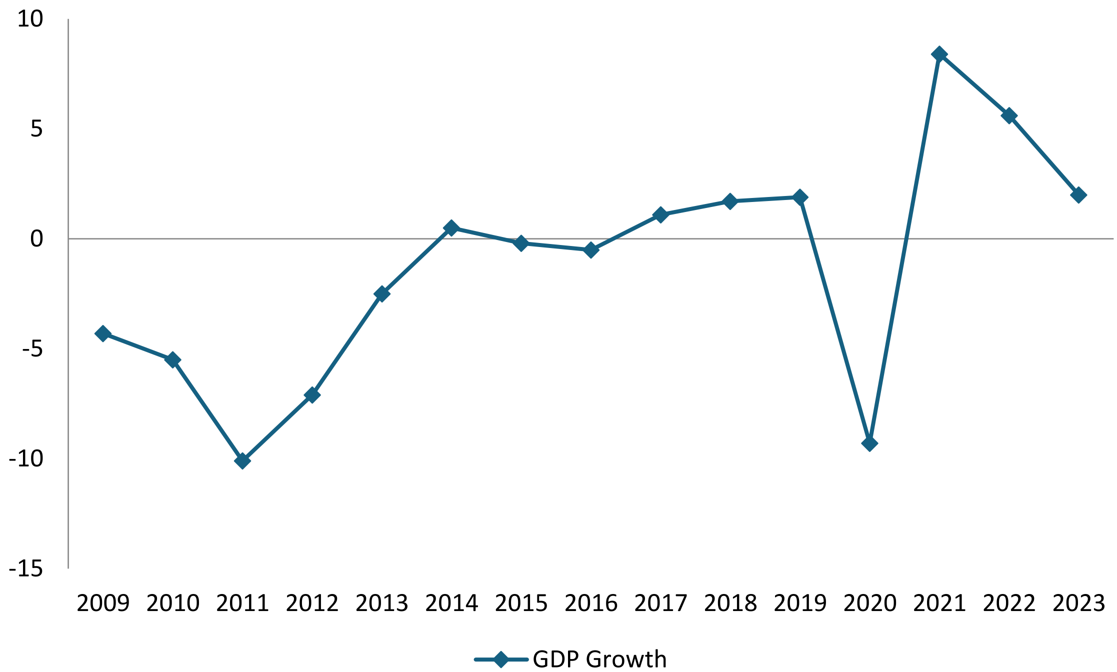
economy analysis. Besides, a vital point for political economy is the assessment of political and economic systems, analyzing the essential characteristics of various institutions and structures and approving their respective advantages and disadvantages for the realization of policy objectives (Gamble, 1995, p. 518).Second, the EAPs, as previously discussed, have significantly influenced the macroeconomic and institutional landscapes of the Greek economy through fiscal consolidation and structural institutional reforms. Our methodological approach does not adhere strictly to the analytical frameworks of a single orthodox or heterodox perspective. In tackling the subject matter, we have striven to sidestep personal ideological biases and dogmatism, instead adopting a balanced approach. In terms of structure, the first section (Introduction) briefly reviews the process from GFC to GEC. The second section concerns the political economy of the macroeconomic landscape through the performance of the fundamental macroeconomics of the Greek economy. The third section analyses the political economy of the institutional landscape mainly via the evaluation of the World Bank- Worldwide Governance Indicators (WGI). The final section (fourth) concludes by responding to the aforementioned research question.

2. The Macroeconomic Landscape

The core macroeconomic issues within the Greek economy, including widening fiscal deficits and a persistent erosion of competitiveness, existed well before the GFC. However, the GFC significantly exacerbated these chronic weaknesses, accelerating the economic downturn (Baltas, 2013, p. 9; Karamouzis and Anastasatos, 2019, p. 3; Mariolis and Papoulis, 2014, p. 2). Despite experiencing strong growth rates after joining the Eurozone and adopting the common currency in 2001, Greece was unable to effectively tackle its chronic deficiencies. In the decade of 2000s up until the 2009 crisis' outbreak, Greece struggled to contain fiscal imbalances (Kaplanoglou, 2019, p. 6). Throughout this period, the country continued to face macroeconomic imbalances, such as fiscal and current account deficits, high levels of private sector debt, and substantial general government debt (Karamouzis and Anastasatos, 2019, p. 15; Rapanos and Kaplanoglou, 2014, p. 5).The persistence of these imbalances underscored the inadequacy in managing both the internal and external deficits of the Greek economy. Contributing factors such as excessive public spending, underperformance in public revenue collection, weak competitiveness, rent-seeking behavior, and high levels of indebtedness created a precarious situation. As a result, investors, wary of potential risk exposure, demanded high interest rates to purchase Greek government bonds, exacerbating the fiscal crisis (Hardouvelis and Gkionis, 2016, p. 5; Katsanidou and Lefkofridi, 2020, p. 160). In 2009, perhaps the most severe macroeconomic problem of the Greek economy was the "twin deficits". The twin deficits, characterized by fiscal and current account deficits, necessitated increased external borrowing to meet enhanced financial needs. Persistent large fiscal deficits coupled with weak competitiveness contributed to a substantial current account deficit, ultimately resulting in high levels of public debt(European Commission, 2010b, p. 70). These vulnerabilities and structural weaknesses hastened the underlying issues of the Greek economy, fostering an environment prone to economic turmoil (Bank of Greece, 2010, p. 28).

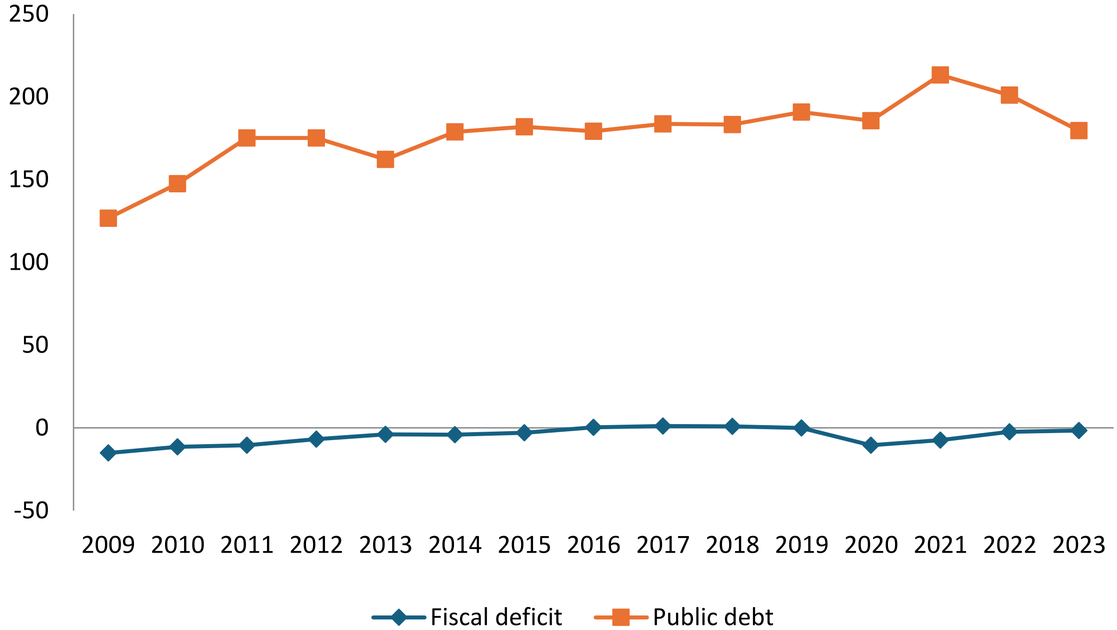
Turning now to the current macroeconomic landscape and how the macroeconomic factors of the country are creating a "ticking time bomb" for the future, we quote the statement of Greece's central banker. In 2024, the governor of the National Bank of Greece Mr. Stournaras, stated that Greece could only barely exceed 90% of the average per capita GDP of the Eurozone if it maintains an average annual growth rate of 1.5% higher than that of the Eurozone over the next 20 years (Liberal.gr, 2024). The GDP growth data from 2009 to 2023 vividly demonstrates the country's fragile and unsustainable growth (Graph 1). The moderate recovery observed from 2017 to 2019, and the subsequent sharp contraction due to the COVID-19 pandemic in 2020, highlight the vulnerability of the Greek economy, heavily reliant on tourism and services. The robust recovery in 2021, driven by domestic demand and fiscal stimuli, was not sustainable, as growth moderated in 2022 and 2023 amid external challenges like the war in Ukraine and global inflationary pressures.

Graph 1. GDP Growth, (%), years 2009-2023



Source: *IMF (https://www.imf.org/external/datamapper)*

Graph 2. Fiscal Deficit and Public Debt, (% of GDP), years 2009-2023



Source: *IMF (https://www.imf.org/external/datamapper)*

By 2010, Greece's public debt escalated in unprecedented levels, to that age, necessitating a series of three bailouts from the Troika. These bailouts came with stringent austerity measures and structural reforms aimed at the sustainability of the public debt. Greece's debt-to-GDP ratio remained exceptionally high, reaching around 180% in the mid-2010s. It is clearly seen (Graph 2) that after three consecutive EAPs and 10 year's period of severe austerity conditionalities, even though the fiscal deficit was contracted from -15.2 of GDP in 2009 to -1.6% of GDP in 2023,Greek public debt elevated by over 50% as a percentage of its GDP (Maris and Flouros, 2022, p. 479).In 2024, the Greek public debt remains problematic. Public debt is the highest in the EU at 161.9% of GDP, significantly surpassing Italy's debt, which is the second highest at 137.3% of GDP; nearly 30 percentage points lower (Eurostat, 2024a).

More technically, according to the Eurogroup press release statement on Greece in June 2017:

"The Eurogroup concluded that debt sustainability should be attained within the framework of the debt measures envisaged by the Eurogroup in May 2016. In this regard, the Eurogroup recalled the assessment of debt sustainability with reference to the agreed benchmarks for gross financing needs (GFN): GFN should remain below 15% of GDP in the medium term and below 20% of GDP thereafter so as to ensure that debt remains on a sustained downward path" (Eurogroup, 2017).

This criterion underscores the importance of managing Greece's debt burden within specific thresholds to maintain financial stability and market confidence in the long term. In June 2018, Eurozone lenders reached an agreement on debt reprofiling measures designed to keep Greece's debt servicing costs below 15% of GDP in the medium term and under 20% in the long term. In exchange, Greece pledged to continue implementing key reforms from the European Stability Mechanism (ESM) bailout, uphold previous economic adjustment goals, and introduce additional fiscal, social, labor, and financial reforms. This agreement was aimed at enhancing debt sustainability and ensuring Greece's long-term economic stability (Theodoropoulou, 2022, p. 209). Due to the composition of its debt, Greece benefits from favorable servicing terms, primarily owing to the significant portion of official sector loans and the highly concessional terms provided by the EFSF/ESM. The average lending rates for EFSF and ESM loans have stabilized around 1.3%, with EFSF loans remaining around 1.2% in recent years and ESM rates increasing from below 1% since 2023. Additionally, the Eurogroup's medium-term debt relief measures in mid-2018 extended the interest deferral period on the €96.4 billion EFSF loan by 10 years, until December 2032. Consequently, Greece currently accrues interest on this substantial debt portion rather than making immediate payments (Mouzakis, 2024, p. 3).

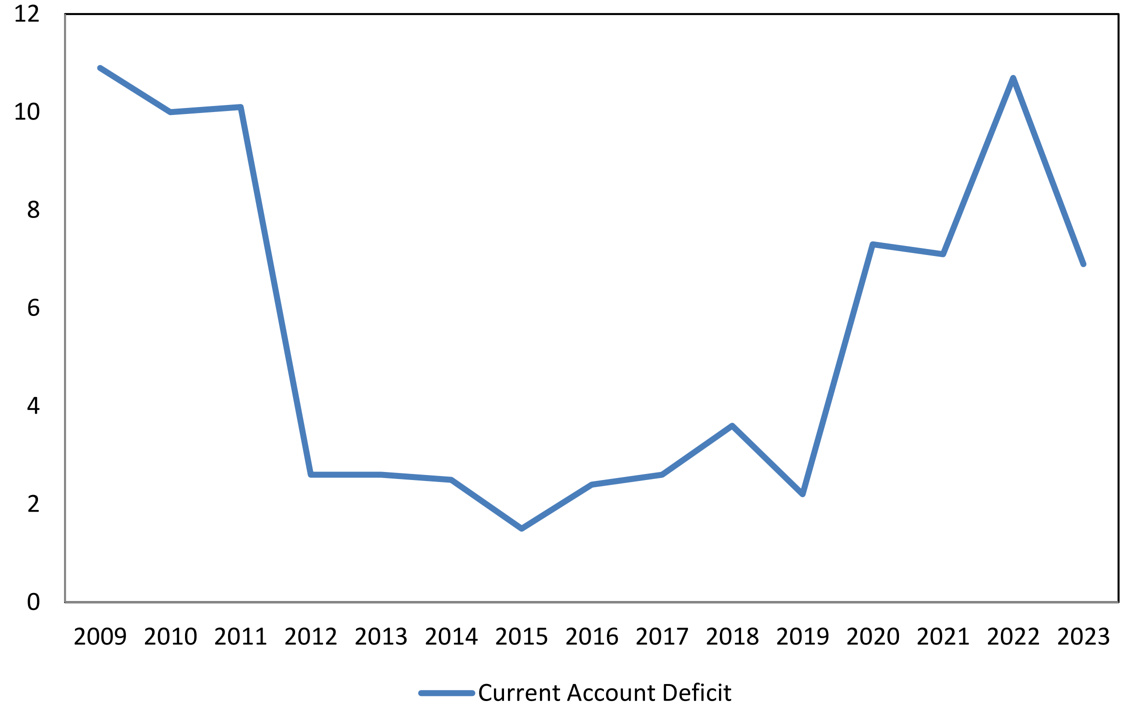
As stated in Zettelmeyer (2018), gross financing needs would nevertheless exceed 15 percent of GDP by 2027 or 2028, and 20 percent after 2032. As a result, even though Greece's gross financing requirements are initially not that high, they begin to exceed 15 percent of GDP from the late-2020s onward, as cheap official debt is replaced by expensive private borrowing. This requires more borrowing from the private sector, which in turn implies bigger gross financing needs. By the mid-2030s, debt service on bonds issued after 2018 overwhelm primary fiscal surpluses (Zettelmeyer et al., 2018, p. 2). Additionally, the IMF argued that Greece can sustain a long-term primary surplus of no more than 1.5% of GDP and an annual real GDP growth rate of around 1%. Under these assumptions, the current debt relief measures are insufficient for ensuring long-term debt sustainability. While the debt-to-GDP ratio would initially decline, it would begin to rise continuously from around 2038, with gross financing needs exceeding 20% of GDP by that year and continuing to increase thereafter. Therefore, additional debt relief would be required to maintain debt sustainability (IMF, 2018, p. 45). Thus, it is obvious that at the end of the extended grace period of EFSF loans from 2022-2032 when the Eurogroup will evaluate the need for additional reprofiling measures to maintain debt sustainability, uncertainty remains, posing challenges for long-term economic confidence among investors, companies, and the Greek public (Pagoulatos, 2018a, p. 3).Increased debt servicing costs will exacerbate fiscal pressures. Thus, Greece's debt profile still remains fragile, demanding further relief and deeper structural reforms to achieve long-term sustainability. The IMF's country report statement for 2017 appears to have been quite prophetic. Despite multiple EAPs and extensive reforms, the report warned, "In other words, Greece cannot be expected to grow out of its debt problem, even with full implementation of reforms" (IMF, 2017, p. 26). The IMF statement underscores the persistent challenges facing Greece's economic recovery, highlighting the limitations of the implemented measures in fostering long-term debt sustainability. Public debt sustainability risks appear significantly increased after the end of the medium-term period [2032] and as the structure of public debt will have changed, they make it more vulnerable to negative shocks. According to the Bank of Greece (2023, p. 19), Greek economy in order to sustain the public debt has to take advantage of this window of opportunity, where two things are needed. First, there must be maintenance of fiscal credibility. This requires building fiscal reserves in good times, which prevents the needfor fiscal tightening in difficult times to maintain fiscal sustainability. Second, given the increased uncertainty, medium-term fiscal policy planning should place strong emphasis on risk assessment and the accumulation of fiscal buffers over time, capable of shielding the economy in times of crisis.

In the years of GEC and beyond, Greece faced and faces significant challenges in achieving its agreed primary surplus targets without further weakening its economy. This scenario risked perpetuating a cycle of fiscal austerity, stagnant growth, target slippage, additional fiscal measures, and recession. The detrimental cycle characterized Greece's economy during its consecutive bailout programs, where relentless fiscal consolidation efforts often led to economic contraction, undermining the very objectives of the EAPs (Pagoulatos, 2018a, p. 5). Indeed, despite stringent fiscal and structural reforms of the EAPs, Greek economy continues to struggle with low competitiveness and a high current account deficit. As stated in Lapavitsas (2019), the competitiveness gap in Greece, which is depicted from the current account deficit, was partially closed through internal devaluation leading to significant wage reductions. However, Greece's competitive weakness within the Eurozone remains. Further competitiveness could be achieved through additional wage cuts or increased productivity, risking severe social and political pressures, and without evidence that productivity could rise significantly under the current framework of deregulation and privatization (Lapavitsas, 2019, p. 47).

The EAPs overlooked Greece's initial conditions as a low savings, demand-led economy with weak productive and export sectors. This misjudgment, coupled with an underestimated fiscal multiplier, caused a sharp decline in aggregate demand and income (Skalkos, 2018, pp. 175–180). The underestimated Keynesian multiplier resulted in an unprecedented economic depression in Greece. Notably, prominent IMF economists Blanchard and Leigh (2013) highlighted that “fiscal multipliers were, on average, underestimated for both sides of the fiscal balance, with a slightly larger degree of underestimation associated with changes in government spending” (Blanchard and Leigh, 2013, p. 3).

The ongoing macroeconomic weakness is evident as the current account deficit has been eliminated mainly through a collapse in imports due to economic contraction, while Greek exports have shown little dynamism. Greek economy continues to struggle with a volatile current account deficit (Graph 3), reflecting deep-rooted issues in competitiveness, import reliance, and insufficient export growth. Internal devaluation and wage reductions have not fundamentally addressed Greece's competitive weaknesses due to its introverted economy and limited production base. This austerity measure aiming at restoring external competitiveness through internalwage degradation might lead to -questionable- growth only in the case of economies that are deeply integrated on international goods markets, and that exports highly price elastic products (Botta, 2016, p. 26). In the case of Greece, internal devaluation has hindered long-term economic stability, making the future less optimistic for a crisis-resilient economy capable of narrowing its international competitiveness deficit. It is noteworthy that even with the current account balance, Greece still maintains a negative first position at the EU level, recording a -12.3 % of GDP, ahead from Cyprus which recorded -11.2 % for the 4th quarter of 2023 (Eurostat, 2024b).

Graph 2. Current Account Deficit, (% of GDP), years 2009-2023



Source: *IMF (https://www.imf.org/external/datamapper)*

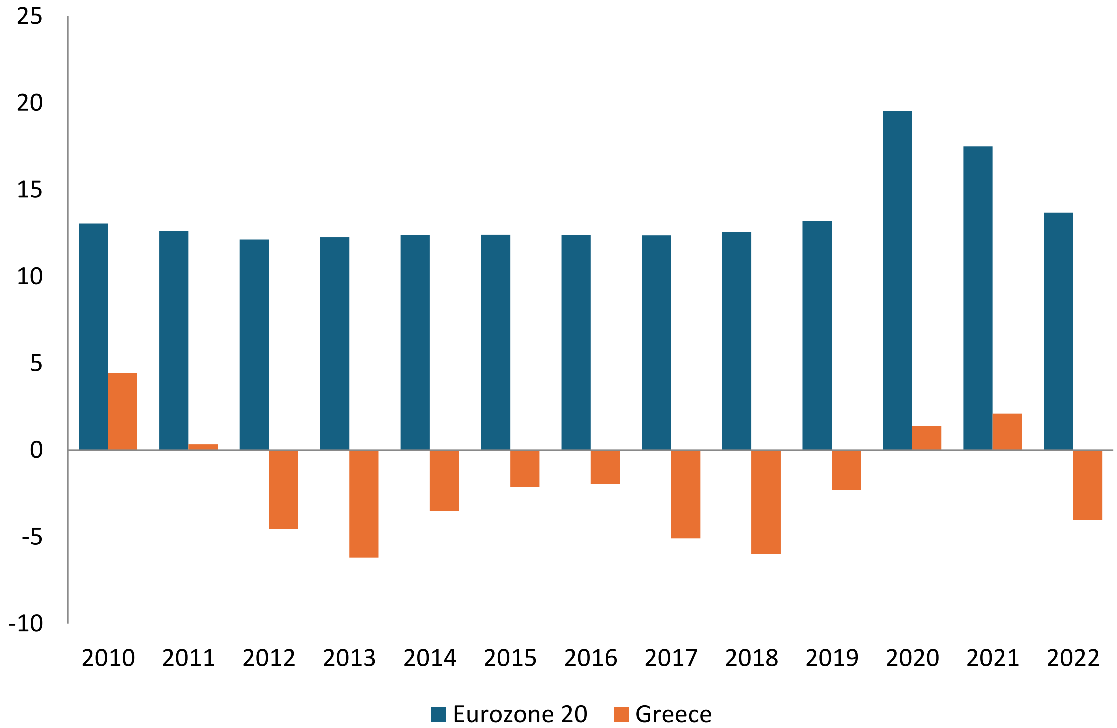
Although the current account deficit saw a substantial reduction from 10.9% of GDP in 2009 to around 2.6% by 2012, it has not maintained a consistently low trajectory. Post-crisis years saw fluctuations, with the deficit reducing to 1.5% in 2015 but rising again to 3.6% in 2018 and peaking at 10.7% in 2022 (Graph 3). This persistent and volatile deficit highlights underlying structural issues within the Greek economy, such as competitiveness, reliance on imports, and insufficient export growth. Also, these persistent deficits underscore a broader issue with the excessive surpluses of Germany, highlighting current account imbalances as a significant factor contributing to the economic crises (Maris et al., 2022, p. 6). The global economic volatility, combined with domestic economic policies, has further complicated efforts to achieve a sustainable current account balance.

Greek economy falls into the category of a wage-led demand regime (Onaran, 2016, p. 468). Within this demand regime, an increase in the wage share results in a positive net effect primarily driven by increased consumption, contrasting with the investment effect (and net exports effect) in a profit-led regime. The neoclassical approach typically leans toward external demand stimulation, emphasizing either a debt-driven or export-driven model. Greek, along with other southern peripheral Eurozone economies, adopted a neoclassical debt-driven growth model through credit expansion, leading to higher inflation and a loss of competitiveness (Marangos, 2023, p. 426; Stockhammer, 2016, pp. 7–15). In this regard, the fiscal multipliers—the effect of deficit reduction on GDP—were much higher than expected, leading to a greater economic contraction than projected affected by low savings, tax returns, and trade volume Greece's limited production base meant domestic devaluation failed to boost production, reducing aggregate demand instead. Unlike export-oriented economies, Greece's internal devaluation (over 20% wage cuts) did not significantly enhance competitiveness due to its introverted economy (Skalkos, 2018, p. 175).Within this domestic demand-led regime, foreign direct investment and integration into international supply chains have been weak for Greece. In 2008, Greece had a current account deficit of 15.8% of GDP and a budget deficit of 15.1% of GDP. By 2018, Greece achieved a surplus of 0.9% of GDP and a reduced current account deficit of 3.5% of GDP. However, the EAPs resulted in deep economic and social scars, with reduced output, investment, and productivity, and increased public debt, unemployment, and poverty. Since 2010, insufficient investment has failed to replace depreciating capital stock, while the programs weakened the state's spending capacity and imports heavily impacted the current account balance. Moreover, the labor market struggles with slow wage growth, which has not kept pace with the rising cost of living (Theodoropoulou, 2022, p. 208).

A relative and explanatory to the above macroeconomic field is that of savings. Low rates of savings (Graph 4, Appendix) affect the Greek economy investments performance. The causes include structural characteristics of the economy, such as the high rate of self-employment and home ownership, high housing expenses, and, prior to the crisis, the high replacement rate of pensions that discouraged precautionary savings. A country's required investments can be financed, if national savings are insufficient, through savings from foreign borrowing. In economic history, there are many cases of countries that maintained high rates of economic growth for some years through external borrowing, and Greece was one of them before the GFE. However, no country managed to sustain high rates of economic growth for many years while making excessive use of external borrowing. Specifically, in Greece, all the defaults were the result of excessive reliance on foreign savings to finance its development (Kalivitis et al., 2024, p. 10). Greek economy achieved a negative record of -4.03, in terms of household savings as a percentage of disposable income for the year 2022, according to the annual data on non-financial accounts released by (Eurostat, 2024c)[5]. According to these data, the negative percentage of Greek investments indicates that households were spending more than their gross disposable income in 2022 which means that either these households were drawing from their savings or borrowing. Greece's low savings rate poses a risk to future economic stability. Relying on foreign borrowing to finance investments, can lead to fueling of current account imbalances and to unsustainable debt levels and vulnerability to financial shocks.

[5]Last available data.

Graph 4. Gross household saving rate, (as a % of gross household saving to gross household disposable income), years 2010-2022



Source: *Eurostat (https://ec.europa.eu/eurostat/statistics-explained)*

In a nutshell, Greece faces significant challenges in achieving sustainable macroeconomics, due to slow expected growth rates, a persistent current account deficit reflecting low competitiveness and escalating debt levels. The core macroeconomic issues, including widening fiscal deficits and declining competitiveness, existed before the global financial crisis (GFC) but were exacerbated by it. Despite temporary improvements, mainly regarding the fiscal deficit, Greece's economy remains fragile, with public debt still the highest in the EU and significant social and economic scars from austerity measures. The low savings rate further hinders investment, making the country reliant on foreign borrowing and vulnerable to financial shocks.

3. The Institutional Landscape

Recognizing the impact of institutions is crucial as they significantly influence the economic and social outcomes of the country, necessitating measures to address any institutional shortcomings for sustainable development and progress (Hazakis, 2017, p. 83).Weak institutional structure paves the way for economic crises as opposed to well-built institutions that play a role in more effective crisis management and recovery (Rapanos and Kaplanoglou, 2014, pp. 3–4). Greece encountered challenges in making significant strides in societal organization and economic institutions, coupled with shortcomings in efficiently providing public goods to its citizens. When the GFC unfolded, all the underlying Greek institutional failures, previously masked by the superficial "nominal growth" of the GDP, were brought to the forefront (Garcia Pascual and Ghezzi, 2011, p. 3; Mitsopoulos and Pelagidis, 2011, p. 2).The prolonged and tough adjustment process of the Greek economy post-crisis was not solely influenced by the severity or implementation of fiscal measures. Equally impactful was the quality of Greek institutions and governance mechanisms, as they significantly contributed to the duration and intensity of the economic challenge (Rapanos and Kaplanoglou, 2014, p. 31).

There are limited databases available for obtaining valuable annual data pertaining to the institutional landscape of a country. A group of indicators assessing the institutional soundness of a country includes the Worldwide Governance Indicators (WGI) by the World Bank on an annual basis[6].WGI provide insights into the perceived quality of governance in a country across various dimensions, helping to evaluate the overall state of governance effectiveness and the rule of law (Kaufmann and Kraay, 2023). Explicitly or implicitly, the WGI can serve as essential benchmarks, evaluating various facets of the institutional governance. According to the methodology, WGI cover six dimensions of governance(Kaufmann et al., 2010, p. 4):

"1. Voice and Accountability (VA) – capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

2. Political Stability and Absence of Violence/Terrorism (PV) – capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

3. Government Effectiveness (GE) – capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

4. Regulatory Quality (RQ) – capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

5. Rule of Law (RL) – capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

[6] See, Kaufmann et al. (2010). For Rapanos and Kaplanoglou (2014, p.4) WGI by Kaufmann and his team at the World Bank are the most renowned among the various indicators of good governance and institutional quality, being widely utilized by a diverse group of users, including academics, international investors, and international organizations.

6. Control of Corruption (CC) – capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests."

In (Table 1) the institutional performance of the Greek Economy though out the WGI the years 2009 - 2022[7] is presented. Despite the implementation of three successive EAPs with structural institutional reforms, the institutional framework of Greece did not experience significant enhancement and, in some areas, even deteriorated. The WGI from the period of the financial crisis towards 2022 reflect this lack of progress. Key areas such as government effectiveness, rule of law, voice and accountability and control of corruption showed minimal improvement or decline. The ambitious reforms mandated by the EAPs failed to produce the expected strengthening of Greece's institutional quality.

In the realm of the institutional landscape, perhaps, the most critical issue underpinning GEC and its continued struggles is an inefficient institutional structure that remains unaddressed. Inefficient institutional structure was a pivotal factor in precipitating the crisis and persists as a fundamental barrier to sustainable economic recovery and growth (Hatzis, 2018, p. 2). The GFC and the subsequent health pandemic exposed Greece's unpreparedness for long-term crisis management. The country's distorted institutional framework and chronic issues within its political and social systems have proven inadequate against such unforeseen, powerful crises. Despite external pressures necessitating legal and systemic changes, the entrenched political culture and leadership remain largely unchanged, limiting effective responses to these global challenges (Maris and Flouros, 2022, p. 481).

It is a common space that, the quality of institutions is closely related to the competitiveness of a country (Rapanos and Kaplanoglou, 2014, p. 13). Thus, to boost international competitiveness and attract investment, Greece should have improved its position in key institutional and governance areas highlighted by the World Bank's WGI. Necessary reforms include streamlining the justice system, reducing red tape, protecting property rights, enhancing the cadastre, creating a more investment-friendly tax system, linking education with the business sector, anti-corruption and strengthening social safety nets (Pagoulatos, 2018b, p. 6).Future reform policies must be appropriately planned and effectively implemented, incorporating key political economy issues—such as resource allocation, political antagonisms, and social perceptions—as endogenous variables within the dynamic system of the Greek economy (Skalkos, 2018, p. 180). Furthermore, the administrative capabilities of the Greek state have not substantially improved as a result of the implementation of the three EAPs; in some areas, they have even declined. This decline is evident by job losses, decreased real wages, and low morale in the public sector. Additionally, within the institutional landscape, the influence of lenders has been pervasive, with the troika's presence in several key state locations exacerbating these issues. Consequently, the Greek state could not make any economic or social decisions without lender approval to ensure compliance with fiscal targets, further weakening the institutional framework (Lapavitsas, 2019, p. 48). The deterioration of administrative capabilities is also reflected in the Government Effectiveness estimates over the years (Table 1), which demonstrate a downward trend. The estimates, which started at 0.6 in 2009, declined progressively to as low as 0.1 in 2014, indicating a significant reduction in the efficiency and effectiveness of government operations.

[7] In times of the research, 2022 is the last available year of data.

During the EAPs, the primary focus remained on addressing debt and fiscal deficits. The emphasis came at the expense of developing a comprehensive national strategic plan aimed at restructuring the productive base. There was a notable absence of efforts to pursue institutional reforms that could foster a more sustainable growth model for Greece (Sklias et al., 2022, p. 288). Key institutional weaknesses, such as bureaucratic inefficiency, corruption, and lack of regulatory enforcement, continued to undermine economic performance and resilience (Table 1). These persistent issues highlight the limitations of the EAPs, which were primarily focused on immediate fiscal stabilization rather than long-term structural reform.

The EAPs did not significantly improve the institutional landscape of the Greek economy. Although there were some reforms in tax administration and public governance, they have yet to yield substantial results due to political constraints and Greece's weak institutional landscape. Despite the reform efforts initiated at the beginning of the crisis, the quality of Greece's institutions and governance mechanisms has deteriorated during this period (Rapanos and Kaplanoglou, 2014, pp. 28, 30). For instance, the tax system became more complex and inequitable and public administration less efficient. From our analysis it seems that despite adopting new institutional rules for economic efficiency through the EAPs, Greece's overall performance in institutional governance indicators has declined (Table 1). Put simply, while Greece has improved its economic performance through specific macroeconomic indicators like GDP and budget deficits/surpluses, it has failed to enhance the functioning of its institutional mechanisms, which are crucial for proper organization and the healthy operation of its economy (Maris et al., 2022, p. 16).

In conclusion, the Greek state's persistent institutional inefficiencies have significantly hindered its economic recovery and growth. Despite the implementation of the EAPs, administrative capabilities declined, as evidenced by job losses, decreased real wages, high corruption rates and low morale in the public sector. The pervasive influence of lenders further weakened the institutional framework, limiting Greece's ability to make independent decisions. For sustainable development, Greece must focus on comprehensive institutional reforms to address bureaucratic inefficiencies, corruption, and regulatory weaknesses, which are crucial for long-term stability and growth

Table 1. World Governance Indicators (WGI), Estimate and Percentile Rank, years 2009–2023

INDICATORS		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2029	2020	2021	2022	2023
Control of Corruption:	Estimate	0,06	-0,06	-0,10	-0,19	-0,08	-0,14	-0,12	-0,13	-0,11	-0,06	0,01	0,03	0,18	0,04	0,10
	Percentile Rank	59,81	55,71	55,45	52,61	55,92	53,37	53,81	53,33	53,33	54,76	56,67	57,14	59,52	56,60	58,02
Government Effectiveness	Estimate	0,62	0,49	0,45	0,28	0,36	0,30	0,15	0,12	0,24	0,26	0,31	0,40	0,41	0,45	0,15
	Percentile Rank	70,33	68,9	66,82	62,56	64,45	64,90	59,05	58,57	64,29	62,86	64,76	67,14	66,67	66,98	57,55
Political Stability and Absence of Violence/Terrorism	Estimate	-0.21	-0.13	-0.1	-0.22	-0.17	-0.14	-0.24	-0.13	-0.08	0.15	0.16	0.12	0.1	0.11	0.84
	Percentile Rank	37.9	40.8	41.7	39.3	40.6	40.5	38.1	41.4	41.4	53.3	54.3	51.4	50.9	50	54
Regulatory Quality:	Estimate	0.83	0.64	0.49	0.52	0.63	0.33	0.39	0.14	0.22	0.4	0.52	0.54	0.43	0.46	0.58
	Percentile Rank	74.6	71.3	66.4	68.3	71.1	63.9	65.7	60	62.4	66.2	70	71.4	66.2	67.5	70.8
Rule of Law	Estimate	0.65	0.58	0.53	0.39	0.47	0.37	0.25	0.11	0.05	0.11	0.16	0.29	0.32	0.33	0.21
	Percentile Rank	68.3	66.8	65.7	63.9	64.8	66.4	62.9	57.6	55.7	57.1	57.6	60	60.5	59.4	57.1
Voice and Accountability	Estimate	0.89	0.9	0.82	0.7	0.69	0.62	0.65	0.67	0.66	0.74	0.81	0.96	0.95	0.96	1.01
	Percentile Rank	73.9	74.4	72.8	69.5	68.1	68.5	70.4	70.4	69.5	71.8	72.5	77.8	77.8	77.8	79.4

Source: *World Bank.-Daniel Kaufmann and Aart Kraay (2024). Worldwide Governance Indicators, 2024 Update.* www.govindicators.org
**Estimate of governance [ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance].*
***Percentile rank among all countries [ranges from 0 (lowest) to 100 (highest).*

4. Conclusion: Is Greek economy in a "crisis" after the crisis?

In this paper, we scrutinized the Greek economy's trajectory before, during, and after the GEC of 2010–2018 through a political economy analysis that examines both fundamental macroeconomic and institutional parameters, providing a better understanding of the complexities of the crisis and the ongoing challenges. The Greek economy continues to face significant challenges, casting doubt on its post-crisis recovery. The GEC, rooted in political and institutional weaknesses, continues to manifest despite some macroeconomic improvements. Over the past decade, Greece has managed to reduce budget deficits and stabilize its GDP. However, these macroeconomic gains have not been matched by significant enhancements in institutional mechanisms, essential for the efficient functioning of the economy. The macroeconomic landscape reveals ongoing vulnerabilities. Greece still struggles with a high current account deficit and a substantial national debt. The GDP growth remains fragile and unsustainable. Public debt remains alarmingly high, reaching around 161.9% of GDP in 2024, the highest in the EU. These factors, combined with low competitiveness, hamper sustainable and long run economic growth. The country has made strides in reducing fiscal deficits, but this has often been at the expense of investments and savings, leading to a fragile recovery. The emphasis on austerity measures under the EAPs provided short-term fiscal stabilization but failed to address deeper structural issues. The structural weaknesses that led to the crisis, such as an over-reliance on imports and insufficient export growth, have not been adequately addressed. Internal devaluation and wage reductions, aimed at improving competitiveness, led to social and economic hardships without significantly enhancing Greece's position in the global market. The EAPs did not manage to deal with the domestic demand and wage-led economy of Greece, characterized by low wages and low savings; instead, they exacerbated the situation, further hampering sustainable economic growth. Investment levels remain low, and domestic savings are insufficient to support robust economic growth. The lack of significant investment in productive sectors further exacerbates this issue, stalling potential economic advancements. Institutional weaknesses, such as bureaucratic inefficiency, corruption, poor public governance and a complex tax system, remain unresolved. These issues continue to undermine economic performance and resilience, limiting the effectiveness of reforms and the potential for sustainable growth. The Greek state continues to face inefficiencies and corruption, coupled with a lack of regulatory enforcement. The pervasive influence of international lenders has restricted the government's autonomy, often prioritizing fiscal targets over sustainable development, fueling instead a significant reduction in public administration efficiency. The enduring economic adjustments, heavily influenced by the Troika, have not strengthened the institutional framework. Bureaucratic inefficiency, political instability, and inadequate public services remain significant hurdles. The World Bank's WGIs show limited improvement, highlighting persistent institutional weaknesses. In conclusion, while Greek economy has stabilized certain macroeconomic indicators post-crisis, particularly fiscal deficit, enduring institutional deficiencies, high debt, low savings, insufficient investments, and competitiveness issues continue to impede genuine economic recovery. Addressing these institutional and macroeconomics shortcomings through comprehensive policies is crucial for Greece to achieve long-term economic stability and resilience, ensuring that the crisis does not perpetuate in new forms. Otherwise, a "crisis after the crisis" looms on the horizon.

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A MARXIST VIEW AGAINST ANTI-AUSTERITY POLICY IN JAPAN

Hiroshi Onishi[8]

Abstract

Japan's accumulated government debt has reached 1.9 times its GDP, placing it in the most difficult situation among developed countries. Although its catastrophic collapse has yet to be seen due to low interest rates and a weak yen, the Japanese Left is divided between those who are optimistic about the situation based on MMT theory and those who view it as dangerous. Broadly speaking, the New Left is optimistic, while the Marxists see it as dangerous. I belong to the latter. From that standpoint, I can say the following. Even if we "pay off debt with debt," this requires the following conditions.

$$\begin{aligned} &government\ bond\ issuance \\ &\qquad > redemption\ of\ the\ government\ bond + its\ interest\ payment \\ &\qquad = redemption\ of\ the\ government\ bond \\ &\qquad + accumulated\ amount\ of\ the\ government\ bonds\ x\ interest\ rate \end{aligned}$$

If this condition is not satisfied, taxpayers will have to be injected to pay for the redemption of the government bond and its interest payment. This formula can then be rewritten as follows

$$\begin{aligned} &government\ bond\ issuance\ growth\ rate - interest\ rate\ of\ the\ government\ bond \\ &\qquad > (average\ years\ to\ maturity \\ &\qquad - 1)/2 \times government\ bond\ issuance\ growth\ rate \times its\ interest\ rate \end{aligned}$$

Since the right-hand side of this equation is always positive, this formula indicates that government bonds must continue to increase more than the government bond interest rate, but it is clear that this cannot exceed the economic growth rate over the long term. In the case of Japan, this condition is very demanding because the population will continue to decline at an average rate of 1.1% for the next 100 years. In other words, government bond interest rate < government bond issuance growth rate< economic growth rate

Certainly, this condition can be met by achieving a considerably high inflation, but that would mean that real wages would have to be lowered substantially to get through this difficult situation. This would be unacceptable for the workers.

In addition to these issues, the report will also discuss the criticism of MMT at the theoretical level, Marx's theory of money and government bonds, and who benefits from the issuance of government bonds.

Keywords: Anti-Austerity Policy, National Bond, Japanese Economy, Abenomics

1. Introduction

There are enough reasons why Greek leftist have taken the side of "anti-austerity," but Japan's budget deficit is on the brink of crisis even more seriously than in Greece. Its outstanding national debt is now 1,100 trillion yen, or 1.9 times its GDP. For this reason, this paper will discuss the current state of Japan's public finances and their

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unsustainability, as well as the nature of the wage suppression and preferential treatment of monopoly capitals that are inherent in these policies.

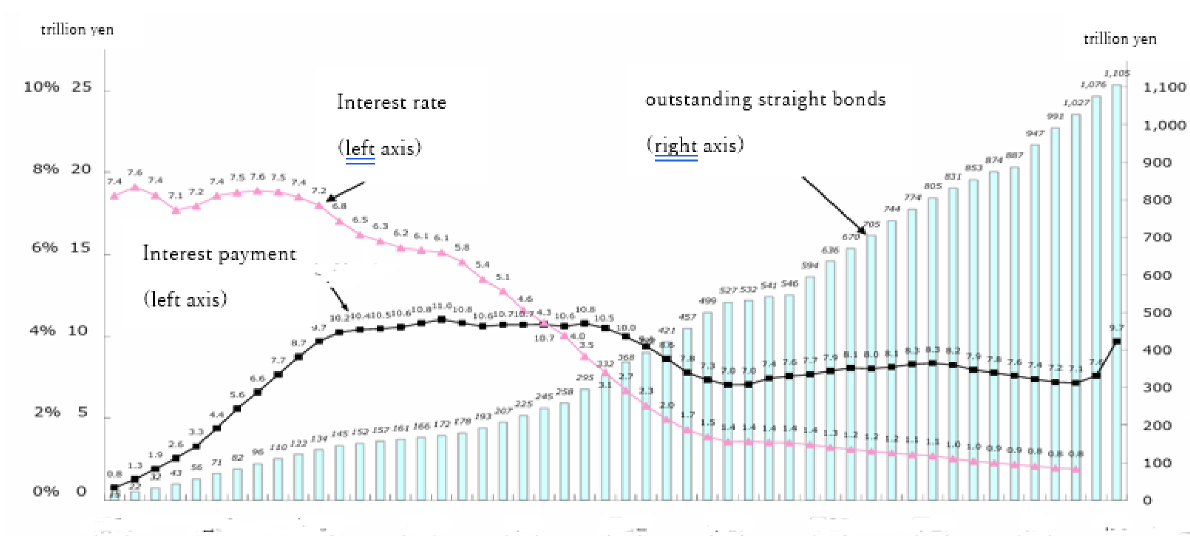
2. Japanese Government Finance Structured to Pay off Debt through Borrowing

The current predicament that the Japanese economy is in was initiated by the peculiar policy of "bold monetary easing" of Abenomics. This policy resulted in a massive issuance of government bonds, which has finally brought Japan's outstanding government debt to a scale of 1,100 trillion yen, about 1.9 times the size of GDP. The Bank of Japan's unusually large supply of money to the market had to be underwritten by the national government because there was nowhere else to spend it.

Such funds could have been used in any number of ways if they had been used for the people, but as long as they are "lent" through the channels of the Bank of Japan → financial institutions → corporations, it is inevitable that corporations are shifting to profit sharing such as "share buybacks" instead of investment. Although the issuance of government bonds for such purposes was originally prohibited in order to prevent unlimited fiscal spending (Article 4 of the Fiscal Law), it is now treated as if this restriction did not exist.

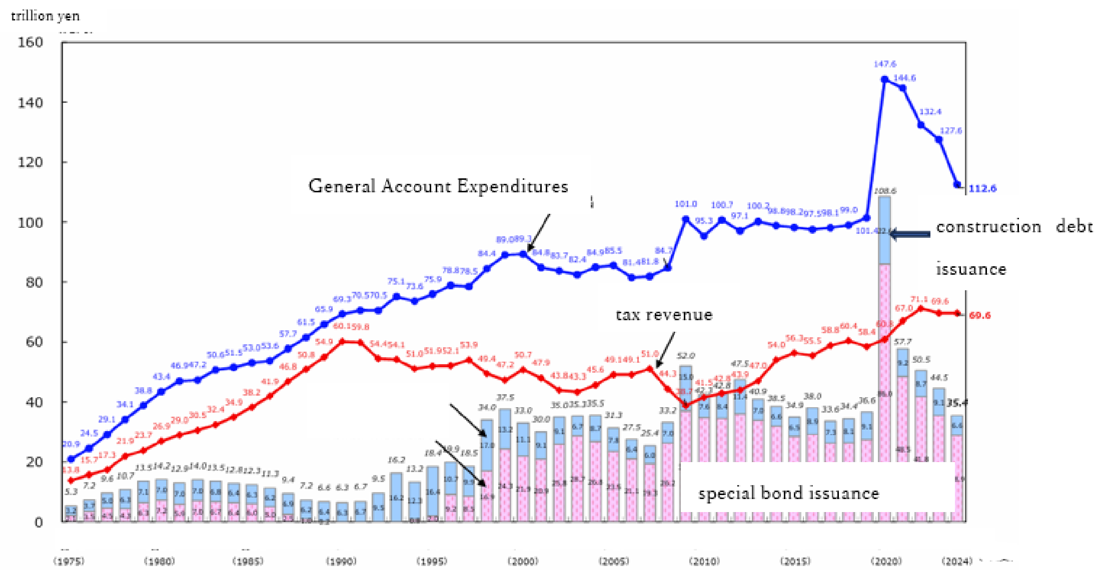
As a result, as can be seen in Figure 1, the government bond balance has continued to increase as if the ceiling on outstanding government bonds were unknown, and the gap between general account expenditures and tax revenues in each year (this portion is government bond issuance) has continued to widen, as shown in Figure 2. Japanese Government Bond (JGB) issuance, which was only a supplemental measure prior to the bubble economy in 1980s, now accounts for about half of revenue. Will the government continue this kind of fiscal management in the future?

Figure 1. Cumulative increase in outstanding government bonds, interest rates, and interest payments



Source: *Ministry of Finance, Budget and Accounting Bureau (2024), "Fiscal Conditions in Japan (Government Draft Budget for FY2024), p.7*

Figure 2: Japan's Fiscal Structure Increasingly Reliant on Government Bonds



Source: *Ministry of Finance, Budget and Accounting Bureau (2024), "Fiscal Conditions in Japan (Government Draft Budget for FY2024), p.3*

But of course, this trend cannot continue forever. Because JGBs are "debt," there is always a "redemption" waiting for them, and the amount of redemption plus interest payments will continue to increase. And, to our horror, the main purpose of issuing JGBs in reality is becoming to redeem them and pay interest on them.

Although the Fiscal Law stipulates that the government's finances should be "accounted for in a unified manner in the general account," there are 13 types of "special accounts" formulated for various reasons, and the amount of these special accounts is twice that of the general account. Therefore, we sum up the general and special accounts (excluding overlaps between them), and then have known that the revenue from "Bonds and borrowings" is 91.2 trillion yen, while the expenditure from "Debt cost" used for interest payment and redemption is 81.8 trillion yen. The previous fiscal year's figures were 106.7 trillion yen and 92.7 trillion yen, respectively, so we have to know the difference between the two has certainly shrunk. In other words, we are rapidly approaching a situation of "paying back debt with debt."

Of course, this should not be the case. In general, government bonds, which were originally allowed only as "construction bonds" because they themselves could generate money later, are now changed to be issued as "special government bonds" after 1965. However, even at that time, it was stipulated that "no bonds shall be issued for redemption," but this was changed again in 1984 with the amendment of the "Special Government Bond Law" to stipulate that "efforts shall be made to avoid issuing bonds for redemption as much as possible, while taking into consideration the financial situation of the country." This change was the beginning of the degeneration into the path of "paying back debt with debt."

3. Unsustainability of Debt Service Due to Debt

It's true that even if we "pay off debt with debt," this requires the following conditions.

$$\begin{aligned} &\mathit{government\ bond\ issuance} \\ &\quad > \mathit{redemption\ of\ the\ government\ bonds} + \mathit{its\ interest\ payment} \\ &\quad = \mathit{redemption\ of\ the\ government\ bonds} \\ &\quad + \mathit{accumulated\ amount\ of\ the\ government\ bonds\ x\ interest\ rate} \end{aligned}$$

If this condition is not satisfied, taxpayers have to be injected to pay for the redemption of the government bonds and its interest payment. By a certain calculation[9], this formula can then be rewritten as follows

$$\begin{aligned} &\mathit{government\ bond\ issuance\ growth\ rate} - \mathit{interest\ rate\ of\ the\ government\ bond} \\ &\quad > (\mathit{average\ years\ to\ maturity} \\ &\quad - 1)/2 \times \mathit{government\ bond\ issuance\ growth\ rate} \times \mathit{its\ interest\ rate} \end{aligned}$$

Since the right-hand side of this equation is always positive, this inequality indicates that government bonds must continue to increase more than the government bond interest rate, but it is clear that this cannot exceed the economic growth rate over the long term. In the case of Japan, this condition is very demanding because the population will continue to decline at an average rate of 1.1% for the next 100 years. In other words,

$$\begin{aligned} &\mathit{government\ bond\ interest\ rate} < \mathit{government\ bonds\ issuance\ growth\ rate} \\ &\quad < \mathit{economic\ growth\ rate} \end{aligned}$$

For example, if we assume that the current economic growth rate is about 1% and that the average maturity of JGBs is 10 years, this formula is valid when the JGB interest rate is 0.9568% or lower. Japan's government bond interest rate was raised from 0.2% to 0.5% last January, but it is certainly still OK. This is the reason why the Japanese government has managed to get by with this approach for more than a decade since Abenomics.

However, this situation would be lost if interest rates were to return to around 2012, just after the start of Abenomics, rather than to the early 1980s level (the normal pre-bubble level) of 8% shown in Figure 1. In reality, such an increase in interest rates will only be implemented when new JGBs are issued, which usually takes 10 years, but there should be no choice but to accelerate new issuing government bond in the sense of its unsustainability. However, there is no way that JGBs can continue to be used by the market at such a speed, so the Bank of Japan will eventually be forced to underwrite additional JGBs, and the possibility of hyperinflation will finally increase. For this reason, we should understand that the strategy of "paying off debt with debt (JGBs)" is fundamentally impossible.

To tell the truth, however, what this book really has to say about the unsustainability of this formula is that the population will rapidly decline. As an expert of the population projection, I estimated a future population of Japan in 100 years later, 2120 and the result of calculation was 39 million. If so, our question will be whether such a small number population can bear the debt which will be much larger than now This is the reason why young people are opposed to the "national debt." For example, in the two recent elections

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[9] When the government bond issuance growth rate is g, the interest rate is r, the average maturity is δ, and the amount of government bonds to be redeemed at the time of issuance is B_0, the given equation becomes

$$B_0(1+g)^{\delta} > B_0 + rB_0\{(1+g)^0 + (1+g)^1 + (1+g)^2 + \cdot\cdot\cdot + (1+g)^{\delta-1}\}.$$

This inequality can be approximately transformed into the above inequality in text.

in Taiwan, a new “youths’ party”: People's Party, made "reducing national debt" one of its main policies and made a great leap forward.

This issue concerns the left-hand side of this inequality, the rate of increase in government debt issuance. As you can see, the right side of the equation is usually positive, which means that the JGB issuance increasing rate always exceeds the interest rate on JGBs, which means that JGBs must be issued at this increasing rate forever.

In fact, the amount of JGB issuance cannot exceed the (nominal) GDP growth rate. Even if the accumulated amount of JGBs exceeds GDP for the time being (resulting in everyone in Japan, including babies, having a debt of about 10 million yen per capita), the annual issuance of JGBs cannot exceed nominal GDP. for this system to be sustainable. In other words, the JGB issuance increasing rate must be over than the JGB interest rate, and also below the nominal GDP growth rate. That is,

$$Nominal\ GDP\ growth\ rate\ >\ JGB\ issuance\ growth\ rate\ >\ JGB\ interest\ rate$$

However, in retrospect, the population will decline at an annual rate of 1.1 percent for 100 years because the population in 2120 will be 39 million. In other words, if per capita GDP will be constant by the year 2120, the rate of increase in bond issuance must be greater than the bond interest rate and less than -1.1%! It will be impossible. In other words, our economy is unsustainable.

Certainly, even in this case, if labor productivity per capita continues to grow (more than population decline) and prices rise, nominal GDP will grow, and thus the rate of increase in government bond issuance can exist within a certain narrow range. And, in fact, inflation is intended to expand that range of possibilities. But what we have to know here is that inflation means the cut of real wage rate. In other words, here the only way to overcome this difficulty is to put the burden on the working class, and furthermore, there will be a high possibility of the hyperinflation which cannot be controlled any more.

The current economic situation amplifies this question. What the Bank of Japan is currently struggling with is the question of whether it should steer back to "tightening monetary policy" by raising interest rates under the rising prices after the Ukraine crisis. It shows that the Bank of Japan is worrying about the onset of hyper-inflation in the sense of economic theory. Can such exquisite economic management really be done at such a time?

4. Controversies over the Debt Increase Theory

In fact, the feasibility of such exquisite economic management is one of the major points of contention, and there are strong advocates of increased government debt issuance on the leftist side. They say that the economy will cool down quickly if it is on the verge of hyperinflation, but fiscal spending cannot be suddenly reduced without deliberation in the Diet, and government statistics to assess whether the economy is on the verge of hyperinflation are inevitably released only after they have been surveyed and compiled, so there is inevitably a time lag.

In addition, it takes time for the government and the Bank of Japan to meet and make a decision based on the government statistics, so even if the easiest policy to raise the interest rate is adopted, it will fail unless there is considerable judgment. To begin with, hyperinflation, at least in the past, has never been controlled by the interest rate manipulation. The real macroeconomy is not as manipulable as textbooks suggest.

However, a more significant point is the criticism of Keynesian policies by Nobuo Okishio, who established mathematical Marxian economics in Japan. Professor Okishio's view of the labor share was based on the relationship between wages and prices, and insisted that the main problem of Keynesian policy was the reduction of the real wages by the inflation.

In fact, Christopher Sims' "Fiscal Theory of the Price Level (FTPL)," which preceded MMT as a theory of fiscal deficit acceptance, argued that government deficit financing causes inflation. This is because when interest rates are kept at very low levels, the macroeconomic equilibrium formed through the expectations of various economic agents in society will cause prices to rise just enough to cancel out the budget deficit. The important point here is that the acceptance of the budget deficit is based on price increases. This theory cannot be called "Keynesian theory" because it assumes a perfect equilibrium, but this characteristic is completely same with Keynesian theory. Incidentally, Shioji(2018) explains that if such a situation arose in Japan, uncontrollable hyper-inflation would occur.

It's true that the MMT theory examined below differs from this "Sims theory" because it is concerned with imbalances where unemployment exists (which is quite the opposite of the current "labor shortage" situation due to population decline). And as a result, it does not assume a price increase that would completely cancel out the budget deficit, but rather 2 percent price increase target, as assumed by Abenomics, for example. However, MMT theory also follows the "Sims Theory" way of understanding that governmental budget and balance sheet of the central bank should be sum up as an "integrated government." Therefore, Abenomics, which began with an emphasis on monetary policy as "interdimensional monetary easing," is understood as a kind of fiscal policy. On second thought, the "acceptance of fiscal deficits" should not be a "monetary policy" but a "fiscal policy. It is clear that the "Sims Theory" and Abenomics share the same theoretical framework in this sense.

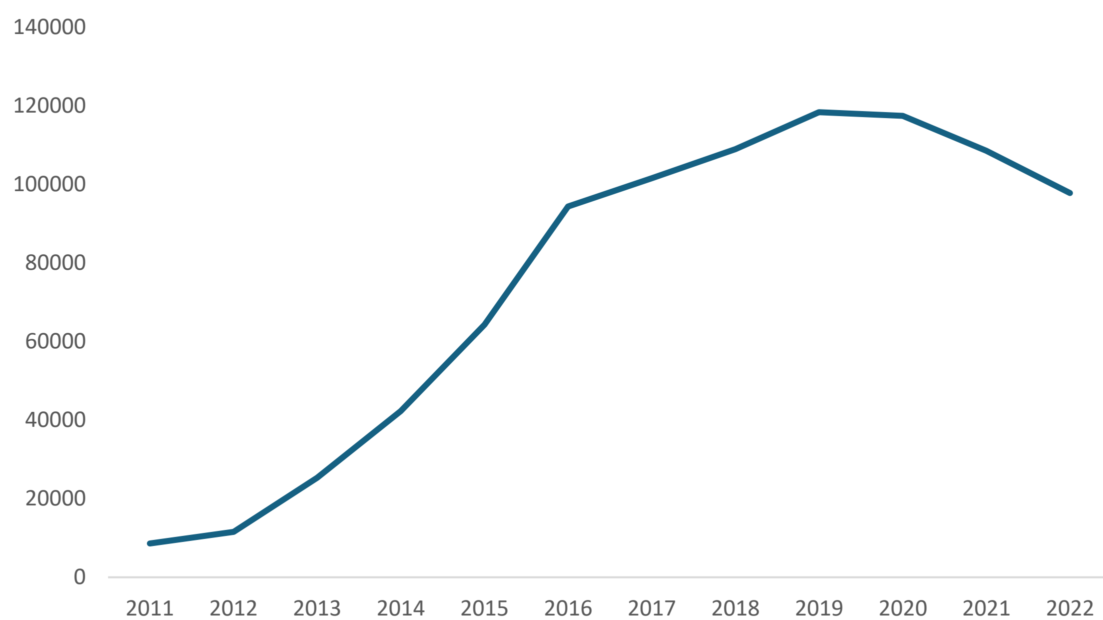
However, the more this is the case, the more problematic is the fact that, to varying degrees, price hikes are still the key point of the theory. In Japanese discourse, "inflation targeting" has become a popular theory under the slogan of "overcoming deflation," and it is always said that rising prices are a good thing, but this theory no longer holds true for the Japanese people at least after 2022. In the first place, even if we were happy to see "the first wage increase in 30 years" last year, the 1.2% increase in wages was completely offset by the 3.8% rise in prices, resulting in a 2.5% real rate of decrease. It is important to consider that the relationship between the price increase rate and the nominal wage increase rate is the focal point, and that is where the changes in the capital-labor shares are condensed. As a Marxist economist, Professor Okishio pointed this out.

5. Who Profits from the Massive Issuance of Government Bonds?

However, it is also important to note that Marx's *Capital* says that a social stratum has emerged by shifting the burden to the people to profit from these government bonds (chapter 24 of volume 1 and chapter 30 of volume 3, in German edition). Yamada(2023) points out that in the fiscal year ended March 31, 2013, just after the start of Abenomics, 30% of the net profit of the three major megabanks came from the gains on sales of government bonds and other securities. Incidentally, this was a very big deal for the banking industry, which at that time could no longer make a profit from normal lending operations due to low interest rates, and the May 30, 2012 issue of the magazine *Nikkei Business* digital edition featured this article as its top story.

However, of course, such trades can sometimes generate "profits" but sometimes "losses". For example, in FY2022, the latest year for the "Analysis of Financial Statements of Japanese Banks" published online by the Japanese Bankers Association, the five city banks posted a loss of ¥863.9 billion, or -39.5% of their net business profit. This is an interesting fact, since it is thought to be the result of slightly higher interest rates and lower JGB prices, but prof. Yamada says that if we want to know the how they fared as a whole, it is better to analyze the Bank of Japan's financials than the analysis of the city bank side. See Figure 3 below.

Figure 3. Trends of Bank of Japan's capital loss from JGB trading = private capital gain



Source: *Bank of Japan, Yamada (2023. p.111)*

As can be seen, except for a slight decrease in FY2021 and FY2022, the amount has consistently increased since the start of Abenomics. The point here is that this figure is reported as "losses" in the Bank of Japan's "financial statements". This is because it shows the capital loss that occurs when the Bank of Japan purchases JGBs held by the private sector and the government pays only the face value of the bonds when they are redeemed, while the purchase price is the market value of the bonds. This is exactly what happens when the private sector sells JGBs to the Bank of Japan at or above their face value. Therefore, this affiliation becomes the true benefit to the private sector from government bond trading.

6. Conclusions

Thus, the main argument of this paper was that the large amount of JGB issuance due to deficit financing has resulted in an unfavorable labor share through inflation, and also in a favorable special share for the financial institutions. So, in the end, we should know that it's necessary to discuss this issue in the context of the various interests that exist in society.

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INSTITUTIONAL AND STRUCTURAL EVOLUTION OF THE US FINANCIAL SYSTEM: A CRITICAL REVIEW OF FINANCIAL CRISIS LITERATURE

Shaun K. Brog[10] *and Yeo Hyub Yoon*[11]

Abstract

This article reviews the literature on financial crises with a particular emphasis on the Global Financial Crisis (GFC), offering a critical comparison between conventional and heterodox approaches. The conventional literature largely attributes the GFC to market failures, regulatory lapses, and irrational behaviour, focusing on proximate causes and transmission mechanisms. While valuable, this framework often overlooks the deeper institutional and structural transformations that result in a financial system that is more prone to instability. In contrast, the alternative literature, drawing from Post Keynesian, Minskyian, Marxist, and Institutionalist perspectives, offers a more comprehensive understanding of systemic financial crises. These approaches focus on the endogenous dynamics of finance, including pro-cyclical expectations, declining risk aversion, and the evolution of financial institutions under conditions of fundamental uncertainty. This article surveys key contributions that explore the role of financialization, deregulation, the rise of shadow banking, and the transition to money-manager capitalism. It concludes that meaningful insights into financial crises require models and policy frameworks that are historically grounded, institutionally informed, and adaptable to ongoing structural change. Rather than seeking definitive predictions, the most valuable economic theories are those that illuminate evolving sources of fragility and remain open to revision. The review ultimately calls for a more pluralistic and dynamic approach to crisis analysis, one that acknowledges the changing nature of finance in a fundamentally uncertain world.

Keywords: US Financial System, Global Financial Crisis, Hyman Minsky

1. Introduction

We are now more than fifteen years from the start of the Global Financial Crisis (hereafter GFC) and Great Recession; the most devastating financial crisis and subsequent economic downturn to occur in the United States since the Great Crash of 1929 and systemic banking contagion that led to the Great Depression. Without unprecedented intervention from the Federal Reserve, US Treasury, and Congress, which took the form of massive quantitative easing, a system-wide bailout of the financial sector, and sizable counter-cyclical deficit spending, the Great Recession could have easily morphed into a Second Great Depression. Even with extraordinary intercession by the fiscal and monetary authorities, the Great Recession took a substantial and long-lasting toll on the US economy. US Gross Domestic Product (GDP) declined by 2.1% between 2007–2009, while the GDP growth rate did not reattain pre-crisis levels until 2018. The unemployment rate rose from 4.7% in 2006 to 9.6% by 2010 and took seven years to fall back below the level prevailing prior to the crisis.

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Most are familiar with the events of the GFC. A housing bubble, driven by an expansion of credit extended to borrowers through the subprime mortgage market, began to peak in 2006 and burst in 2007. Falling home prices drove an increase in delinquency rates for subprime borrowers that translated into poor performance for subprime pools and losses on structured finance securities. Bear Stearns, Merrill Lynch, and Lehman Brothers, three of the largest players in the mortgage market, reported extensive losses and lost the confidence of investors and lenders. Bear Stearns was taken over by J.P. Morgan with generous assistance from the Federal Reserve, Merrill Lynch was acquired by Bank of America, and Lehman Brothers, unable to find a buyer, filed for bankruptcy in September of 2008. In short order, Fannie Mae and Freddie Mac were declared insolvent and placed in conservatorship, the Federal Reserve took a 79.9% stake in AIG in exchange for an emergency injection of $85 billion in capital, and the Reserve Primary Fund, the oldest and largest money market mutual fund in the world, broke the buck. Goldman Sachs and Morgan Stanley converted to bank holding companies in order to access lender-of-last-resort facilities, while Wachovia and Washington Mutual were shepherded into the hands of Citigroup and J.P. Morgan, respectively. In total, 489 banks with $694 billion in assets failed between 2008 and 2013; a statistic that only counts banks that went through Federal Deposit Insurance Corporation (FDIC) receivership and omits institutions that were hastily merged with stronger firms. Of the five bulge-bracket investment banks, only two were left standing in modified form.

The conventional economic literature dedicated to the GFC tends to frame the crisis as an unfortunate confluence of events involving a combination of market failure, regulatory failure, and irrational exuberance. In the subprime mortgage market, misaligned incentives are identified that led to the explosive growth of lending to lower-quality borrowers who were driven to purchase homes by irrational assumptions regarding the future trajectory of home prices. Information asymmetries were present between the issuers of subprime securities, the credit-rating agencies, and investors. Minimum capital requirements were set too low, and the risk-weighted assets approach to deriving requisite capital levels allowed for a build-up of AAA-rated structured finance assets that did not, in fact, embody the same risk as government securities. The quasi-government structure of Fannie Mae and Freddie Mac allowed these institutions to operate at dangerously high levels of balance-sheet leverage and drive some of the dynamics of the subprime mortgage market. The Securities and Exchange Commission took a hands-off approach to the regulation of investment banks, and the repeal of Glass-Steagall allowed investment and commercial banks to merge for the first time since the Great Depression.

While the conventional approach to understanding the GFC does a good job of identifying the proximate causes and transmission mechanisms of the crisis, relatively little is said as to why market and regulatory failure developed. Further, the resort to irrational exuberance as an explanation for the crisis is insufficient. For an identification of the deeper causes that lead to the development of conditions conducive to generating severe financial crises, the alternative economic literature is more promising. In this strand of thought, the market failures identified by the conventional analysis are the result of significant institutional and structural changes taking place in the US financial system. These long-term changes to the characteristics of the financial system have been analysed in theoretical constructions including financialization (Sawyer 2022), the transition to a finance-dominated accumulation regime (Guttmann 2022), and the advent of money manager capitalism (Minsky 1988). Writers associated with this line of inquiry show a fuller understanding of the work of Hyman Minsky, which is essential to developing robust explanations of episodes of financial instability.

The GFC also occurred at a time when most economists and policymakers had reached a consensus that severe financial crises and prolonged depressions had been relegated to the past. Prevailing economic theory highlighted the benefits of free markets and the inefficient nature of overly stringent regulation. There was talk of the 'Great Moderation' and a belief that the US economy had entered a 'new era' where efficient markets correctly priced risk and business cycles and inflation could be easily managed by the combined efforts of the Federal Reserve and Congress. These developments indicate that conventional economic theory is in need of a serious re-evaluation. For this, we need to look to the assumptions used in the economic theory that prevailed prior to the GFC and identify the cornerstones upon which flawed economic doctrine was built.

This article is divided into five sections. Section 2 reviews the literature related to financial crises generally and the GFC specifically from both conventional and alternative perspectives. In section 3, we provide a critical assessment of the GFC literature with a view to discussing the merits of mainstream and heterodox approaches to the financial crisis and subsequent changes in the regulatory architecture of the US financial system. Section 4 discusses assumptions and theoretical frameworks related to financial crises and implications for future research on financial instability. Section 5 concludes.

2. A Brief Review of the Literature

2.1. Conventional Economic Literature

The economic literature dedicated to untangling the causes of the GFC and the evolution of key financial variables identified as either proximate causes or transmission mechanisms is extensive. The brief literature review given here only highlights a small portion of the information available. From a conventional perspective, the primary theoretical construction deals with a combination of market failure, regulatory failure, and some degree of irrational exuberance. Much of the conventional literature is also devoted to documenting the proximate causes of the GFC as opposed to attempting to explain the nature of financial instability. In this sense, a conventional narrative of the financial crisis has been elaborated by numerous authors including Acharya and Richardson (2009a), Bernanke (2015), and Blinder (2013) who have developed detailed summaries of the changes in leverage, securitization, and credit default swaps (CDS) for public consumption in the form of popular books. The Financial Crisis Inquiry Report (Financial Crisis Inquiry Commission 2011) provides an extensive analysis of the aforementioned variables and is a cornerstone of the conventional narrative.

A more detailed analysis of leverage cycles can be found in Obstfeld and Rogoff (2009), Reinhart and Rogoff (2009), and Schularick and Taylor (2012), while a more comprehensive study of the rise of CDS is available from Acharya et al. (2009). Acharya and Richardson (2009b), Gorton and Metrick (2013), and Shin (2009) document the dramatic increase in private-label mortgage securitization and implications for the development of the pre-2008 housing bubble. Shin (2009) develops a compelling narrative of the retention of structured product liabilities by financial institutions resulting from the desire to utilize slack in balance-sheet capacity. Ashcraft and Schuermann (2008) outline seven key frictions in the securitization paradigm that led to the subprime crisis. From a regulatory failure perspective, Pozsar et al. (2010) analyse the composition of shadow banking activity and the dramatic increase in shadow banking liabilities while Adrian and Shin (2009) assess the implications for financial regulation that accompany increased shadow activity. Acharya et al. (2011b) analyse the myriad regulatory issues surrounding Fannie Mae and Freddie Mac, which were instrumental in driving the housing bubble and weakening the financial sector as these government-sponsored entities collapsed during the crisis.

The economic literature that focuses on examining nascent transformations in the financial regulatory architecture and policy proposals for further refinement is also extensive. Allen et al. (2012) and King and Tarbert (2011) analyse the salient changes to international banking regulation provided in the new Basel III capital requirements and assess the potential costs of increased capital stipulations and the outlook for systemic risk, respectively. Acharya and Richardson (2012) review the Dodd-Frank Act and its ability to attenuate systemic risk, while Hirtle and Lehnert (2015) and Acharya et al. (2014) analyse the relative merits of stress testing and risks associated with the framework. Kohn and Liang (2019) assess the impacts of stress testing on capital levels at financial institutions and conclude that capital buffer requirements have resulted in higher tier 1 capital ratios for bank holding companies. Acharya et al. (2011a) make a compelling case for the use of contingent capital in liability structures, while Adrian and Brunnermeier (2011) advocate for incorporating metrics for systemic risk in macroprudential policy decisions.

2.2. Alternative Economic Literature

Less conventional assessments of the financial crisis are available from a variety of schools of economic thought. Brunnermeier et al. (2020) analyse changes in banks' non-interest income as a main source of revenue and associated links to systemic risk. Brunnermeier and Pedersen (2009) develop a model that relates the dynamics between market liquidity and funding liquidity for financial institutions with large trading operations. Montecino and Epstein (2014) and Montecino et al. (2016) provide an analysis of intra-financial sector lending and the implications for systemic stability and capital formation. Crotty et al. (2010) develops the narrative of proprietary trading as a key component of the GFC and Crotty (2009a) delves more deeply into the bonus-driven culture of financial firms that enriches employees while destroying shareholder value and producing financial instability.

One strand of alternative thought emphasized by Crotty (2009b) identifies key structural flaws in the new financial architecture that contributed to increases in financial fragility. In addition to an accumulation of risky assets, high leverage, and regulatory arbitrage, Crotty notes an agglomeration of perverse incentives that led to excessive risk-taking and 'rainmaker' culture that encouraged short-term risk-taking at the expense of future performance. In another strand that combines aspects of Structural-Keynesian thought, Palley (2012) places the root causes of the GFC in the real economy where stagnant wage growth and widening inequality weakened aggregate demand and profit rates, creating the need for debt-driven expansions. This 'destruction of shared prosperity' narrative indicates that re-regulation of the financial sector is a necessary but not a sufficient condition for financial stability.

The Structural-Keynesian analysis is augmented from a Marxist-Institutionalist perspective by Kotz (2013) who documents the transition of the US economy from regulated capitalism to neoliberal capitalism starting in the 1970s. This framework juxtaposes Keynesian-regulationist orthodoxy characterized by state regulation, collective bargaining, product and job safety, and progressive income taxation with the free-market ideology of deregulation, capital/labour conflict, and limited government. Specifically, deregulation of the financial sector in combination with capital dominance over labour was instrumental in driving debt-fueled expansions, eventually culminating in the housing bubble of the early 2000s.

Other alternative themes include the role of shareholder-value orientation and financialization in creating conditions conducive to the increasing frequency and severity of financial crises. Lazonick (2013) places the weakness of aggregate demand and widening inequality discussed by Palley (2012) and Kotz (2013) in the context of decisions of business managers to maximize short-term profits and share prices by minimizing real investment in favor of share buybacks. The lack of value-added job creation and stagnant wage growth were key factors in developing the demand pool for subprime loans while rewards for short-term performance encouraged rampant speculation. Epstein (2005) and Stockhammer (2010) discuss the role of financialization in changing household behaviour, increasing the financial activity of non-financial corporations, and encouraging a shift toward shadow banking activity. Financialization is used to summarize the relative weight of financial versus real activity in the economy. Economies that are led more by the financial sector than the real sector produce more frequent asset bubbles and corresponding busts. Crises generated from within the financial sector are more severe than business cycle downturns caused by real dynamics.

From an Institutionalist perspective, Wolfson (2013) gives a history of evolutionary developments in the institutional structure of the financial system with a focus on changes in regulatory arrangements that contributed to the crisis. He notes that financial crises were relatively rare in the era of restricted competition, compartmentalization, and prudent limitations to risk-taking engendered by the post-Great Depression regulatory architecture. The replacement of the postwar system of regulation with neoliberal tenants of laissez-faire created a competitive environment that induced rapid institutional change resulting in increased concentration and shadow activity. Free-market ideology blinded regulators to the dangers of securitization, short-termism, and unmonitored financial activity which led to the GFC.

Several authors have commented on renewed interest in the work of Hyman Minsky following the events of GFC. Davidson (2008), Kregel (2008), Vercelli (2009), Whalen (2008), and Wray (2011; 2012) note descriptions in the popular press, investment research publications, and economic literature referring to the subprime crisis as a 'Minsky moment' or 'Minsky crisis' while placing the antecedents to the crisis beginning in the early 2000s. These authors are keen to point out that Minsky was a process theorist and viewing the subprime crisis as a straightforward overextension of credit in the mortgage market followed by a collapse is too simplistic. Moreover, many economists are eager to emphasize that in certain circles interest in Minsky's writing with regard to the development of financial instability needed no revival. With regard to the description of the GFC as a Minsky moment being too simplistic, Palley (2011) and Wray (2011) counter that the build-up of financial instability should be considered over a longer time horizon and focus on broader developments in the financial sector and policy environment. For Wray (2011), the GFC is the result of the transition of the US economy to the stage of money-manager capitalism and the causes of the GFC are best thought of as developing since the early 1970s. For Palley (2012), the GFC is the product of a Minsky super-cycle or the interaction between cycles of regulatory effectiveness and risk-taking, which plays out alongside basic Minsky cycles.

From a theoretical perspective, formalization of the financial instability hypothesis has been undertaken by a number of heterodox economists aiming to rigorously model Minsky's insights within dynamic macroeconomic frameworks. Notably, Foley (1986) develops a cyclical growth model that introduces financial variables into a Marxian framework, illustrating how investment cycles can be destabilized by credit dynamics. Taylor and O'Connell (1985) similarly explore the destabilizing effects of finance in a Kaleckian context, showing how debt accumulation can undermine aggregate demand. Gatti et al. (1994) present a stock-flow consistent model that captures the endogenous buildup of financial fragility in corporate sectors. Building on these foundations, Fazzari et al. (2008) extend earlier models by incorporating inflation and income distribution, demonstrating how financial instability interacts with monetary policy. Ryoo (2010) adds a new dimension by modeling debt-driven cycles in the housing market, a major empirical feature of modern financial crises. In a follow-up, Ryoo (2013) integrates firm profitability, leverage, and endogenous risk into a long-wave framework, linking financial cycles to broader structural transformations in capitalist economies. Nikolaidi and Stockhammer (2018) provide a comprehensive survey of formal Minskyian macro models, categorizing them into typologies such as Kalecki-Minsky, Kaldor-Minsky, Goodwin-Minsky, and Minsky-Veblen frameworks—each reflecting different theoretical emphases on profit distribution, investment dynamics, employment cycles, and institutional change.

In addition to the contribution of Ryoo (2013), the work of Bernard et al. (2014), Guttmann (2016; 2022), Palley (2011), Wray (2011), and Dafermos et al. (2023) is indicative of the renascence of long-wave cycle theory in the literature, which is coeval with an expanding literature emphasizing Minskyian dynamics. Bernard et al. (2014) review the long-wave cycle theories of Kondratieff, Schumpeter, Goodwin, and Kalecki in relation to Palley's theory of the Minsky super-cycle as a way to frame the developments that led to the GFC. Guttman (2016; 2022) analyses the financial dimension of long-wave cycles provided by Minsky in connection with accumulation regimes, building on the Marxist tradition and the French Theorie de la Regulation (RT). Moreover, the super-cycle theories in Palley (2011) and Dafermos et al. (2023) frame financial instability within long-wave cycles, considering broader shifts in macroeconomic conditions, institutional structures, and regulatory paradigms. In particular, Palley (2011) points to regulatory capture engendering an asymmetric cycle of economic growth that creates financial excess and stronger economic booms conditioned on countercyclical policy. These theoretical constructs highlight the changing institutional and structural characteristics of capitalism in the United States since the Second World War and the implications for the generation of endogenous financial instability.

From a policy-oriented perspective, Post Keynesians have developed alternative models of financial regulation that follow logically from theories of endogenous money and endogenous finance. D'Arista and Schlesinger (1993), D'Arista (1994), and Palley (2006) present a case for uniform financial regulation based on functional activities as opposed to sectoral classification or regulatory body designation. Ferri and Minsky (1992) highlight the need for dynamic regulation that adapts to innovation in the financial system. These policy frameworks fit well with the conclusions of the theoretical literature regarding the endogenous generation of financial instability and the need for regulatory evolution to keep pace with institutional change. Palley (2004; 2006) presents an asset-based reserve requirements (ABRR) framework that differs from the prevailing risk-based capital standards (RBCS) approach and could potentially reduce the risk of asset bubbles while working as a countercyclical stabilizing mechanism in the asset-price/credit cycle. This framework would correct for policy asymmetries by applying to any financial intermediary that holds financial assets and also create a dynamic constraint on agent choice in the form of margin requirements on specific assets that are set at the discretion of the macroprudential authority.

3. Critical Assessment

While it is important to document the proximate causes and transmission mechanisms of the GFC and develop policy recommendations tailored to correcting the obvious deficiencies in the regulatory architecture that prevailed prior to 2008, the conventional analysis appears to lack an understanding of the significant institutional and structural changes that built up in the US financial system since the 1970s. Viewing the GFC as an unfortunate confluence of events, with antecedents that date to the late 1990s, as the result of market failure, regulatory failure, and irrational exuberance leaves stakeholders with the impression that financial crises can be prevented if incentives are better aligned, information asymmetries are reduced, and regulatory arbitrage is eliminated. The areas of focus for aligning incentives and eliminating information asymmetries are confined to the markets associated with proximate causes of the GFC. Further, the elimination of regulatory arbitrage is confined to the institutional arrangements that prevailed during the crisis. Thus, the conventional policy prescriptions are somewhat limited to raising capital standards, designating a macroprudential regulator, correcting flaws in the securitization paradigm, and limiting propagation mechanisms associated with the GFC (bilateral linkages, disorderly liquidation). These recommendations are undoubtedly improvements on the regulatory architecture, but fail to account for the fact that the next financial crisis is unlikely to originate in the same markets and cause distress at the same set of institutions as past crises. A more robust understanding of how institutional and structural change develops is necessary for creating policy recommendations that could remain relevant in the future.

In this sense, the alternative literature devoted to the GFC is more on-the-mark. From an empirical perspective, economists have demonstrated that the structural flaws in the US financial system go much deeper than proximate causes. The increase in proprietary risk-taking and reliance on revenue generation from non-interest income indicate that the shock that caused the GFC need not have come from the subprime market. The dramatic decrease in margins of safety, driven by sanguine expectations of expected losses generated from complex statistical analysis, could have easily been eroded by a smaller shock from another sector. It is unlikely that the prevailing regulatory paradigm, which applied haphazardly to a myriad of institutional arrangements, would have worked any better to contain such a shock that occurred in another market.

From a theoretical perspective, Minsky-derived models have allowed economists to understand the dynamics of endogenous finance and the implications for financial stability. Kregel (2013) notes that many had previously dismissed Minskyian theory by classifying the financial instability hypothesis as a theoretical framework that relies on the irrational exuberance of bankers and businessmen, or excessive optimism of entrepreneurs. However, in the context of endogenous changes in expectations and a recognition that the economic system is non-ergodic, Minskyian analysis provides a viable framework for understanding declining margins of safety as investors accrue more outcomes closer to their mean expectations in the period of stability. The structural evolution of the US financial system appears to align closely with predictions generated in Minsky-derived models with the expectations of financial actors becoming more optimistic the longer financial markets remain stable.

The revival of long-wave cycle theory is another promising area of alternative research. Several authors have noted that the seeds of the GFC were planted in the transition from the more regulated post-Great Depression era to the neoliberal paradigm in the 1970s. Studies focusing on changes to the regulatory environment correctly note that the regulatory arbitrage so prevalent in the early 2000s is the result of cumulative changes that gained momentum in the ideological shift to freer markets. Palley's construction of the Minsky super-cycle, which combines various theoretical elements present in the earlier literature on endogenous finance, represents an analytically dynamic model of financial evolution leading to systemic financial crises. This model incorporates a regulatory dimension that accounts for both changing institutional structures and the possibility of regulatory capture. It also reveals that cycles of financial innovation and misperceptions of risk play an important role in generating a buildup of risky assets that eventually generate a shock to the asset side of financial intermediary balance-sheets. The theory of the Minsky super-cycle lacks a detailed analysis of the driving forces behind institutional changes over longer cycles and how these changes affect the structural characteristics of the financial system. Moreover, the special characteristics of non-bank financial intermediaries require elaboration in greater detail in order to reach robust conclusions with regard to how conditions productive of episodes of financial instability develop.

The alternative literature dedicated to the narratives of financialization, destruction of shared prosperity, and transitions in the nature of capitalism represent promising areas of research focused on identifying driving forces behind the increasing frequency and severity of financial crises. While the characteristics of financialization, the transition to money-manager capitalism, and the trend of stagnant wage growth leading to widening inequality may, in fact, represent forces that galvanize institutional and structural dynamics, a full exploration of the links between these broader trends of evolving capitalism in the United States and the development of financial fragility is warranted. Moreover, while the aforementioned progressions play a role in institutional and structural change, the question remains whether a transition to a new paradigm of capitalist accumulation is a necessary condition for financial instability or whether transitions merely accelerate and exacerbate the fundamental tendencies toward fragility emphasized in Minsky's work.

4. Theoretical Approaches to the Financial Crises

In order to develop theoretical models of financial instability, it is useful to discuss the characteristics of the economic system in which financial institutions operate. Much of neoclassical macroeconomic theory has been devoted to describing the economic system in which we live as one that is ergodic, where economic agents have rational or adaptive expectations in the presence of perfect information. Here, economic actors are risk-averse utility or profit maximizers who make optimal decisions based on fully known probability distributions. In such a system, expectations and the degree of risk-aversion are exogenous, and expectations are homogeneous (Crotty 1994). Neither expectations nor the degree of risk-aversion change during business cycles or long-wave cycles. In ergodic processes, “economic relationships among variables are timeless (ahistoric) and immutable” (Davidson 1987: 148), and “averages calculated from past observations can not be persistently different from the time average of future outcomes” (Davidson 1991: 132). An ergodic economic model cannot exhibit hysteresis and must be independent of agent choice (Crotty 1994). This is the world of Friedman (1991), Lucas Jr (1972), and Fama (1970) , wherein the optimizing behaviour of economic agents in the presence of perfect information generates equilibrium outcomes that are efficient. In this world, equilibrium is only disrupted by exogenous shocks.

However, the economic system in which economic agents and financial institutions actually operate is characterized by a multitude of decisions for which “there is no scientific basis on which to form any calculable probability whatever” or, in other words, “we simply do not know” (Keynes 1937: 214). In *A Treatise on Probability*, Keynes writes extensively on the difference between measurable and unmeasurable uncertainty, of which the former can be assigned probability distributions while the latter is subject to judgement, intuition, or subjective probability assessments (Keynes 1921). In the presence of fundamental uncertainty, we do the best we can with the information set we have constructed and form a ‘weight of belief’ in our evaluation, which represents the degree of conviction in the conclusions of our analysis. Where human behaviour is involved or the event under consideration is far into the future, we may have a relatively low weight of belief in our probability assessment conditional on the information set. Under these conditions, a rational economic agent may choose not to make any consequential decisions at all; however, the urge to human action drives us to develop ways to come to terms with our lack of conviction in decision-making processes.

In his 1937 *Quarterly Journal of Economics* article, Keynes states that in order to “save our faces as rational, economic men” we: (1) assume the present is a much more serviceable guide to the future than a more distant past; (2) assume that the existing state of opinion as expressed in prices is correct; and (3) assume that society is perhaps better informed and fall back on conventional judgement (Keynes 1937: 214). The use of convention in decision-making can generate periods of stability in economic relations, as conventions can anchor the expectations of economic agents while a considerable proportion of individuals continue to adhere to the collective process of society. Keynes summarizes this phenomenon by stating that a "conventional method of calculation will be compatible with a considerable measure of continuity and stability in our affairs, so long as we can rely on the maintenance of the convention” (emphasis in original) (Keynes, 1936: 152).

Crotty (1994) analyses the characteristics of an economic system driven by conventional decision-making as a response to fundamental uncertainty, and Crotty (2013) develops an assumption set that differs substantially from neoclassical models. For Crotty “the economic outcomes we observe over time are generated by a system of ever-changing agents, agent preferences, risk-aversion, innovations, and economic, political, and social institutions” (Crotty 2013: 146). The conventions that economic agents adopt to make consequential decisions are strongly shaped by the degree of confidence in the economic system’s processes and institutional structures play a key role in shaping convention by creating bounds and constraints on agent choice (Crotty 1994). Crotty's (2013) analysis leads to some key assumptions that are applicable to Keynesian-Minskyian (KM) models of the economy, namely:

(1) The future is inherently unknowable. The world is characterized by uncertainty rather than calculable risk.

(2) Expectations are endogenous and pro-cyclical. They become more optimistic in booms, more pessimistic in downturns, and wildly unstable in panics.

(3) The degree of agent risk-aversion is endogenous. Agents become less risk-averse in a bubble and more risk-averse in a downturn.

(4) Financial institutions strongly affect the performance of financial markets. They are complex agents whose incentives, information sets, objectives, and constraints differ from individual agents.

(5) Financial-market decisions affect real-sector outcomes and conversely in an interactive, dynamic, and path-dependent process. Future cash flows are changed by agents' current financial decisions.

This assumption set is essential to understanding Minskyian models of financial instability. Endogenous changes in expectations formation are the driving force behind cycles of investment, while endogenous changes in risk-aversion provoke institutional and structural changes that shape the fabric of the financial system. The institutional and structural changes that take place during long periods of stability have the potential to dramatically affect the performance of financial markets, while the interaction of financial markets and the real sector has profound implications for macroeconomic stability. In analyzing the GFC, developing theoretical models of financial instability, and designing regulation to prevent 'once-in-a-generation' financial crises, it is paramount that researchers consider the dynamic nature of conventions, institutional arrangements, and structural characteristics.

When speaking of financial crises, Minsky, paraphrasing Heraclitus, was fond of saying that 'one can never step in the same stream twice.' By this, he meant that the specific characteristics of episodes of financial instability are determined by historical factors that are unlikely to be identical. Future financial crises will have their own unique characteristics that differ from the GFC, which differ from past financial panics. Severe financial crises seem to share some similar characteristics, but the exact proximate causes and transmission mechanisms change substantially from crisis to crisis. This limits the generalizability of the conclusions reached in both the conventional and alternative literature. Hopefully, the theoretical, empirical, and policy work being undertaken by contemporary economists can provide a guide for where to look for endogenous tendencies toward instability and how to construct regulatory policy that is adaptable enough to evolve with the perpetual evolution of the financial system. In this spirit, scholars and policymakers alike must remain intellectually flexible, willing to revise assumptions, cautious in drawing firm conclusions, and attentive to the ways in which evolving financial structures and fundamental uncertainty continually reshape the terrain of crisis and regulation.

5. Conclusion

The GFC has served as a stark reminder of the dangers of complacency in economic theory, regulatory practice, and institutional oversight. While mainstream narratives provide detailed accounts of the proximate causes and transmission mechanisms of the crisis, these explanations have often neglected the deeper, structural transformations in the financial system that enabled such vulnerabilities to accumulate. In contrast, the heterodox literature, drawing from Minsky and Keynes, has illuminated the endogenous nature of financial instability and the dynamic interplay between financial markets, institutional structures, and real economic outcomes.

Alternative economic literature has made significant strides in deepening our understanding of financial crises by shifting the analytical focus from surface-level dysfunctions to the underlying institutional and structural transformations of the financial system. Building on the work of Hyman Minsky, scholars have developed theoretical models that highlight the endogenous nature of risk-taking, the cyclical erosion of margins of safety, and the role of evolving expectations and conventions. These constructions reveal that financial fragility is not merely a result of poor incentives or regulatory gaps, but the product of systemic dynamics that unfold over time. The revival of long-wave cycle theory has further expanded the temporal horizon of analysis, linking crises like the GFC to the broader ideological and institutional shifts that began in the 1970s with the transition to neoliberalism. Moreover, heterodox approaches emphasize the central role of non-bank financial institutions, proprietary risk-taking, financial innovation, and regulatory asymmetries in generating instability, thereby providing a more comprehensive account of how systemic risk can migrate and evolve. In doing so, they challenge the idea that financial crises can be fully explained or prevented through addressing the proximate causes and transmission mechanisms of the last crisis.

Minsky's reminder that one can never step in the same stream twice is more than a poetic observation; it is a methodological imperative. Financial crises are historically specific events shaped by unique constellations of institutional arrangements, asset structures, and policy responses. As such, they resist easy generalization, yet financial instability seems to share certain characteristics linked to the interaction of margins of safety, financial innovation, conventions, and static oversight in periods of tranquility that give way to panic and crisis. For economic theory and policy to remain relevant, the dynamic nature of all aspects of the financial system, linked to how economic agents make decisions under conditions of fundamental uncertainty, must be internalized.

Going forward, the challenge is not to craft a model that explains every crisis, but to build flexible, historically grounded frameworks that can anticipate where fragility might emerge. Policymakers must move beyond static regulation and toward adaptive governance capable of responding to innovation and institutional change. Scholars must remain humble in their conclusions, open to revising assumptions, and committed to integrating empirical insights with theoretical advances. Only by doing so can we hope to understand and mitigate the forces that make financial crises a recurring and devastating feature of modern capitalism.

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LIQUIDITY PREFERENCE THEORY, CORPORATE BOND YIELDS, AND STRUCTURAL CHANGES IN THE US FINANCIAL SYSTEM

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Abstract:

The objective of the paper is to investigate the dynamics of corporate bond yields in the United States during the post-1980 period, with particular attention to the growing role of financial intermediaries. Our approach in examining the influence of financial market forces on interest rate determination is grounded in Keynes's liquidity preference theory, which serves as a general framework for asset pricing under conditions of fundamental uncertainty. Using data from 1983 to 2023, we find that corporate bond yields have become increasingly influenced by financial intermediaries' asset/capital leverage ratios, reflecting market perceptions of balance sheet risk amid financial deregulation, while the federal funds rate exerts only a limited pass-through effect. These findings challenge the conventional view of interest rate exogeneity and the effectiveness of monetary policy, particularly within both mainstream and Post Keynesian traditions. We argue that effective policy must take into account the institutional dynamics of the financial system. Restoring the effectiveness of the interest rate channel may require policies that address both the structure of financial intermediation and the mechanisms through which intermediaries' liquidity preferences shape long-term rates.

Keywords: interest rates, liquidity preference, monetary policy, the United States

1. Introduction

Over the past four decades, the US financial system has undergone rapid and far-reaching structural changes, driven by widespread financial deregulation and a surge of financial innovations. These transformations fundamentally changed the institutional structure and operation of financial markets, enabling and accelerating the dramatic expansion of the US financial sector. The financial industry's growth has been remarkable whether measured by its share of Gross Domestic Product (GDP) and the stock of financial assets. Alongside this quantitative expansion, the scope of financial activities has also broadened significantly, centering increasingly on securities markets and related securities firms such as investment banks, asset managers, and other non-bank intermediaries. This period is defined not only by growth in scale, but by a qualitative shift in the nature of finance itself, with the proliferation of complex financial instruments and market-based intermediation.

In this paper, we examine the empirical patterns of corporate bond yields (Aaa and Baa) in the United States during the period since the 1980s. We specifically focus on financial market forces arising from quantitative and qualitative changes in US financial intermediaries in examining the long-term corporate interest rates. Another related issue

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is the ability of the Federal Reserve to influence market interest rates. Since the Federal Reserve has been conducting monetary policy primarily by adjusting the Federal Funds Rate (FFR hereafter) with the expectation of influencing broader market rates, its policy effectiveness is primarily assessed by examining the relationship between the FFR and other market interest rates. This policy effectiveness, commonly referred to as interest rate pass-through, is considered important because the key components of private aggregate demand—capital investment and consumption—tend to be affected by longer term interest rates.

On the theoretical front, we develop a framework based on the theory of liquidity preference in Keynes's 1937 papers and the works of Hyman Minsky (1975), Tracy Mott (1985–6) and Victoria Chick (1992), that generally emphasize the view that long-term interest rates are determined by market participants' liquidity preference in financial markets. Building on this tradition, we argue that market interest rates have become increasingly influenced by the liquidity preferences of financial intermediaries, reflecting their perceived balance sheet risks amid financial deregulation. We view this stronger link as driven by structural changes in the US financial landscape since the 1980s, such as the expansion of intermediaries' leverage, rapid financial innovations, and intensified competition in corporate bond markets. In particular, during the 1980s, US financial intermediaries remarkably increased their involvement in high-risk corporate loans, which has, in turn, led to asset securitization in corporate debt markets—covering commercial paper, corporate long-term debts, and corporate junk bonds (Carter 1991–2). Given these developments, we expect that market forces and institutional changes in the US financial system may have brought about significant impacts on corporate bond yields.

The empirical literature on the relationship between the FFR and long-term interest rates presents mixed evidence. A pioneering empirical work by Pollin (1991) presents evidence of causality running from long-term to short-term rates in the US for the period from 1960 to 1986, challenging the view of exogenous interest rate determination by the Federal Reserve. In contrast, Atesoglu (2005) and Payne (2006–7) find unidirectional causality from the FFR to long-term rates, aligning with the view of exogenous interest rate. More recent contributions, including Pollin (2008) and Rahimi et al. (2014) propose a more interactive relationship, where causality runs in both directions and the exogeneity of the FFR is subject to question. Although these studies differ in scope and methodology, they generally overlook the role of financial intermediaries and the structural features of the financial system in shaping interest rate spreads. This is the focus our paper explores.

To examine the empirical patterns of corporate bond yields, a theoretical framework based on Keynes's liquidity preference theory is developed, and cointegration tests are conducted for the period from 1983 to 2023. To assess the impacts of intermediaries' liquidity preferences on interest spreads, we investigate whether corporate bond yields are affected by changes in intermediaries' balance sheet leverage. Overall, our empirical results indicate that corporate bond yields are significantly affected by financial intermediaries' asset/capital leverage ratios. The objective of the paper is to investigate the changing dynamics of long-term interest rate determination in the United States, with particular attention to the evolving role of financial intermediaries. The paper is organized into five sections. Section 2 provides institutional context, highlighting key structural changes in the US financial system since the 1980s. Section 3 revisits Keynes's theory of liquidity preference and its subsequent developments by Hyman Minsky, Tracy Mott, and Victoria Chick. Section 4 presents the empirical analysis, examining trends in corporate bond yields and their relationship to the FFR and depository banks' and non-bank financial intermediaries' leverage ratios. The paper concludes in Section 5 with a summary of findings and their broader implications.

2. Structural Changes in US Finance and Corporate Bond Markets

The US financial system has undergone remarkable growth over the past four decades. This expansion is especially notable in the financial intermediary sector, as demonstrated by measures like asset growth, profits of the financial sector as a percentage of GDP, and the balance sheet leverage ratios of financial intermediaries. Moreover, the transformation of US finance was evident in its institutional shift from depository intermediaries towards market-based non-bank financial intermediaries, including broker-dealers, asset-backed security issuers, funding companies, finance companies, money market funds, and many other non-traditional financial institutions, along with a dramatic increase in the issuance of complex, illiquid assets.

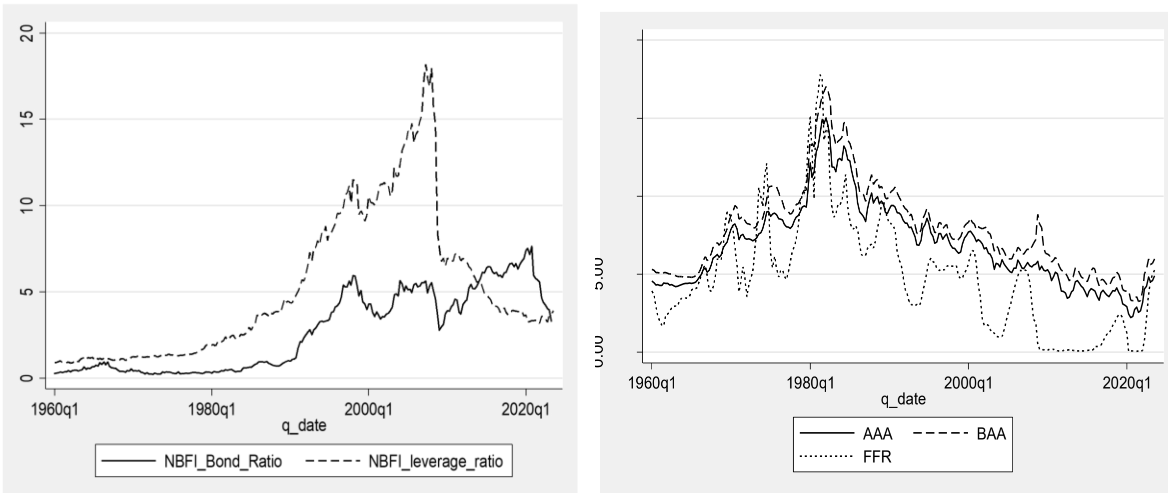
The structural transformation of the postwar US financial system is also manifested in the balance sheet composition of depository and non-bank financial intermediaries. During the post-1980 period, financial deregulation stimulated the presence of these institutions in corporate bond markets. As shown in figure 1, since the mid-1980s, non-bank financial intermediaries have substantially increased their holdings of corporate bonds. Before 1980, depository financial institutions were the dominant investors in corporate bond markets. However, since then, the composition of bond holders has rapidly shifted from traditional banks toward non-bank financial institutions, including hedge funds, finance companies, money market funds, and security brokers-dealers.

The left panel of figure 1 illustrates the trends of bond holdings by non-bank financial institutions (NBFIs) relative to those held by depository banks in corporate bond markets. The ratio fluctuated between 0.2 and 0.6 in the period from 1960 through 1983. Subsequently, there was a significant increase, jumping from 0.4 to 1 between 1983Q4 and 1989Q4, followed by a remarkable surge from 1 to 5.9 from 1989Q4 through 1998Q2. The ratio then maintained a high level through 2013. Since then, there was another rapid growth, increasing from 5.2 to 7.6 from 2013Q2 to 2020Q4. Also, NBFI's leverage ratios display similar patterns to the NBFI's corporate bond holdings. Note that, in the aftermath of the Global Financial Crisis (GFC), there has been a rapid and consistent contraction in NBFI's leverage ratio.

The pattern of the intermediaries' asset/capital leverage ratios reveals notable shifts over time. From 1960 to 1983, the leverage ratio of the depository banks increased from 12 to 18, and then declined approximately to 7 in 2007, followed by a modest increase thereafter. In contrast, looking at the NBFIs' pattern before 1980, it ranged between 8 and 10, but there was a remarkable increase after 1982, reaching a peak of 35 in 2008 before falling back to approximately 15 in the aftermath of the GFC.

Regarding the patterns of interest rates, as shown in the right panel of figure 1, corporate bond yields and the FFR closely tracked each other from 1960 through the early 1980s. During this period, any gaps between the two rates were relatively small and short-lived. However, beginning in the early 1980s, a noticeable and sustained divergence emerged. The gap between corporate bond yields and the FFR has become both wider and more persistent, indicating a structural shift in the relationship between the policy controlled- FFR and long-term market rates.

Figure 1. Trends of the Corporate Bond Holding Share by Nonbank Financial Institutions Relative to Depository Institutions, the Leverage Ratio, and Corporate Bond Interest Rate Spreads (Units: Ratio for the left panel and percentage for the right panel, 1960-2023)



Sources: *Authors' calculations using the data from the Federal Reserve Interest Rate Series, H.15 and Z.1*

Notes: *The left panel shows the ratio of corporate bonds held by US non-bank financial institutions (NBFIs) relative to depository institutions and the NBFIs' weighted average leverage ratio. NBFIs include hedge funds, finance companies, money market funds, security brokers-dealers, credit unions, and government-sponsored financial enterprises. The right panel shows trends of corporate bond spreads and the Federal Funds Rate from 1960 through 2023.*

From our visual observation, while the FFR continues to influence the overall trend of market rates, its ability to explain their level and movement has significantly diminished as spreads have become more rigid and wider over time. The FFR has continued to rise and fall cyclically, trending lower in the long run, but corporate bond yields have become more rigid and less responsive to these movements. This may suggest a declining interest rate pass-through and point to the growing role of other market-based and institutional forces in shaping long-term interest rates. These changing empirical patterns may be attributed to the profound transformation of the US financial system since the 1980s, including the rapid expansion of the financial intermediary sector, the growth and increased complexity of corporate bond markets, and asset securitization. Together, these developments have amplified the role of financial intermediaries and structural features of financial markets in determining long-term interest rates while reducing the direct influence of the Federal Reserve's policy rate.

3. Theoretical Framework

Neoclassical economics and post-Keynesian economics have different views on interest rates. Whereas the former postulates that real forces of productivity and thrift combine to determine a natural rate of interest, dictating both the pattern of loanable funds and the rate of interest in a way compatible with full employment long-period equilibrium, the latter is generally grounded in Keynes's theory of liquidity preference, which emphasizes the importance of fundamental uncertainty and the role of liquidity affecting the composition of stores of wealth. The original concept of Keynes's liquidity preference refers to a desire to hold a greater part of the wealth in more liquid forms under fundamental uncertainty. Changes in the state of liquidity preference, as Keynes (Keynes 1937: 216) notes, primarily affect the rate of interest. Chapter 13 of the *General Theory* (Keynes 1936) explains why people hold liquid assets. Keynes said that it is a result of a lack of confidence in the future change of the rate of interest, or of expectations about the direction of changes in interest rates. Since people do not know about future changes in interest rates, which will thus affect the value of their wealth in the future, they would require the liquidity premium to forgo liquidity. Uncertainty about future changes in interest rates could also induce people to speculate about the direction of interest rate changes, which could, in turn, result in investing in more liquid assets when they are betting on a rise in long-term interest rates. However, Keynes's *General Theory* did not fully address the role of banks' liquidity preference and their money creation process. In contrast, Keynes (1937) highlights the critical importance of financial institutions' behavior in determining interest rates. The main point that Keynes raises in response to Ohlin and Robertson's critiques is the role of the banking system (not due to a temporary shortage of ex-ante saving) for nonfinancial firms' investment finance since banks hold the key to a successful increase in the level of investment, but we do not know if their liquidity preferences would move in a desirable or undesirable manner. This means that some autonomous factors, such as market risk attitudes, institutional constraints, or available innovative practices, are the underlying elements shaping banks' liquidity preferences, which would, in turn, determine the direction of changes in interest rates. Market interest rates may (or may not) change after the increased financing of investment by financial institutions. However, if they do, this reflects the endogeneity of interest rates, which is driven by liquidity preferences of financial intermediaries and non-financial firms, rather than a saving constraint on the banks. Financial intermediaries and financial rentiers may strengthen their liquidity preferences in response to increased credit demand, or conversely, relax their liquidity concerns if higher expected profitability boosts aggregate demand or improves overall business sentiment (Mott 1985–6: 228). As a result, the direction of changes in interest rates remains indeterminate.

With this in mind, we further consider the shape of the financial intermediaries' liquidity preference schedule in the domain of the financial institutions' leverage ratio and long-term interest rates. In this regard, Mott (1985–6) emphasizes the value of incorporating Kalecki's (1937) principle of increasing risk into liquidity preference theory, providing a more objective foundation. In the reformulated framework, the balance sheet expansion of business is not boundless, primarily due to ① "the increasing danger to the wealth position of the ownership as more of its wealth became tied up in a particular form" and ② the lower degree of liquidity of such a position in case of a sudden need for funds. This principle of increasing risk can be extended to the behavior of the financial intermediaries (Screpanti 1997). As the size of their balance sheets grows, intermediaries perceive greater risks, which can be understood through Kalecki's concepts of wealth risk and liquidity risk. An expanded balance sheet exposes intermediaries to higher default risks, impairing their wealth position and prompting them to demand a higher risk premium. Simultaneously, financial intermediaries should take heed of higher liquidity risk when operating at higher leverage ratios. This implies that financial intermediaries should pay greater attention to the components of their balance sheets and the associated interest rates, particularly as they manage larger portfolios of assets and liabilities.

Together, the expansion of financial institutions' balance sheets would lead to an increase in perceptions of risk, resulting in a demand for greater compensation at higher leverage ratios. This is why we postulate a positive slope of the financial intermediaries' liquidity preference schedule, where a larger leverage ratio corresponds to a higher lending rate, reflecting the liquidity premium required by financial intermediaries.

Importantly, Chick (1992) investigates the evolution of the financial system and bank behavior, suggesting that, with the development of active liability management and securitization since the late-1970s, intermediaries' balance sheet growth has become less dependent on the asset composition of their balance sheets Instead, intermediaries have begun targeting asset expansion and funding it by issuing managed liabilities. Consistent with her argument, US financial intermediaries have increasingly sought gains from price differentials in trading assets and higher returns on equity, primarily by leveraging their balance sheets. In this context, we regard intermediaries' balance sheet leverage as the primary indicator of their liquidity preference. Accordingly, we expect the interest spread between long-term rates and the FFR to widen as intermediaries expand their balance sheets, possibly reflecting heightened systemic risk, especially when financially fragile institutions become dominant. This expectation is based on Minsky's view of financial system dynamics, in which "over periods of prolonged prosperity, the economy moves from financial relations that make for a stable system to those that make for an unstable system" (Minsky 1994: 157). Accordingly, rising leverage ratios among an increasing share of financial intermediaries diminish margins of safety, heightening systemic risk. This helps explain why the growth of intermediaries' leverage ratios is not boundless.

In short, our understanding of Keynes's liquidity preference theory is that the financial institutions' liquidity preference schedule is key to understanding economic growth and instability. This means that intermediaries can expand their balance sheets extensively without being significantly constrained by the composition of assets. However, the increasing perceived balance sheet risk in the financial system due to higher aggregate balance-sheet leverage is expected to have a positive impact on long-term market interest rates, thus widening the interest rate spread, although financial innovations may partially offset this positive effect. Building on this rationale for the existence of the liquidity preference schedule of financial intermediaries, let us provide a formal framework highlighting the determination of market interest rates. The following framework builds on the theory of liquidity preference, in which financial institutions choose the growth of their balance sheets to balance expected profitability against perceived risk. These liquidity preferences are, in turn, reflected in the interest rate spread. As financial intermediaries expand their balance sheets, expected profitability tends to increase, but so does their perceived balance sheet risk. To compensate for this higher risk, financial institutions require a greater expected interest rate spread between their assets and liabilities.

Maximizing the market value of financial intermediaries yields the following first-order condition, which represents financial intermediaries' liquidity preference schedule. The model is based on Yoon (2024) and Yoon and Neupane (2024) where the market interest rate is determined by the financial intermediaries' liquidity preference schedule and the short-term interest rate such as the FFR:

$$\rho = r \ + LP^{B}[l(r), Z(r)] \tag{1}$$

where ρ denotes the yield on the asset side of intermediaries' balance sheets (or bond yields), r is the interest rate on intermediaries' liabilities but we assume short-term money market interest rates are equivalent to the FFR, LP^B is the intermediaries' liquidity preference schedule, which is expressed as a function of the intermediaries' balance sheet leverage ratio (l) and the degree of financial innovation (Z).

In equation 1, growth in financial intermediaries' leverage ratios would adversely affect their liquidity preference. As leverage ratios expand, the liquidity premium will rise because financial intermediaries will have increasing concerns about their balance sheet risks. On the other hand, financial innovations will reduce intermediaries' liquidity preference, therefore affecting market rates negatively. We further assume that leverage ratios are negatively affected by changes in the FFR as we consider the impact of the Fed's interest rate policy on the size of intermediaries' balance sheets. We also suppose that the Fed's interest rate policy tends to encourage intermediaries to embrace financial innovations, so Z is a positive function of r. Let us express equation 1 graphically.

Figure 2. Interest Rates and Financial Intermediaries' Liquidity Preference Schedule.

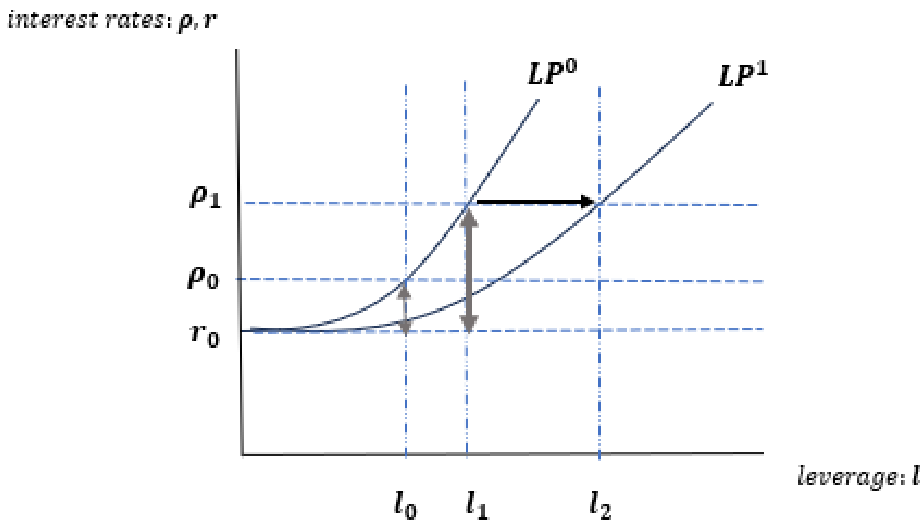


Figure 2 illustrates the liquidity preference schedule of financial intermediaries with the long-term rate on the vertical axis and intermediaries' leverage ratios on the horizontal axis. The intermediaries' liquidity preference schedule (LP^0) depicts a positive relationship between long-term rates and leverage ratios. The y-intercept of the LP^0 schedule corresponds to the FFR, indicating that when leverage is zero, the long-term rate equals the FFR. At a given FFR (r_0), a leverage ratio (l_0) will be associated with a long-term interest rate (ρ_0) on the liquidity preference schedule, LP^0.

Figure 2 also traces the effect of rising leverage on long-term rates. Suppose the leverage ratio increases from l_0 to l_1. Accordingly, we could expect a rise in the intermediaries' perceived balance sheet risk as a result of the higher leverage ratio. Holding both the FFR and the liquidity preference schedule constant, the resulting increase in the liquidity premium leads to a rise in the long-term rate from ρ^0 to ρ^1. We can then consider how financial intermediaries respond to this rise in perceived risk and long-term rates through financial innovation. In figure 2, such financial innovation is represented by a shift from the original liquidity preference schedule (LP^0) to a flatter intermediaries' liquidity preference schedule (LP^1), indicating that intermediaries are now willing to engage in greater leverage at the same liquidity premium. If leverage expansion initially pushed bond yields up to ρ^1, the emergence of financial innovations, expressed by a flatter liquidity preference schedule, would allow further leverage expansion without additional upward pressure on long-term rates. This suggests that higher leverage may not automatically translate into wider interest rate spreads.

Note that both the direction and magnitude of changes in the interest rate spread depend on the shape of the intermediaries' liquidity preference schedule. The combined effects of increased leverage and financial innovations can push spreads in either direction. The scenario illustrated in figure 2 depicts a case where leverage expansion has a stronger aggregate effect on long-term rates than the offsetting influence of financial innovation. As a result, the new interest rate spread reflects an increase in the markup of long-term rates over the FFR.

Before proceeding with our empirical analysis, we briefly discuss the expected signs and magnitudes of the coefficients that capture both the interest rate pass-through effect and the key determinants of the markup of long-term rates over the FFR, such as intermediaries' leverage ratios and financial innovation (related mathematical derivations are available upon request).

First, we anticipate a significantly reduced effectiveness of interest rate transmission from the FFR to market rates in the post-1980 period, reflecting substantial changes in the US financial landscape. A pass-through coefficient significantly less than one is likely to be observed due to the increased influence of financial intermediaries. This outcome is based on two possible channels: (1) when financial innovations tend to emerge in response to a rise in the FFR, eventually affecting long-term rates negatively; and (2) when higher FFR negatively impacts leverage ratios, thereby reducing long-term rates.

Second, regarding the markups of long-term rates over the FFR, as a first mechanism, we expect that higher leverage ratios will be associated with a larger markup, which increases long-term rates for a given level of the FFR and financial innovation. Furthermore, for a given level of the FFR and leverage ratios, the effect of financial innovation on long-term rates is expected to be negative. Financial innovations are likely to occur through the expansion of NBFIs, which tend to have lower risk aversion. Considering both factors, the direction of change in the markups of long-term rates over the FFR will be ambiguous, as it depends on the relative magnitudes of these opposing effects.

Overall, our empirical analysis of interest rates dynamics that follows in the next section centers on assessing the effectiveness of monetary policy and the importance of the time-varying component of markups—which is represented by intermediaries' liquidity preference.

4. Empirical Analysis

Our empirical analysis examines corporate bond yields in relation to the FFR and financial intermediaries' leverage ratios over the sample period from 1983 to 2023, using quarterly data. Reflecting our expectations in section 3, our empirical model decomposes the markups into two time-varying components and a constant component to explain the determination of market interest rates as follows:

$$i_{it}^{market} = \mu_i + \gamma_{i1} l_{1t} + \gamma_{i2} l_{2t} + \beta_i\, FFR_t + u_{it} \tag{2}$$

where i_{it}^{market} is long-term rates, μ_i is the constant part of the markups, l_{1t} is the depository intermediaries' leverage ratio, l_{2t} is the NBFI's leverage ratio, γ_{i1} and γ_{i2} are coefficients on intermediaries' leverage ratios and β_i is the pass-through coefficient. For the recent four decades, we expect strong and significant γ_{i1} and γ_{i2}, weak β_i, and reduced importance of the invariant part of the constant term μ_i.

We follow the standard cointegration analysis procedure, beginning with unit root tests for all interest rate series and intermediaries' leverage ratios. The Augmented Dickey-Fuller and Phillips-Perron tests indicate that all interest rates and the leverage ratio of NBFIs possess a unit root and follow an I(1) process. In contrast, the leverage ratio of depository intermediaries rejects the presence of a unit root in levels, confirming it as I(0) at the 5 percent significance level. Our results of the unit root tests are available upon request. Based on these results, we employ the ARDL bounds testing approach for cointegration, incorporating corporate bond yields, the leverage ratios of depository intermediaries and NBFIs, and the FFR. The ARDL framework is particularly appropriate in this context, as it accommodates a mix of variables that are I(0) or I(1), allowing us to include the leverage ratio of depository intermediaries that follows I(0) without exclusion.

Next, we conduct the autoregressive distributed lag (ARDL) bound cointegration tests for corporate bond yields, the depository intermediaries' leverage ratio (weighted by asset share), the NBFIs' leverage ratio (weighted by asset share), and FFR using the following model:

$$\begin{aligned}\Delta i_{it}^{market} = c_i + \alpha_i\, [i_{i\,t-1}^{market} - \mu_i - \gamma_{i1} l_{1t} - \gamma_{i2} l_{2t} - \beta_i\, FFR_t] + \textstyle\sum_{j=1}^{n} \tau_i\, \Delta i_{i\,t-j}^{market} \\ + \textstyle\sum_{j=1}^{n} \theta_{1\,i}\, \Delta FFR_{t-j} + \sum_{j=1}^{n} \delta_{1i}\, \Delta l_{1t-j} + \sum_{j=1}^{n} \delta_{2i}\, \Delta l_{2\,t-j} + \varepsilon_{it}\end{aligned} \tag{3}$$

where $\Delta\, i_{it}^{market}$ represents changes in long-term rates, the coefficient α_i captures the speed of adjustment toward long-run equilibrium, the expression in brackets denotes the long-run cointegration relationship, which includes the constant part of the markups, the depository intermediaries' leverage ratio, and the NBFI's leverage ratio. The remaining terms account for short-run dynamics among variables.

We now examine how the FFR has influenced long-term interest rates and how financial intermediaries' leverage ratios have contributed to changes in markups, thereby affecting long-term yields.

Table 1. US Financial Intermediaries' Liquidity Preferences and Interest Rates (1983Q1-2023Q3)

	(1)	(2)
VARIABLES	Aaa	Baa
Cointegration Relation		
FFR	0.430**	0.416**
	(0.182)	(0.462)
Depository leverage ratio	0.540**	0.618**
	(0.268)	(0.246)
NBFIs' leverage ratio	0.207*	0.254**
	(0.115)	(0.108)
Constant μ_i	-0.069 (0.215)	-0.052 (0.233)
Long-run adjustment	-0.106***	-0.123***
	(0.0246)	(0.025)
Lag length structure	2,5,0,3	2,5,0,6
Observations	163	163
Adj. R-squared	0.349	0.422
ARDL bounds test (F-stat)	4.783**	6.072***
Heteroskedasticity (chi2)	126.2	153.7
Parameter stability(cusum)	0.499	0.529

Source: *Federal Reserve Bank Z.1 and H.15.*
Notes: *Leverage ratios are the asset/capital ratio. The lag length structure is chosen according to the SIC; and ARDL bounds test results confirm the presence of cointegration. We observe no heteroscedasticity and no instability in the residuals for the estimated model. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 1 presents the results of the cointegration tests between corporate bond yields, financial intermediaries' leverage ratios, and the FFR. First, the cointegration coefficients of the FFR are 0.430 and 0.416 for Aaa and Baa, respectively. Second, the results show that corporate bond yields are significantly associated with financial intermediaries' leverage ratios. The estimated coefficients on depository banks' leverage ratios are 0.540 and 0.618 for Aaa and Baa, respectively, while the coefficients on the NBFIs' leverage ratios are 0.207 for Aaa and 0.254 for Baa. Third, the estimated adjustment speed coefficients are statistically significant. Lastly, the estimated constant terms are close to zero and are statistically insignificant, indicating the marginal importance of the invariant part of markups. Overall, our findings suggest that, in recent decades, interest rate spreads have been significantly driven by financial intermediaries' balance sheet leverage, which has become a key determinant of long-term rates.

Regarding the magnitude of the coefficients for the depository leverage ratio and the NBFIs' leverage ratio, note that the coefficient on the former ratio has a higher magnitude than that of the latter ratio, indicating that a unit change of the depository intermediaries' leverage ratio has a stronger impact on long-term rates relative to that of NBFIs. This result can be attributed to banks being more concerned about balance sheet risk as leverage ratios rise, given the stringent regulatory environment for depository banks. Therefore, a unit change in that ratio could have a stronger effect on long-term rates. In contrast, NBFIs exhibit lower risk aversion due to their general behaviour and the weaker regulatory oversight they face, thereby a unit change in the leverage ratio is associated with a lower magnitude change. Furthermore, NBFIs are the institutions that issue and trade innovative assets related to corporate debts by employing strategies to alleviate constraints in their balance sheet structure in order to further increase their leverage ratios. Considering the influences of financial innovations and risk appetite, the effect of a unit change of NBFIs' leverage ratio on long-term rates could be smaller than that of depository intermediaries.

That said, a comparison of average leverage ratios and their standard deviations shows that NBFIs average 19.15 with a standard deviation of 5.21, while depository institutions average 10.50 with a standard deviation of 2.96. This suggests that fluctuations in NBFIs' leverage may, in aggregate, exert a more pronounced effect on long-term rates than comparable changes in the leverage of depository intermediaries.

Taken together, our findings indicate that financial intermediaries' liquidity preferences have played an increasingly important role in determining interest rate spreads in the context of a deregulated US financial system.

5. Concluding Remarks

Given the profound changes in the US financial system since the 1980s, what have been their impacts on long-term interest rates and interest rate spreads? To address this question, we drew on the insights of John Maynard Keynes (1937), as well as the subsequent contributions of Hyman Minsky, Tracy Mott and Victoria Chick, to develop a theoretical framework grounded in structural change and financial innovation.

We then implemented empirical exercises using data spanning from 1983 through 2023. Our findings suggest that the substantial expansion and transformation of the US financial system over the past four decades have been closely linked to shifts in the behaviour of long-term interest rates and the widening of interest rate spreads. The empirical patterns of corporate bond yields are explained by a combination of the FFR and the leverage ratios of financial intermediaries in the long run. However, the pass-through from the FFR to long-term rates was relatively weak. The increased importance of intermediaries' leverage ratios corresponds to wider spreads between long-term rates and the FFR. Our results may suggest that intermediaries' activities were able to insulate long-term rates from short-term policy changes.

These findings carry important implications for monetary policy and regulatory reform. First, they underscore the need to reconsider the view of interest rate exogeneity, common in much of the literature both in mainstream and post-Keynesian economics, as the exogeneity does not hold in a financial system where long-term market interest rates are increasingly shaped by the evolving structure and behaviour of financial intermediaries. In particular, our evidence shows that the FFR is not a sufficient instrument for guiding changes in market interest rates due to the existence of intermediaries' leverage-driven markups. Therefore, effective policy must take into account the institutional dynamics of the financial system. Restoring the effectiveness of the interest rate channel may require policies that address both the structure of financial intermediation and the mechanisms through which intermediaries' liquidity preferences shape long-term rates.

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PART II

POLITICAL ECONOMY OF INEQUALITY AND DEVELOPMENT

RETHINKING INEQUALITY IN THE EAST ASIAN DEVELOPMENT MODEL: A MARXIST CRITIQUE OF MAINSTREAM THEORIES

Jiang Haozheng[14]

Abstract

This study examines why mainstream theories of inequality are unable to adequately explain the persistence and deepening of wealth disparities in East Asian developmental states, with a particular focus on China. Conventional liberal frameworks, such as power resources, labor dualization, and insider–outsider, emphasize labor politics and institutions but provide only partial truths, systematically understating state-driven capital accumulation and labor exploitation. Empirical evidence (e.g., WID: China's top 10% now capture >41% of income, while the bottom 50% hold <15%) highlights rising concentration under state-led growth. This paradox motivates a Marxist analysis positing that inequality is rooted in the logic of capitalist accumulation intensified by state intervention.

Using a Marxist political economy approach, the study undertakes a critical reconstruction of mainstream models of inequality. It compares Power Resource, Labor Market Dualization, and Insider–Outsider theories with Marxian concepts (surplus value, alienation, state capitalism) to reassess their explanatory power. The analysis draws on secondary data, notably World Inequality Database statistics and empirical studies of China's labor markets and capital accumulation, to ground the analysis.

Findings show that liberal accounts overlook structural exploitation. In China, the state functions as a "collective capitalist," organizing accumulation. Surplus is extracted through labor repression, land expropriation (converting rural land into urban capital), fiscal subsidies, and the expansion of state-owned enterprises. Surplus extraction (and worker alienation) thus drives inequality: it is a structural outcome of accumulation, not merely institutional failure. For example, rural-to-urban dispossession is systemic: rural labor is exploited, and land is expropriated without compensation, fueling urban capital accumulation.

By foregrounding class and surplus, this study underscores the enduring relevance of structural political economy in a turbulent multipolar world. It demonstrates that explaining inequality in state-capitalist regimes requires moving beyond functionalist or institutionalist models. The Marxist critique bridges the gap between political economy and economics by highlighting power relations and class dynamics as central to contemporary East Asian inequality.

Keywords: East Asian model, inequality, Marxism, power resources, state capitalism

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1. Introduction: from “miracle” to paradox

East Asia has been globally recognized for its rapid economic transformation in recent decades. Japan, South Korea, Taiwan, and, most notably, China have achieved rapid industrialization, integration into global value chains, and poverty alleviation on a massive scale. This phenomenon, often referred to as the "East Asian Miracle," has been widely praised by international institutions such as the World Bank as an exemplary development path. However, a closer inspection reveals a more complex reality: while aggregate economic growth has surged, wealth has increasingly concentrated among capital-holding elites, and wealth inequality has expanded across urban-rural, sectoral, and generational lines.

According to the World Inequality Database (2025), China's top 10% income earners captured over 41% of national income, while the bottom 50% share stagnated below 15%. South Korea and Japan exhibit similar tendencies, albeit with different institutional arrangements. These outcomes challenge the early assumptions that East Asian development, characterized by inclusive growth and decisive state intervention, inherently contained redistributive features. Instead, they suggest that beneath the statist model lies a deeply capitalist accumulation regime that reproduces the contradictions of wealth inequality seen elsewhere in the world.

2. Literature and Research Gaps

Numerous scholars have attempted to explain East Asia's wealth inequality through liberal political economy frameworks. Power Resource Theory emphasizes labor's collective bargaining power; Labor Market Dualization Theory highlights institutional segmentation; Insider–Outsider Theory explores employment protection asymmetries. While these perspectives capture partial truths, they tend to understate the systemic role of capital accumulation, labor exploitation, and the state's active function as a capitalist agent.

Moreover, the dominance of "developmental state" literature (Johnson 1982; Amsden 1992) often assumes a functionalist interpretation of the East Asian model, seeing the state as a neutral, welfare-enhancing force. It overlooks how state-led accumulation can reinforce class domination and deepen inequality, particularly when surplus value is extracted from informalized, precarious, and migrant laborers at scale.

3. Contribution and theoretical position of this study

This paper argues that a Marxist theoretical framework—especially the concepts of surplus value, labor alienation, and state capitalism—offers a more coherent explanation for the persistence and deepening of inequality in East Asian developmental states. It further asserts that inequality is not an institutional failure or market imperfection but a structural necessity of capitalist accumulation, intensified under the political economy of state capitalism.

By conducting a critical review of mainstream theories and reconstructing inequality analysis through Marxist lenses, this study contributes to three central debates:

- It challenges the universalist assumptions of mainstream political economy in interpreting East Asian trajectories.
- It integrates labor process theory with macro-institutional analysis, demonstrating how surplus value extraction is structurally embedded.

- It redefines the state's role as not merely a redistributor but an active agent of class reproduction.

4. Paper structure

The paper proceeds as follows. Section 2 outlines the key tenets of three mainstream theories of inequality and discusses their limitations in explaining East Asia's structural inequality. Section 3 reconstructs the theoretical foundation of Marxist political economy and its relevance to the East Asian model. Section 4 explores the Chinese case as an empirical anchor for understanding state-capitalist inequality dynamics. Section 5 offers a reflection on potential critiques of the Marxist approach and concludes by discussing the implications for global development theory.

Part II: Mainstream Inequality Theories and Their Limits in the East Asian Context

II.1. Power Resource Theory (PRT): Collective Agency Without Structural Class Analysis

Power Resource Theory (PRT), initially developed by Walter Korpi and other scholars of social democracy, is grounded in the notion that power distribution between labor and capital determines the degree of income and wealth equality in capitalist societies. The theory holds that labor movements, especially when institutionalized through strong unions and left-leaning political parties, can leverage the state to implement redistributive policies, thereby mitigating capitalist inequality.

PRT has made significant contributions to understanding why some capitalist democracies, particularly the Nordic countries, have achieved more egalitarian outcomes than others. Empirical studies have demonstrated that high union density, centralized wage bargaining, and social-democratic regimes correlate with reduced income inequality and greater social mobility. The theory foregrounds political struggle and class conflict as contingent and mutable, a valuable corrective to more deterministic economic models.

However, when applied to the East Asian context, the explanatory power of PRT diminishes considerably. The core assumption that labor can act as a politically autonomous force—negotiating with capital on a relatively equal institutional footing—does not hold in authoritarian or developmental states such as China and, to varying degrees, South Korea and Japan. In China, for instance, the All-China Federation of Trade Unions (ACFTU) is a state-controlled entity that functions more as an instrument of social control than a vehicle for labor empowerment. Independent unions are either illegal or severely restricted, and collective bargaining remains nominal in most sectors.

Moreover, PRT assumes a liberal-democratic institutional architecture, where electoral competition and civil society mediate class conflict. However, in East Asia, particularly in China's state-capitalist model, the state operates not as a neutral mediator but as a direct agent of capital accumulation. Rather than responding to labor demands, the state frequently suppresses them, whether through co-optation, surveillance, or outright repression.

In short, while PRT rightly highlights the political dimension of inequality, it lacks the tools to analyze how power is institutionally monopolized by capital and the state and how labor is structurally subordinated not only through weak organization but through exclusion from the very institutions of power that PRT presumes.

II.2. Labor Market Dualization Theory: Market Segmentation without Capital Accumulation

Labor Market Dualization Theory (LMDT) originates from the empirical observation that modern labor markets tend to divide into "primary" and "secondary" sectors. The former features high job security, better wages, and institutional protections, while the latter is characterized by precarity, informality, and low wages. This theory has been influential in explaining the rise of employment inequality in advanced capitalist economies, particularly in Europe and Japan.

In its defense, LMDT draws attention to the institutional foundations of inequality within capitalist labor markets, reminding us that not all labor is equally situated, even within the working class. It has also helped policy analysts understand the limitations of "inclusive growth" strategies that overlook the proliferation of insecure employment.

However, LMDT has severe limitations when applied to the East Asian development model. First, it abstracts from the underlying logic of capitalist accumulation. While it describes labor market outcomes, it does not explain why segmentation persists in the long run or whose interests it serves. From a Marxist standpoint, labor segmentation is not a policy failure or institutional imperfection—it is a necessary mechanism of capital to discipline labor, maintain a reserve army, and extract surplus value under differentiated conditions.

Second, in China, segmentation is not merely a labor market phenomenon—it is a state-engineered, systemic division embedded in the urban-rural hukou system, land ownership structures, and migration controls. Migrant workers are excluded from urban welfare, denied residency, and treated as disposable labor inputs. These arrangements reflect not a dual market but a deliberate class stratification under state-managed accumulation.

Third, LMDT cannot explain why capital gains and property ownership, key drivers of inequality in East Asia, are concentrated in elite sectors far beyond the labor market. The explosive growth of inequality in China since the 1990s has occurred alongside the massive privatization of state assets, the commodification of housing, and financialization—all of which fall outside the explanatory domain of labor market theory.

Hence, while LMDT offers useful descriptive tools, its theoretical blind spots render it insufficient for capturing the systemic reproduction of inequality under capitalist and state-capitalist regimes. Marxist political economy, by contrast, places class, capital, and labor exploitation at the center of analysis.

II.3. Insider–Outsider Theory: Micro-Incentives in a Macro-Contradiction

Insider–Outsider Theory (IOT), developed by Assar Lindbeck and Dennis Snower, centers on the idea that "insiders" with stable jobs and institutional protections resist reforms that would benefit "outsiders," such as the unemployed or precariously employed. It has been deployed to explain labor market rigidity, unemployment persistence, and inequality in advanced economies.

The theory's insight lies in highlighting micro-level institutional incentives and exclusionary coalitions that maintain inequality. It is particularly relevant in contexts where unionization protects insiders while excluding others—a pattern observed in European labor markets.

However, IOT has limited purchases in East Asia, where labor protections are generally weak, and insiders are not politically dominant. In China, there is no significant insider class with sufficient autonomy to shape labor market policy. Instead, labor protections are fragmented, enforcement is weak, and employment stability is declining across sectors.

More importantly, IOT treats labor as the principal actor in maintaining inequality, obscuring the role of capitalist class strategies and state institutional design. In East Asia, inequality is not primarily sustained by worker exclusion but by capital concentration, asset inflation, and fiscal policies that favor accumulation over redistribution.

Furthermore, IOT focuses exclusively on labor market dynamics and is silent on non-labor forms of inequality. In contemporary East Asia, the primary drivers of inequality are wages and ownership of capital assets, including real estate, stocks, and state-backed enterprises. These forms of wealth are inaccessible to most workers, whether insiders or outsiders and are tied to political power and elite networks.

While IOT adds a behavioral layer to labor market analysis, it lacks the analytical scope to capture the structural foundations of class inequality in East Asia's hybrid political economies. A Marxist approach, by contrast, situates labor exclusion within broader processes of capital accumulation and state-class alliances.

II.4. Synthesis: From Institutionalism to Structural Political Economy

These three mainstream theories share a common limitation: they analyze inequality through the prism of institutional variation rather than through the logic of capital accumulation and class exploitation. While their insights are not without merit, they do not explain how wealth inequality persists and deepens despite rising productivity, state intervention, and institutional reform.

A Marxist framework does not discard the insights of these theories but subsumes them within a structural account of capitalist development. It emphasizes that institutions and labor markets are not neutral arenas but are constructed and reconstructed to serve capital accumulation. From this perspective, the question is whether institutions are inclusive or exclusive, but how do accumulation regimes condition and constrain all forms of distributive politics?

This perspective is particularly urgent for analyzing East Asia, where inequality is not a deviation but a product of state-facilitated, capital-driven modernization grounded in surplus extraction and reinforced through institutional stratification.

Part III： Marxist Political Economy and the Structural Logic of Inequality in East Asia

III.1. Surplus Value and the Hidden Architecture of Accumulation

At the heart of Marxist political economy lies the concept of **surplus value**—the unpaid portion of labor appropriated by capital in the production process. For Marx, this was not merely an ethical concern but a structural feature of capitalist accumulation. The capitalist does not extract profit through "fair exchange" but through the systematic exploitation of labor, which produces value in excess of their wage. It is this surplus that fuels capital expansion, reinvestment, and concentration.

In the East Asian context, the logic of surplus value is acutely visible in high-output, low-wage production regimes. China's rapid rise as the "world's factory" was predicated on suppressing the cost of labor while maximizing productivity through long hours, weak labor protections, and internal migration controls. The result has been a form of hyper-extraction—a surplus value regime embedded within global value chains in which domestic capitalists and transnational firms disproportionately appropriate surplus.

David Harvey (2003) has significantly extended this analysis through his "accumulation by dispossession" theory. According to Harvey, capital no longer depends solely on extracting surplus from wage labor; it increasingly relies on primitive accumulation-like processes, such as privatization, financialization, commodification of public goods, and displacement. In East Asia, such dynamics are observable:

- In China, massive land requisition by local governments for real estate development dispossesses rural communities for urban capital gain.
- In South Korea, chaebol-linked financial institutions speculatively inflate asset prices, concentrating wealth in rentier hands.
- The post-bubble stagnation period in Japan shifted toward financial speculation and labor destabilization.

These processes point to a structural transformation of capitalism, where inequality stems from labor exploitation and the systemic redistribution of public assets and commons into private capital. Marx's analysis remains relevant but must be complemented by contemporary frameworks like Harvey's to account for the variegated forms of surplus extraction under late capitalism.

III.2. Labor Alienation and Social Disempowerment in the Developmental State

In addition to surplus value, Marx's early writings on **labor alienation** offer profound insights into the lived experience of inequality. In the *Economic and Philosophic Manuscripts of 1844*, Marx identifies four dimensions of alienation: from the product, the process, other people, and one's essence.

These dimensions are strikingly manifest in the East Asian developmental model:

- **Alienation from the product**: Workers in export-oriented economies have no ownership or connection to the goods they produce, most of which are destined for foreign markets or elites.
- **Alienation from the process**: Labor discipline in East Asian firms (notably in Japan's "lifetime employment" or China's "996" work culture) imposes extreme work intensities and reduces worker autonomy.
- **Alienation from others**: Labor fragmentation via subcontracting, platform economies, and intra-class competition weakens solidarity.
- **Alienation from self**: Individuals are socialized into roles of obedience and productivity, often at the cost of emotional well-being, civic agency, or creative expression.

This alienation has serious social consequences: rising suicide rates among overworked professionals in Japan and South Korea, psychological burnout among Chinese tech workers, and increasing mental health issues across precarious urban youth. Marx's alienation theory thus enables us to see inequality not simply in material terms but in the erosion of human dignity, autonomy, and collective power.

Critics have argued that alienation is philosophically vague or lacks empirical precision. However, in East Asia, the empirical visibility of alienation is perhaps stronger than in any post-industrial context, reflected in cultural disillusionment, political disengagement, and the spread of phenomena such as "躺平" (lying flat) or the "quiet quitting" discourse.

III.3. The Role of the State: From Redistributor to Capitalist-in-Chief

One of the central contentions of this paper is that East Asian inequality cannot be understood without accounting for the active role of the state in capital accumulation. Far from being a neutral referee, the developmental state has functioned as a collective capitalist, organizing accumulation for elite interests while managing political consent.

Lenin's concept of state capitalism, which was initially applied to late-imperial Russia, has renewed relevance in understanding China's political economy. Contemporary theorists such as Ho-fung Hung (2015), Isabella Weber (2021), and William Hurst (2022) emphasize that China's state apparatus controls key sectors (finance, energy, infrastructure) and strategically deploys state-owned enterprises (SOEs) to absorb surplus labor, stabilize markets, and project geopolitical power.

Nevertheless, the profits of SOEs are rarely redistributed toward labor. Instead, they are reinvested, retained by local governments, or used to fund politically connected projects. The mechanism of surplus appropriation remains capitalist, even if the formal ownership is public. Moreover, SOEs often reproduce labor exploitation internally—through tiered wage systems, contract labor outsourcing, and strict labor control regimes.

Piketty (2014), while not a Marxist, reinforces a key insight: wealth inequality is sustained not merely by labor income differentials but by capital ownership and return rates. His formulation, $r > g$ (the rate of return on capital exceeds the economic growth rate), applies acutely to East Asia. In China, for instance, real estate, financial capital, and elite networks yield exponential returns, far exceeding wage growth or GDP expansion. State capitalism does not eliminate this tendency; it often facilitates it through selective marketization and politically guided capital accumulation.

It confirms the Marxist claim that inequality is not a contingent outcome of policy failure but a tendency internal to capital accumulation, even when mediated by state institutions. The state may sometimes mitigate inequality, but under neoliberal globalization and competitive nationalism, it often reverts to its role as an agent of class reproduction.

III.4. Critiques and Extensions of the Marxist Approach

It is necessary to acknowledge critiques of the Marxist framework. Scholars like Erik Olin Wright (2020) and Nancy Fraser (2016) have pushed for "reconstructive Marxism," incorporating gender, race, and ecological concerns into the analysis of capitalism. Others, such as Wolfgang Streeck (2017), argue that capitalism may now enter a disintegration phase rather than coherent reproduction.

Critics also note that Marxist structuralism can underplay agency and overdetermine outcomes. In East Asia, some redistribution has occurred (e.g., rural pensions, minimum wage laws, housing subsidies). Furthermore, cultural and ideological factors—such as Confucianism, developmental nationalism, or state legitimacy—complicate simple class narratives.

This paper does not deny these dynamics. Instead, it suggests that Marxist analysis is a foundational but not exclusive framework. It must be combined with insights from historical institutionalism, world-systems theory, and critical development studies.

However, at its core, Marxism remains unparalleled in its capacity to link capital, labor, and the state within a unified logic of accumulation, crisis, and inequality.

III.5. Synthesis: Why Marx Still Matters in East Asia

The East Asian development model—once heralded as a third way between neoliberalism and socialism—has produced growth without genuine equality. The exploitation of labor, the commodification of land and housing, and the financialization of everyday life suggest that capitalism, not Confucianism or culture, lies at the heart of regional inequality.

Marxist political economy, enriched by Harvey, Piketty, and others, allows us to uncover the systemic and globalized roots of East Asian inequality. It reminds us that behind every statistical improvement lies a class project, and behind every growth policy lies a question of who pays and who profits.

Part IV: State Capitalism and Structural Inequality in Contemporary China

IV.1. From Socialist Market Economy to Capitalist Accumulation Regime

China's economic transformation since 1978 has often been framed as a sui generis process: a hybrid of socialist governance and market logic, producing what is officially termed the "socialist market economy." While this formulation suggests an ideological balance between state control and capitalist dynamism, a Marxist political economy perspective reveals a more grounded reality: China's political-economic trajectory has been increasingly dominated by the imperatives of capital accumulation, with state institutions serving as principal agents rather than regulators of this process.

In the early phases of reform, Deng Xiaoping's maxim "让一部分人先富起来" ("let some people get rich first") marked a pragmatic shift away from egalitarian ideals toward accumulation-first developmentalism. The reform agenda promoted privatization, labor flexibilization, and rural-urban migration, all under the banner of modernization. While these strategies achieved spectacular growth, they also laid the groundwork for a profound restructuring of class relations, marked by rising inequality and labor destabilization.

Crucially, the state did not retreat under neoliberalism; instead, it reconstituted itself as a coordinator and facilitator of accumulation. Through the expansion of state-owned enterprises (SOEs), the establishment of fiscal incentives for capital-intensive sectors, and the control of land, finance, and energy, the Chinese state operates as a de facto "capitalist-in-chief." A distinct form of state capitalism emerged—neither market liberal nor command socialist—but structurally dependent on the logic of capital valorization and surplus value extraction.

IV.2. Capital Accumulation and the Political Economy of Labor Exploitation

Labor exploitation in China is neither incidental nor residual. It is the structural core of the country's developmental success. From the rise of the Pearl River Delta as a manufacturing hub to the emergence of the platform economy, labor has been disciplined, devalued, and fragmented to serve capital accumulation.

The surplus value regime operates through several institutional mechanisms:

- **The hukou system serves as a means of internal population control**, relegating hundreds of millions of rural migrants to “second-class citizenship” in urban centers. Denied access to education, healthcare, and housing subsidies, these workers perform high-intensity labor while excluded from redistributive entitlements.
- **The informalization of labor contracts**, especially in manufacturing and construction, allows employers to evade wages, social insurance, and job security obligations. Even SOEs increasingly rely on subcontracted and "dispatch" workers to cut costs.
- **The platform economy**, particularly in food delivery, ride-hailing, and e-commerce logistics, demonstrates the emergence of algorithmic exploitation. Workers are subject to opaque digital management systems, punitive rating schemes, and precarious, piece-rate compensation—all while their labor is commodified, surveilled, and appropriated in real-time.

Empirical studies have shown that labor productivity as a share of GDP in China declined significantly between 1978 and 2007 (Bai & Qian, 2010) despite rising productivity. It violates the “Kaldor fact” (Kaldor, 1961), which describes the relative stability of labor income shares over time. On the other hand, the labor income share showed an upward trend after 2008 (Liu, Mao, & Yao, 2018). This trend of labor income share changes, first down and then up, is related to the specific adjustment of the country's income distribution structure in different periods. In general, this adjustment has been more capital-oriented, although more attention has been paid to equity issues in the last 15 years.

From a Marxist perspective, this shifting pattern in labor's income share reflects not a temporary policy adjustment but the operation of a deeper structural mechanism—one in which the rising organic composition of capital intensifies the subordination of labor, enabling accumulation to proceed through both direct exploitation and the institutional reconfiguration of income distribution in favor of capital.

IV.3. Alienated Labor and the Social Psychology of Inequality

China’s rapid economic transformation has not only exacerbated material inequality but has also produced widespread **social alienation**. Drawing on Marx’s alienation theory, we can identify multiple domains in which Chinese labor has been separated from the conditions of meaningful work and social recognition.

- In manufacturing, workers on the assembly line, especially in electronics, textiles, and export sectors, perform repetitive, mechanized labor under strict time discipline. The infamous “Foxconn suicides” of 2010–2012 illustrate the psychological toll of industrial alienation.
- In the tech sector, the “996 work culture” (9 a.m. to 9 p.m., 6 days a week) has become a normalized expectation, with workers suffering from burnout, anxiety, and diminished work-life autonomy.
- Workers face constant surveillance by apps and platforms, algorithmic exploitation, and erratic income patterns in the service and platform sectors. They are at once hyper-visible as service agents and socially invisible as economic subjects.

These alienation processes reflect what David Harvey calls “the intensification of time-space compression,” where labor is made to stretch across time and space to serve capital's insatiable demand for valorization. Nevertheless, the social toll is mounting: the rise of “

躺平” (lying flat), “内卷” (involution), and anti-work discourse among youth signals a societal crisis of meaning under extractive capitalism.

IV.4. State Ownership and the Illusion of Socialist Equality

Much attention has been paid to the role of SOEs as anchors of “socialist characteristics” within the Chinese economy. However, a closer analysis reveals that state ownership does not equate to egalitarian outcomes, especially when surplus is not redistributed but reinvested into capital projects or financial instruments.

SOEs maintain internal hierarchies that mirror private firms: managerial elites receive high salaries, stock options, and performance-based bonuses, while front-line workers are often hired on fixed-term contracts with limited benefits. Furthermore, SOEs are increasingly active in real estate speculation, global investment, and joint ventures, blurring the line between public interest and capital accumulation.

Scholars such as Hung (2015) and Naughton (2021) have argued that China’s SOEs function less as public institutions and more as vehicles of elite reproduction and geopolitical strategy. Their “socialist” status masks a more fundamental reality: that control over capital, not its nominal ownership, determines distributive outcomes.

IV.5. The Urban-Rural Divide as a Mechanism of Spatial Inequality

The persistence of China’s urban-rural divide is another testament to the structural reproduction of inequality. Despite rural revitalization campaigns and poverty alleviation narratives, the gap between urban and rural incomes remains over 2.5:1 (NBS, 2022). This spatial disparity is not simply a developmental lag but a functional requirement of the accumulation model.

Rural areas supply cheap labor, absorb industrial displacement, and serve as low-cost zones for waste, pollution, and marginal capital. Local governments, facing fiscal pressure due to tax decentralization, rely on land expropriation from rural collectives to fuel urban real estate booms. This accumulation process by dispossession transforms rural land into urban capital, often without adequate compensation or resettlement.

Moreover, urban elites gain preferential access to housing, education, healthcare, and social mobility, reinforcing intergenerational transmission of advantage. What emerges is not a dual economy in transition but a spatialized class system rooted in Marxist geographies of uneven development.

IV.6. The Contradiction of “Common Prosperity” in a Capitalist State

In recent years, the Chinese government has reintroduced the slogan of “common prosperity” (共同富裕), ostensibly to reduce inequality and promote social harmony. While this signals a rhetorical return to socialist ideals, the policy remains trapped within the structural limits of a capital-dominant system.

Redistributive measures—such as minimum wage hikes, rural pensions, or charitable appeals to billionaires—cannot reverse the deep structures of accumulation. Tax reforms remain incremental, wealth taxes are politically sensitive, and state-led investment continues to prioritize growth over equality.

As this paper has argued, inequality in China is not an unintended consequence but a structural expression of state-facilitated capitalist development. Without transforming ownership, labor relations, and democratic governance, common prosperity may become another ideological veil for the continued concentration of capital.

Part V: Rethinking the Marxist Critique—Engaging Debates, Addressing Limitations

V.1. Is Marxist Analysis Too Deterministic?

One of the most enduring critiques of Marxist political economy is that it suffers from economic determinism, that is, the tendency to reduce all social, political, and institutional dynamics to the inexorable logic of capital. Critics argue that this flattens the complexity of modern societies, ignores cultural variation, and underestimates political agency.

Applied to East Asia, this criticism suggests that states like China or South Korea have shown considerable autonomy in crafting development policy, regulating capital, and investing in welfare infrastructure. Furthermore, episodes of redistribution, such as China's rural pension schemes, anti-monopoly campaigns, or minimum wage policies, may be seen as signs of institutional pluralism rather than capitalist closure.

However, this critique misses the essential dialectical character of Marxist analysis. A mature Marxist framework does not deny contingency or political agency; instead, it insists that these are themselves conditioned by the structures of class relations and capital accumulation. The question is not whether redistribution exists but whether it fundamentally alters the ownership and control of surplus-producing assets.

Moreover, the East Asian state's apparent autonomy is often overstated. As shown in the previous sections, state policies have largely facilitated capital expansion, financialization, and labor discipline. Even when redistribution occurs, it functions as a corrective to accumulation, not a challenge to its structure.

Hence, rather than being deterministic, Marxist analysis asks a more fundamental question than liberal institutionalism allows: Who controls the production of wealth, and for what purpose?

V.2. Can Marxism Account for Institutional and Cultural Diversity?

A second criticism posits that Marxist theory is ill-suited for institutional variation and cultural specificity, particularly in East Asian regions. The "varieties of capitalism" literature, for instance, distinguishes between liberal market economies (LMEs), coordinated market economies (CMEs), and state-led models like China's—each with distinct institutional logic.

Culturalist explanations further emphasize Confucian values, family structures, and political legacies in shaping East Asian inequality outcomes. According to this view, inequality may be a product not of class exploitation but of meritocratic beliefs, filial obligations, or historical developmental priorities.

While these accounts offer valuable descriptive insights, they often lack structural explanation. Institutional variation exists, but it is structured within a broader global logic of capital. This logic requires surplus extraction, valorization, and reinvestment, regardless of whether families, states, or firms mediate it.

As for culture, Marxist scholars such as Antonio Gramsci and Raymond Williams long ago emphasized that ideology, culture, and hegemony are not epiphenomenal but central battlegrounds in class reproduction. For instance, the Confucian ethic of hard work, loyalty, and frugality functions ideologically to normalize exploitation and discipline labor within East Asian economies.

Thus, recognizing institutional and cultural variation does not negate Marxist analysis. It enriches it, allowing for conjunctural specificity within a structural logic.

V.3. Is Marxism Still Relevant in a Globalized, Financialized World?

A recent critique holds that globalization and financialization have rendered classical Marxist categories obsolete. With the rise of intangible assets, digital platforms, and algorithmic control, critics argue that class structures are blurred, and surplus is no longer neatly extracted from labor but from code, data, and intellectual property.

This argument, often associated with "post-capitalist" or "digital economy" theorists, suggests that Marxist tools are too industrial, too materialist, and too rooted in 19th-century paradigms.

However, thinkers like David Harvey, Utsa and Prabhat Patnaik, and Michael Roberts have shown that financialization is not a break from capitalism but its intensified expression. The logic of surplus extraction remains intact, even if it is mediated through asset inflation, debt peonage, or algorithmic labor management. What matters is not the form of labor but the relation of domination, appropriation, and alienation it entails.

In East Asia, as we have seen, digital labor (e.g., gig economy), financial assets (e.g., real estate speculation), and state capitalism (e.g., SOE profit maximization) are all integrated into a coherent accumulation regime. Far from being "post-capitalist," these developments reflect the deepening of capitalist contradictions.

Marxist analysis is not outdated but urgently contemporary as it evolves in dialogue with empirical transformations.

V.4. Toward a Reconstructive Marxism: Synthesis and Future Directions

Rather than defending Marxism as a dogma, this paper endorses a reconstructive and critical Marxism aligned with the work of Erik Olin Wright, Nancy Fraser, and David McNally. It entails:

- Retaining the structural critique of surplus value, class domination, and capital accumulation.
- Incorporating the politics of recognition and redistribution, especially concerning gender, race, and ecological limits.
- Engaging with institutionalist and post-Keynesian insights without sacrificing the primacy of social relations of production.

In the East Asian context, this approach allows us to move beyond East vs. West developmental binaries and instead focus on the underlying class dynamics that persist beneath different institutional facades.

Reconstructive Marxism can explain why China, despite its unique political system and cultural traditions, exhibits inequality patterns consistent with global capitalist trends and why meaningful change requires more than policy tweaks—it requires structural transformation.

Part VI: Conclusion — The Structural Roots of Inequality and the Enduring Relevance of Marxist Analysis

This paper has critically examined the dominant theoretical approaches to inequality and demonstrated their limitations in explaining the structural dynamics of wealth concentration in East Asia, particularly in the Chinese context. While Power Resource Theory, Labor Market Dualization, and Insider–Outsider Theory have each contributed important insights into institutional variation and labor segmentation, they ultimately fall short in addressing the systemic, class-based, and exploitative underpinnings of inequality within capitalist—and especially state-capitalist—development regimes.

Through a rigorous reconstruction of Marxist political economy, this study has reasserted the relevance of surplus value theory, alienation, and the concept of state capitalism for understanding how inequality is not merely a distributive problem but a structural feature of accumulation. Drawing on contemporary Marxist theorists such as David Harvey and Thomas Piketty (albeit from different traditions), the paper has shown that inequality persists and deepens not despite economic development but as its necessary outcome under capital-dominant conditions.

The Chinese case illustrates this with particular clarity. Far from operating as a counterweight to capitalist accumulation, the Chinese state has become its central facilitator, extracting surplus through labor repression, land commodification, fiscal incentives to capital, and the expansion of state-owned enterprises as accumulation vehicles. Even the recent rebranding of redistribution efforts under the banner of "common prosperity" remains limited by the underlying logic of capital, which prioritizes growth and control over genuine egalitarian transformation.

The contributions of this paper are threefold:

1. **Theoretical Contribution**: It advances a Marxist critique that does not dismiss mainstream inequality theories outright but situates them within a deeper structural framework, thereby bridging empirical institutionalism with political economy.
2. **Empirical Contribution**: By reconstructing China's political-economic trajectory through the lens of surplus extraction and class domination, the paper offers a materialist reading of state capitalism, challenging both liberal developmentalism and left-populist romanticization of the state.
3. **Critical Reflexivity**: The paper engages directly with contemporary critiques of Marxism, acknowledging the need for reconstructive approaches that incorporate gender, ecology, and postcolonial conditions while reaffirming class as the central axis of systemic inequality.

While this paper's scope is primarily theoretical and interpretive, it opens several avenues for future research. Empirically, further work is needed to quantitatively map the flows of surplus value across sectors and regions in East Asia, especially under financialized and digitalized accumulation. Comparative studies of how different developmental states structure inequality through state-capital relations would also enrich the theoretical debate.

In terms of practice, the findings invite critical reflection on the limits of redistributive reform within structurally capitalist systems. Developmental strategies aimed at reducing inequality must confront not only market failures or institutional gaps but also the class relations embedded in the production and ownership of wealth. Without such confrontation, even well-intentioned policies risk becoming compensatory gestures rather than transformative interventions.

In closing, this paper affirms that Marxist political economy—far from being outdated—is indispensable for understanding the enduring and evolving mechanisms of inequality under capitalism, especially in its state-mediated, East Asian form. As global inequality reaches unprecedented heights and the contradictions of capital accumulation intensify, the need for structural critique and emancipatory alternatives has never been more urgent.

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UTILISING STOCK-FLOW CONSISTENT MODELS TO EXPLORE THE LINKS BETWEEN DEMOGRAPHIC CHANGES AND INCOME INEQUALITY: GREECE AS A CASE STUDY

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Abstract

Population ageing and rising income inequality are critical challenges for modern societies, yet their complex relationship remains insufficiently understood. Most research focuses on the impact of demographic changes on pension scheme sustainability, often neglecting their interaction with other economic sectors and broader effects on income distribution. Even studies examining ageing's impact on inequality emphasize specific characteristics of economic agents, overlooking key factors like functional income distribution. These approaches fail to capture the interplay between demographic changes and inequality, as they do not situate this relationship within a macroeconomic framework. This paper argues that analyzing demographic changes within a dynamic macroeconomic environment is essential to understanding the channels through which they influence economic activity and income distribution. Stock-flow consistent models (SFCMs) are well-suited for this purpose, as they integrate: (i) the interaction between demographic changes and the real and financial sides of the economy; (ii) the relationship between functional and personal income distribution; and (iii) the effects of different pension schemes on economic activity. Using Greece as a case study, we theoretically explore how demographic shifts, such as ageing and population decline, affect income inequality by influencing trade unions' bargaining power and functional income distribution, while considering recent pension reforms.

Keywords: demographic changes, income inequality, stock-flow consistent models, functional income distribution, pension scheme

1. Introduction

The long-term upward trends in population ageing and income inequality pose significant challenges to governments, as they extend beyond the realm of the proper functioning of the economy, threatening the social cohesion of developed countries. As a result, many researchers have delved into the causes of the exacerbation of these phenomena proposing solutions for their alleviation and exploring a potential link between them. However, despite the plethora of both theoretical and empirical studies, the complex relationship between demographic changes and income inequality, as well as its impact on economic activity, has not yet been adequately clarified.

As far as the relevant economic theories are concerned, the impact of the increasing population ageing on income inequality is ambiguous. According to life cycle theory, a growing share of older people tends to increase income inequality. More precisely, the older you get in the labour market, the greater the effect of returns to human capital

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investment on income, widening the income gap between older and younger workers. Moreover, a greater number of retirees tends to increase income inequality between them and workers, as the income from labour is usually higher than the income from pensions. On the other hand, the continuous decline of the labour force, as more and more people retire, is likely to put upward pressure on wages, narrowing the income gap between the working class and the capitalists.

Several empirical studies examining the connection between ageing and income inequality have in most cases indicated a positive correlation between them, but with limited economic significance (see e.g., Lindert, 1978; Deaton & Paxson, 1994; Jenkins, 1995; Jäntti, 1997; Cameron, 2000; Razin, Sadka, & Swagel, 2002; Biewen & Juhasz, 2012; Van Vliet & Wang, 2015). Although these studies conclude a positive, albeit weak, link between the two variables, they cannot clearly identify the mechanisms that determine the direction and intensity of this relationship. In addition, there are few other surveys which explore the effects of population ageing on inequality through the labour market reactions using demographic projections and microsimulation techniques (see e.g., Edward & Lange, 2013; Aziz et al., 2015; Dolls et al., 2019). Despite the important findings, these surveys delve into specific population characteristics (e.g., educational attainment), overlooking key factors shaping inequality, such as the functional income distribution.

Numerous studies have thoroughly examined the relationship between demographic changes and various pension systems, but they do not extend their research to the impact of this relationship on income distribution (see e.g., Fanti & Gori, 2008, 2012; De la Croix, Pierrard, & Sneessens, 2013; Artige, Cavenaile, & Pestieau, 2014; Cipriani, 2014, 2018; Fanti, 2015; Dedry, Onder, & Pestieau, 2017; Alonso-Garcia, Boado-Penas, & Devolder, 2018; Cipriani & Pascucci, 2020; Cipriani & Fiorini, 2021). These studies, using overlapping generations (OLG) models, focus mainly on the vulnerability of the pay-as-you-go (PAYG) pension schemes to population ageing. Also, they often recommend reforms for improving the long-term sustainability of the pension sector, such as the partial or full replacement of the PAYG scheme with a fully funded (FF) scheme. Even though OLG models are valuable tools for analyzing the influence of ageing on pension schemes, they have some limitations in terms of including different sectors of the economy in the analysis, thus narrowing the examination of the impact of demographic changes on broader economic activity. Furthermore, these studies do not capture the distributional effects of the proposed social security reforms, as they do not take into account that each pension scheme is a critical determinant of income inequality.

Although the above-mentioned studies significantly contribute to the research on demographic changes and income inequality by approaching them from diverse perspectives, they do not fully clarify the complex relationship between them. This is because they have not placed this relationship in a framework of interaction with the macroeconomic environment which limits their ability to capture the range of channels through which population ageing influences various determinants of income inequality. Unlike these studies, this paper examines the demographic changes within a dynamic macroeconomic environment, allowing for a more comprehensive theoretical analysis of their overall impact on income distribution. Within this macroeconomic framework and following a «*demand-based*» approach, we highlight the determinants of the link between demographic changes and income inequality, such as the trade unions' bargaining power, the functional income distribution and the pension system.

In addition, considering the limitations identified in existing studies, we argue that stock-flow consistent models (SFCMs) can provide an ideal framework for examining the relationship of demographic changes with income inequality, due to their accounting consistency and the integrated way they link the real and the financial side of the economy. Thus, unlike models used in the above-mentioned studies (e.g., overlapping generations models), SFCMs can place the relationship under consideration in a dynamic macroeconomic environment involving various sectors and agents of the economy in order to capture the determinants of the interaction between the two phenomena.

Finally, we focus our analysis on the current case of Greece. The selection of Greece as a reference country was based on two key factors. Firstly, Greece experiences not only an accelerating population ageing trend, but also a decline in total population. This combination makes the impact of demographic changes on economic activity potentially more pronounced. Secondly, demographic projections have recently led the Greek government to partially capitalize pension system in order to improve its long-term sustainability. The latter provides a valuable opportunity to investigate the impact of demographic changes on inequality under two distinct pension schemes: a pay-as-you-go and a fully funded scheme.

2. Stock-flow consistent models and income inequality

Stock-flow consistent models (SFCMs) are macroeconomic models that accurately integrate the stocks and flows of an economy, using as tools the accounting framework and the behavioral equations of economic agents. Their purpose is to investigate the interaction between the real and the financial side of the economy in order to clarify how this interaction affects each area of economic activity. The origins of the models lie in the work of Morris Copeland (1949), who extended the use of social accounting beyond the study of national accounts by developing the *"flow-of-funds"* (FoF) accounts that record the asset and liability flows of each economic sector. The evolution of this approach led to the accounting framework of models which is based on the principles of *«flow consistency», «stock consistency», «stock-flow consistency» and «quadruple entry»* (Nikiforos & Zezza, 2017).

In the following decades, both James Tobin and Wynne Godley attributed to the models their structural elements and their basic characteristics, gradually contributing to the development of their modern form. Tobin along with his partners (Backus et al., 1980) developed an empirical model of the United States economy based on Copeland's *"flow-of-funds"* social account, which included some distinctive features compared to existing macroeconomic models, such as, tracking of stocks and precision regarding time, inclusion of several assets and their rates of return, modelling of financial and monetary policy operations, implementation of *"Walras's Law and adding up constraints"* (Caverzsi & Godin, 2015).

While Tobin was structuring the modern accounting framework of models at Yale University, Godley at Cambridge University introduced into the behavioral equations of models the fundamental principles and the key features of the *«post-Keynesian»* school of economic thought, such as effective demand, endogenous money, time-path dependency, fundamental uncertainty, bounded rationality, etc. (Godley & Cripps, 1983; Godley & Zezza, 1989). The peak of Godley's contribution to the foundation of the modern framework of SFCMs is his collaboration with Marc Lavoie (Lavoie & Godley, 2001;

Godley & Lavoie, 2007), which established the current form of models and remains until today the main reference point of researchers working on them.[1]

Over the past three decades, models have significantly contributed to many areas of economic research. They have been used by numerous researchers to investigate the impact of various fiscal and monetary policies on the economy, the effects of the «*financialization*» of the modern economies, the functioning of the complex banking systems, the interactions between different economies, the distribution of income among the factors of production, etc. Depending on the needs of each survey, researchers develop specific sectors of the economy (e.g., households, commercial banks, firms, government, etc.) and examine the interactions between them by recording the changes in their stocks and flows in each period. For research purposes as well, the models have often incorporated principles and assumptions beyond those derived from the «*post-Keynesian*» school of economic thought, such as the "*Monetary Circuit Theory*", the "*Harrod's Instability Principle*", the "*New Keynesian Phillips Curve*", the "*Taylor's rule*", the "*Minskyan Financial Instability Hypothesis*", etc., while in specific cases they have been combined with «*agent-based models*» (ABMs) and «*Sraffian supermultiplier models*» (SSMs).

Although to a limited extent, SFCMs have also been successfully used in the study of income inequality. The relative approach was developed by Dafermos & Papatheodorou (2011, 2012, 2015), who placed income inequality in a framework of interaction with the macroeconomic environment to explore the relationship between functional and personal income distribution. Therefore, researchers (Dafermos & Papatheodorou, 2011) developed a model consisting of different groups of households in terms of the source and the proportion of income they receive and examined the effect of variations of functional income distribution on income inequality using various measures and decomposition methods of the latter. Then, Dafermos & Papatheodorou (2012) focused on the impact of fiscal policy on income distribution, highlighting the critical role of trade unions' bargaining power in mitigating inequality. Finally, researchers (Dafermos & Papatheodorou, 2015), comparing a "*wage-led*" and a "*profit-led*" investment function, indicated the different impact of fiscal policies on income distribution between the short and long term. Following the same approach, Szymborska (2022) developed the housing and financial sectors of the United States economy and described how changes in these sectors affect income inequality.

Following the approach of Dafermos and Papatheodorou (2011, 2012, 2015) and utilizing the capabilities of SFCMs, Katsimigas (2023) examined the link between demographic changes and income inequality in Greece, under two different pension schemes: a PAYG and a FF pension scheme.[2] The model developed consists of six economic sectors and seven groups of households receiving income from different sources and in different proportions. Furthermore, in order to capture the impact of demographic changes across the whole range of income distribution, three inequality indices are used which differ in their sensitivity to disparities in different parts of the income distribution. The results show that the direction and the intensity of the link between income inequality and demographic changes depends on the impact of the latter on the trade unions'

[1] For a broader overview of the characteristics, structure and evolution of «*post-Keynesian*» SFCMs see e.g., Godley & Lavoie (2007), Caverzasi & Godin (2015) and Nikiforos & Zezza (2017).

[2] This paper's theoretical analysis on the link between demographic changes and income inequality relies on the approach of Katsimigas (2023).

bargaining power, the functional income distribution and the pensions of each pension scheme.

In conclusion, SFCMs are a valuable analytical tool in examining various aspects of economic activity because of their accounting consistency and the integrated way in which they link the real and the financial side of the economy. Given these advantages, models also provide an ideal framework in studying inequality due to their ability to (i) situate income inequality in a dynamic macroeconomic environment, which reflects both the real and the financial side of the economy; (ii) represent various sectors of economy, capturing the interactions between them; (iii) include households receiving income from different sources and in different proportions, allowing the study of income inequality; (iv) capture the direct link between functional and personal income distribution; (v) evaluate the impact of both fiscal policies and demographic changes on economic activity, income inequality and the state budget.

3. Demographic changes and trade unions' bargaining power

In recent decades, the continuous decline in fertility and the simultaneous increase in longevity in developed countries have led to an outbreak of the phenomenon of population ageing. This is expected to escalate in the coming decades, as projections show that the share of population aged 65 years and over will rise rapidly from 9.3 percent in 2020 to 16 percent in 2050 (United Nations, 2019). In the case of Greece, in addition to the increase in population ageing in the coming years, a significant decrease in the total population is also expected. According to Eurostat's projections, the total population of Greece will decrease more than two and a half million people until 2100[17] (Eurostat, 2019a), while the life expectancy at the age of 65 will increase by 5.1 years for a man and by 4.9 years for a woman from 2019 to 2070 (Eurostat, 2019b). Consequently, the old-age dependency ratio[18] according to the European Union's *"Ageing Working Group"* (Economic Policy Committee, 2021) will increase from 37.9 percent in 2019 to 65.2 percent in 2070.

The impact of ongoing demographic changes in Greece on economic activity and income distribution depends on various factors, such as the aggregate demand, the labour market, the pension sector, the functional income distribution, etc. Despite the plethora of factors, we consider that the main determinant of the link between demographic changes and income inequality is trade unions' bargaining power. Population decline may potentially lead to a reduction in consumption expenditure, while population ageing may potentially lead to lower pensions or higher state subsidies, resulting in a slowdown in economic activity, an increase in income inequality and/or a burden on the state budget. However, these effects can be compensated, if trade unions are able to benefit from the reduction in the labour force arising from population decline by increasing their bargaining power.

According to Screpanti (1996, 2000) and Cassetti (2003), unions' bargaining power is affected by fear of unemployment, which is best reflected in the rate of change of the employment or the rate of change of the employment rate. Although the variation of the two indicators is the same under a constant population, this ceases to exist when the population changes. This is because the growth rate of the employment rate of workers

[17] Considering births, deaths, migration and life expectancy.

[18] Old-age dependency ratio (OADR) is the ratio of the total population aged over 65 years to the total population aged between 15 and 65 years.

takes into account the fluctuations in the labour force, while the growth rate of the employment does not. Therefore, to clarify the critical role of unions' bargaining power in shaping economic activity, we examine the impact of both indicators alternately.[19]

Also, to capture the effect of demographic changes on income inequality, we consider an economy consisting of employed and unemployed workers, who receive wages from firms and unemployment benefits from the government respectively, entrepreneurs, who receive the distributed profits of firms, and pensioners, who receive pensions from the respective pension fund. Finally, we follow a *"demand-based"* approach, which considers not only the negative correlation of wages and pensions with production costs and state subsidies respectively, but also their positive correlation with the demand for goods.

Firstly, we examine the impact of demographic changes on economic activity and income distribution considering as an indicator of unions' bargaining power the growth rate of employment of workers. In the short run, the decline of population causes a fall in the growth rate of consumption, demand and output. The slowdown in output implies a reduction in labour demand and thus an increase in unemployment, which in turn decreases the bargaining power and the wages of employed workers. Falling wages intensify the decline in growth rates of consumption and output, which then place downward pressure in investment by decreasing profits. Consequently, in the medium run the demographic changes result in a significant slowdown in economic activity through the simultaneous decrease in growth rates of consumption, investment and output. Regarding income distribution, the continuous decline in wages and employment reduces the wage share in total income widening the income gap between workers (both employed and unemployed) and entrepreneurs.

Considering the rate of change of the employment rate of workers as indicator of trade unions' bargaining power, demographic changes place countervailing pressure on consumption. On the one hand, the decline of population places downward pressure on consumption, demand and output, but on the other hand, the reduction of the labour force tends to increase the employment rate of workers, as well as their bargaining power. The latter implies an increase in wages which stimulates consumption and potentially offsets the impact of population decline on it. Hence, in the medium run, despite the reduction in investment due to rising production costs (wages), the fall in demand and output becomes milder than in the previous case. The weak slowdown in economic growth allows labour demand to decline slower than the population (labour force), resulting in a continuous increase in employment rate and wages. This significantly affects the functional income distribution by increasing the wage share in total income. Therefore, as output slows down, albeit weakly, the rising wage share reduces the distributed profits of firms to entrepreneurs. As a result, in the medium run, income disparities between workers (both employed and unemployed) and entrepreneurs narrow.

By examining the impact of demographic changes on the economy under two different indicators of trade unions' bargaining power, we indicated that the implications of population decline on economic growth and income inequality can be partially compensated, at least in the short and medium run, as long as workers benefit from labour force decline increasing their bargaining power and thus their wages. Specifically, if the

[19] According to Lavoie (1992), the rate of change of the employment rate is preferred to the rate of change of the employment in cases of demographic changes, although it is important to examine both indicators as they lead to different results.

decline in the labour force places upward pressure on the wage share, income inequality may decrease, while the drop in economic growth may slow down significantly. On the other hand, if population decline leads to a reduction in the wage share, it is likely not only to increase the income inequality but also to intensify the contraction of economic activity.

Although the bargaining power of trade unions is decisive in determining the relationship between demographic changes and income inequality in the short and medium term, this is not always the case in the long term. In the long term, an important determinant of this relationship is also the pension sector. However, the influence of pension sector on income inequality varies across pension schemes, as it depends on the impact of the functional income distribution on the pensions of each scheme. The latter is examined in the next section, taking into account the recent capitalization of the auxiliary pension by the Greek government.

4. Demographic changes and pension schemes

Population ageing calls into question the long-term sustainability of the pension sector in developed countries, especially in the case of the PAYG pension schemes. The latter are based on "*intergenerational solidarity*", as current insured persons finance the pensions of current retirees, while the pensions of future retirees will be financed by the social security contributions of future employees. Consequently, the steady increase in the share of elderly people in the total population may create or widen the gap between social security contributions and pensions, placing a major burden on the state budgets.

The challenge is more pronounced in the case of the Greek pension sector because, in addition to the rising old-age dependency ratio, it already manages an excessive state subsidy on pensions compared to the rest of the European Union. Despite the pension cuts and the austerity measures imposed by the implementation of the Memorandum, the pension expenditure in Greece in 2018 amounted to 16.1 percent of GDP and the state subsidy on pensions reached 10.1 percent of GDP, while the corresponding averages of the European Union countries for the same period were 12.4 percent and 3.1 percent of GDP respectively. The fragile status of the PAYG pension scheme in Greece is expected to deteriorate in the coming decades according to the projections of the European Union's *"Ageing Working Group"* (Economic Policy Committee, 2021), as the pension system dependency ratio[20] will increase from 64 percent in 2019 to 75.9 percent in 2070.

Considering the high state subsidy on pensions and the ongoing demographic changes, several researchers have argued for the partial capitalization of the Greek PAYG scheme, as this could reduce its vulnerability to demographic changes and stimulate economic growth through rising investment and employment (see e.g., Christodoulakis et al., 2018; Daskalopoulos, Zarkadoulas, & Symeonidis, 2018; Nektarios, Tinios, & Symeonidis, 2018; Pissarides et al., 2023). Following these recommendations, the Greek government recently capitalized the auxiliary pension in order to improve the long-term sustainability of the pension sector.[21]

[20] Pension system dependency ratio (SDR) is pensioners-to-employees ratio.

[21] According to Articles 1 & 2 of Law no. 4826/2021 of Greek legislation, the auxiliary pension fund was established, and the funded defined contribution pension scheme is implemented for the calculation of the auxiliary pension.

Although the above-mentioned studies examined the impact of demographic changes on the state budget and to some extent on economic activity in the context of the proposed pension reform, they did not explore the impact of this reform on income distribution. Unlike these studies and motivated by the recent capitalization of the auxiliary pension, we examine the relationship between demographic changes and both the PAYG and the (new) FF pension scheme in Greece in order to clarify the impact of this relationship on income inequality.

4.1. Functional income distribution as a determinant of pensions

The PAYG scheme under consideration represents the contributory pension of the Greek social security sector and relies on the defined benefit method. On the other hand, the FF scheme is based on the (new) auxiliary pension, which operates under the defined contribution method. Consequently, these pension schemes differ in the way they manage social security contributions, calculate pensions, relate to the real and financial side of the economy and deal with demographic risks. Therefore, to understand the (different) influence of each pension scheme on the link between demographic changes and income inequality, it is important to describe the determinants of pensions of each scheme and how they interact with the macroeconomic environment.

As mentioned earlier, the PAYG scheme depends on the social security contributions of current workers to finance the current pension expenditure. Therefore, as the defined benefit method does not take into account demographic risks, such as population ageing, any deficit between social security contributions and pensions is covered by the state budget. Also, under this method, the amount of the pension is determined by the replacement rates and pensionable earnings, which reflect the years of insurance (employment) and the average wages earned by each pensioner throughout his or her working life respectively. In addition, the total amount of the pension increases each year in accordance with the growth rate of the economy,[22] while the pensionable earnings are adjusted annually in line with the wage change index.[23]

Under the FF pension scheme, the social security contributions no longer finance the current pensions, but are credited to individual accounts by the pension fund and invested in financial products, e.g., firms' equities, government bonds, etc. According to the (funded) defined contribution method, the amount of the pension is determined by each pensioner's accumulated contributions and the returns on their investment. Although the pension is exposed to investment risks, this method takes into account the demographic changes, as the periodic payment of the pension is estimated based on life expectancy at retirement.

In addition to their different response to population ageing, pension schemes also differ significantly in their relationship with the real and financial side of the economy. A PAYG scheme relies entirely on real economy factors like wages, the wage change index,

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[22] According to Article 14 of Law no. 4387/2016 and the amendment of the same by Law no. 4670/2020 of Greek legislation, the total amount of the pension is increased from 1.1.2023 per year based on the coefficient resulting from the sum of the annual rate of change of GDP plus the rate of change of the annual general consumer price index of the previous year divided by two. For a leaner presentation, we do not take into account price inflation.

[23] According to Article 24 of Law no. 4670/2020 of Greek legislation, from 2025 onwards, pensionable earnings are adjusted each period based on the wage change index.

the growth rate of the economy and the employment. In contrast, a FF scheme interacts with both the real and the financial side of the economy. While wages (contributions) and employment play a role similar to the PAYG scheme, the FF scheme also depends on the returns on financial products and the associated investment risks. This difference stems from the connection of both schemes to functional income distribution, an indirect but crucial determinant of pensions.

In the PAYG scheme, wages and the wage change index directly determine pensionable earnings, making the wage share the most critical factor of pensions. Similarly, the FF scheme connects pensions to the wage share through social security contributions. However, it also creates a link to the profit share, mainly through the dividends earned by the pension fund from firms. Unlike the PAYG scheme, the connection of the FF scheme to both the wage share and the profit share makes the effect of functional income distribution on its pensions uncertain. Eventually, the different influence of functional income distribution on the pensions of each pension scheme determines the impact of demographic changes on income inequality.

4.2. Pension schemes and income inequality

Following section 3, we extend our analysis in the long run, examining the impact of each pension scheme on income inequality, as well as on economic activity, in the light of ageing and population decline in Greece. We focus on the case that workers benefit from the declining population (labour force) by increasing their wages and the wage share. Based on this case, we show that under the PAYG pension scheme, the impact of demographic changes on the economy can not only be fully offset in the long run, but also intensify economic growth and further reduce income inequality.

In the PAYG scheme, as workers gradually retire over the long run, rising wages and employment rate are translated into higher pensionable earnings and replacement rates respectively. As the latter are the main determinants of pension amount, pensions are constantly increasing. Considering also the growing number of pensioners due to the ageing population, pensions become more and more important in shaping economic activity in the long run. As a result, since the propensities to consume out of (rising) wages and pensions are higher than the propensity to consume out of (falling) profits, the growth rate of consumption accelerates, stimulating aggregate demand and output. Higher output leads to an increase in labour demand, which, as ageing and declining population continue, results in a transition of unemployed workers to retirement. Since the income from pensions is greater than the income from unemployment benefits, this transition further stimulates consumption expenditure. Eventually, in the long run, the simultaneous increase in wages, pensions, employment and consumption not only compensates the impact of demographic changes but also increases the growth rate of the economy.

These interactions in economic activity result in a reduction in income disparities across the entire range of income distribution. Firstly, the income gap between employed workers and entrepreneurs narrows more sharply in the long run. The continuous rise in both wages and employment leads to an even higher wage share, which further reduces the distributed profits of firms to entrepreneurs. Secondly, in contrast to the short run, the income gap between workers and pensioners declines in the long run, as pensions gradually adjust to rising wages. Moreover, as the growth rate of the economy increases, the reduction in inequality at the middle of the income distribution becomes more pronounced. This takes place because the growth rate of the economy is positively related to pensions in the PAYG scheme. Finally, the decline in the labour force combined with the increase in the labour demand leads to a reduction in inequality also at the bottom of income distribution due to the ongoing transition of unemployed workers to retirement.

On the other hand, the FF scheme is not as efficient as the PAYG scheme in mitigating the implications of demographic changes on the economy, due to the countervailing pressure of the wage share on its pensions. In particular, rising wages and employment tend to raise pensions in the long run through increasing social security contributions accumulated by the pension fund. However, the rise in both wages and employment also leads to an increasing wage share, which reduces the dividends distributed by firms not only to entrepreneurs but also to the pension fund, thus placing downward pressure on pensions. Taking also into account the increasing life expectancy at retirement, the FF scheme generates significantly lower pensions than the PAYG scheme. The latter's pensions are not affected by demographic changes, while the rising wage share has only positive effects on them through increasing pensionable earnings (wages) and replacement rates (employment). Consequently, as the number of pensioners increases due to population ageing, lower pensions slow down consumption expenditure, exacerbating the effects of demographic changes on economic activity.

Regarding the fluctuations on income inequality, increasing wage share can reduce inequality at the top of the income distribution, as in the case of the PAYG scheme. On the other hand, unlike the PAYG scheme, the increasing life expectancy of pensioners and mainly the countervailing force of the wage share on pensions do not allow the latter to adjust to rising wages, thus broadening the income gap between pensioners and workers. Apart from their direct impact on the middle of the income distribution, lower pensions have an indirect impact on the bottom of the distribution due to the falling growth rate of output. The latter implies a decline in labour demand, resulting in a transition not only of unemployed but also of employed workers to retirement.

It is also important to mention the potential effect of demographic changes on the state budget under the two pension schemes, as this was the main reason for the partial capitalization of the Greek PAYG scheme. In the case of the FF scheme, although the pension system dependency ratio gradually increases, the state budget is not burdened, as the (funded) defined contribution method does not create deficits between social security contributions and pensions. On the other hand, in the PAYG scheme, the growing number of pensioners is likely to place a short-term burden on the state budget through the increasing state subsidy on pensions. However, rising wages, pensions and employment could absorb the growing state subsidy on pensions in the long run, through higher social security contributions, lower spending on unemployment benefits and greater tax revenues. Even if they are unable to entirely finance the higher pension expenditure, the increasing wages, pensions and employment are likely to lead to a reduction in the public debt-to-GDP ratio through the acceleration of economic activity they generate

5. Conclusions

Due to the ongoing ageing of the population in developed countries, as well as the projections of the deterioration of the phenomenon in the coming decades, several researchers have examined theoretically and empirically the impact of these demographic changes on income inequality (see section 1). Although these studies identified critical determinants of the two phenomena, focusing mainly on individual sectors of the economy and specific characteristics of the population, they did not capture the complex relationship between them, as they did not place it in a comprehensive framework of interaction with the macroeconomic environment. Unlike these studies, in this paper, by examining the demographic changes within a dynamic macroeconomic environment, we have highlighted the link between them and income inequality and shown how the determinants of this relationship affect economic activity. In this context, we used Greece as a reference country due to both the more pronounced demographic changes (ageing and population decline) and the two different pension schemes in operation (pay-as-you-go and fully funded).

Our theoretical analysis revealed different determinants of the relationship under consideration between the short and the long run. In the short run, the impact of demographic changes on income inequality depends on whether workers benefit from the decline in the labour force by increasing their bargaining power and thus their wages. The latter leads to a rise in wage share and employment, which not only significantly reduces income inequality but also partially offsets the negative impact of demographic changes on economic growth. On the other hand, in the case that trade unions do not take advantage of the reduction in the labour force to increase their bargaining power, the resulting drop in the wage share widens income inequality and intensifies the contraction of economic activity.

In the long run, the effects become more complicated, as in addition to trade unions' bargaining power, each pension scheme also plays a crucial role in determining the relationship between demographic changes and income inequality. Moreover, this role varies according to the different impact of functional income distribution on the pensions of each scheme. In the PAYG scheme, rising wage share favors pensions, which in turn further reduce disparities across the entire range of income distribution and contribute, through the increase in effective demand, to the full recovery of the economy in the long run. In contrast, in the FF scheme, the countervailing pressure of rising wage share on pensions, combined with the increase in life expectancy at retirement, do not allow pensions to adjust to increasing wages, with the result that economic activity does not recover even in the long run, while the income gap between pensioners and the population above them in the income distribution widens.

Placing the link between demographic changes and income inequality within a dynamic macroeconomic environment, we identified the trade unions' bargaining power, the functional income distribution and the pension scheme as critical determinants of this relationship. Even though our analysis takes into account a broad macroeconomic scope compared to existing relevant studies, we clearly understand the limitations of our theoretical approach and further underline the need for a more extended macroeconomic framework in order to further explore the channels of interaction between the two phenomena. Therefore, we argue that SFCMs can provide this integrated macroeconomic framework, as they are able to (i) represent any economic sector, capturing the interaction between the real and the financial side of the economy; (ii) introduce economic agents receiving income from different sources, allowing the estimation of income inequality; (iii) evaluate the impact of demographic changes and the fiscal policies related to them on economic activity, income distribution and the state budget.

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FINANCIALISATION IN INDIA: INTEGRATION INTO THE US NEOLIBERAL-WORLD SYSTEM

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ABSTRACT

American World System, with Keynesian Fordist regulation regime, emerged as a dominant one in the post-war period. The crisis of Fordist regime, followed by imperatives of falling rates of profits, moved to post-Fordist neoliberal regulation in the mid-seventies. The fall of Soviet Union consolidated the widened American World System, which made it to absorb the global surpluses and reserves to finance its deficit, as US growth fell, savings fell and expenditures were to be maintained. While it offshored its production of goods and services, it retained control over cloud capital and fintech. India too changed its Nehruvian regulation regime to neoliberal regime to join American World System, that gave some benefits, while imposed news kinds of costs and entrapments. Financialization is a part of this new regulation-world system combination. It helps to stave off realisation crisis, economy is put on uncharted path of Financialization, where poor countries lose the capacity to transform themselves. China comes out as a special case, where it appears to form its own world system, as a counter hegemon. This paper makes a hybrid framework to analyse some current problems and make pathways for further work.

Keywords: US World System, Regulation Theory, Fordism, Neoliberalism, Financialization, India

1. Introduction

India's economic transition took a definite turn into neoliberalism and financialization of the economy after the economic reforms of 1991, marking a shift from a *dirigiste* Nehruvian regulation regime. The fall of Soviet Union and Rupee-Ruble bilateral trade with Easter Bloc that sustained the Nehruvian regulation regime for over three decades came to a decisive end. With no prospects of maintaining an overvalued fixed exchange rate, inviting foreign capital and a monetary policy to sustain public borrowing, often referred as `impossible trinity', India was forced to abandon the fixed exchange rate and adopt a monetary policy to restrict public borrowing, besides liberalising the trade, banking, finance, and industrial sectors; privatising public sector and contracting public expenditure. The opening up of economy in long- and short-term investment led to considerable inflow of foreign direct investment and foreign portfolio investments, which have ended the much vexatious problem of balance of payments. While this suited the medium-term goals of boosting the economy, the neoliberal shift led to dominance of indiscriminate private capital accumulation, without building a capacity for the structural transformation of the economy. What is more significant is the extent of financialization of the economy, with no prospect of building the eroding manufacturing. Further, it constrained the developmental transformation by eroding the capacities of the state to

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steer the economy. The extreme inequality that has ensued under the neoliberal strategy is cause and consequence of financialization. I describe the integration of India's economy with the neoliberal world order under the US hegemony, we can describe as the US World System is in crisis, as the US World System itself under threat with the emergence of Chinese World System, a counter hegemon. I elaborate these propositions in the following sections.

2. Money and Finance: A Marxian Understanding

It is useful to begin our understanding of financialization with the insights provided by Marx, with his analytical separation of productive and circulation spheres, to show the production of value and its realization. Money as medium of exchange facilitates capital in circulation into direct and indirect labour values to make the commodity production and its realization. The M-C-M' circuit shows the production and appropriation of surplus value, facilitated by the money[26]. However, money as a store of value becomes important for accumulation. The emergence of banking in the making of credit money is important phase of rise of classical capitalism in the 17th and 18th century. The proliferation of bank credit could match the potential output expansion, where the former exceeded the gold reserves. The Gold Exchange Standard provided the means for making dominant currencies of the world in becoming the reserve currencies. However, when the newly emerging industrial countries like Germany practiced competitive devaluations to push their exports, known as *beggar-thy-neighbour* policy, it led to the dissolution of Gold Standard. The policy of the UK to maintain a strong British Pound Sterling to led to its fall in competitiveness and the two wars eventually ended its hegemony, to be replaced by the rising United States, marking the new US-centred World System.

[26] David Harvey commented that Marx's treatment of money and financial phenomenon as incomplete and is an unfinished business. For him, the credit system is a more complex division between factions of capital, with their own internal contradictions. Money is more than simple medium of circulation. It possesses some 'transcendental properties' since it represents the exchange value money commands, special importance over commodities. Money permits separation of sales and purchases in space and time. Besides solving the double coincidence of wants, it also liberates exchange from the tyranny of Say's law. For this money has to act as a trusted store of value. For this to happen it requires social power of money, but more money is used to store value than to circulate values. So, the credit money takes roots spontaneously within the process of commodity exchange. Credit money has advantage in adjusting instantaneously to the volume of commodity production while they also economise on transaction costs. It can simultaneously create fictitious money as pure loan in different circuits of the commodity circulation and dissolve when the loans are repaid. Thus, saving enormous transaction costs in the intermediation. Fictitious bank money is created when a loan is created in different circuits, but is dissolved when it is repaid. Such copious flow of capital can also facilitate equalisation of rates of profit across activities. Eventually, it also serves for the process of centralisation and concentration of capital.

3. The US World System and its Two Regulation Regimes

The US World System became a natural leader, given its enormous gold reserves and accumulation, it agreed to finance and manage global demand, through the Bretten Woods system of 1949. However, it has to compete with Soviet Union as counter-hegemon that made the US to accept the softer conditions of supplying dollars at fixed exchange rate pegged to gold. The regulation regime that the US adopted is often referred as Fordist regulation regime, where it gave a pump-primed aggregate demand for the capitalists, protected wages and benefits to workers, universal free education and protector of democracy in the world, to challenge USSR world system as autocratic. It lent its savings as investments in friendly countries in its World System. The Fordist regime, however, lost its steam by mid-sixties as the growth and profitability of US companies plummeted due to rising wage costs, competition from friendly partners, and found restricted to increase public debtor print Dollars to meet its wars. This made it to gradually to shift to a new regulation regime of neoliberalism and financialization. Europe's bid to buy gold reserves, black market the restricted dollar availability angered the US and suspended the Dollar-Gold Standard of Bretton Woods. This made a decisive shift of US to give up its Fordist regulation regime and adopt the neoliberal regulation, which entailed, transition to flexible exchange rates, where US enjoys the free supply of dollars to the world as reserve currency. The Reagon era marked the neoliberal shift to reduction of taxes, compression of public expenditures, flexible interest rates and integration of equity markets with the ICT technologies. Banks are allowed off-balance sheet activities to earn revenues, as US Federal Bank reduced real interest rates, by reining in inflation, though the Volcker Shock. The American capital by mid-1980s began offshoring production to China and East Asia as more profitable production regions.

The fall of USSR led to the US become a unipolar World System, that incorporated hoards of countries into its fold, thanks to the balance of payments instability that the Kuwait war created. Using IMF and World Bank as nodal agencies through their conditional loans to all most all countries, were made to undergo neoliberal reforms to get integrated into global trade, making them join WTO. Financialization is also the other part that the countries were made to undergo, which however is more a structural process that ensues in accordance with the institutional resources. While all most all emerging economies have undergone this process of neoliberal financialized globalisation, geopolitical factors to determine level of integration, most countries are hopelessly became dependent on external debt, IMF bailouts, stagnant economies with extreme inequalities. Countries such as Iran, Russia were ejected from the World System, China emerged as semi-Centre from the US World System, and India entered as weak dependent economy with no great prospect to grow out of the hold.

An important aspect of the new global financial order is the fact that the US has grown into a net recipient of global savings, as its own savings plummeted in the neoliberal phase. The status of strong and stable currency, which appreciated across major currencies. The financialization of the economy proceeded towards greater consumer credit, education credit and eventually housing credit. The new financial innovation through securitization meant to slush the economy with finance, while real economy stagnated. US economy lost its savings potential to maintain the expenditures it is incurring, which reflected in its rising public debt and trade deficits. The fall of USSR consolidated the US global hegemony with dollar as the dominant reserve currency, and

Sweezy and Brenner argued that the gradual financialization of the US by series of relaxations such as repeal of Glass-Steagall Act of 1939. As post-Keynesians pointed out from a long time, the money supply is endogenous to the investment and demand for money.

Literature on finance capital has long argued that by mid-19th century the Western capitalism has entered a phase from interest-bearing capital to equity capital though joint stock capital. This has solved the realization crisis arising from capitalist competition and contradiction between industrial capital and banking finance. The excess equity capital enabled firms to overcome the liquidity problem in loan repayments to banking sector, it allowed emergence of monopoly capital through mergers and takeovers. The stock markets provided additional financial profits for firms over the real profits. The entry of non-banking firms into financial activities marks a different phase of the financialization that Hilferding referred. The finance, under the hegemony of the US Dollar began dollar-centric which enabled the US to print dollars at will and finance its deficits.

4. Financialization

Financialization is a term that is being used for certain type of financial system, where investment banks, non-banking financial institutions and banks raise funds and invest in mergers-acquisitions, debt-swaps (asset management), financial assets, equity markets, hedge funds, mutual funds, large scale housing finance and real estate, international currency markets, etc., which is mostly unproductive speculative activities. Financialization phase is characterized by relative separation of banks and industrial corporates, where the latter resorts to raising capital directly from stock markets and floating their own financial subsidiaries. The policy of reducing interest rates forced banks to indulge in investment banking, as financial profits exceeded banking profits. Eventually, all this reflects in faster growth of finance than the real, and excessive growth of service sector of economies. This is distinctly different from the idea of Finance Capital, described by Rudolf Hilferding **Invalid source specified.**, where banks playing reigning role in financing large industries and cartel, though it could be considered as beginning. **Invalid source specified.**

Such financialization occurred in the US and UK since 1980s, built on self-regulating systems consisting of rating agencies, auditing firms and regular corporate structure of governance. The securitization process of using rated assets as financial products such as debt swaps eventually resulted in collapse of Lehman Brothers, leading to a Domino effect. Paul Sweezy and Harry Magdoff **Invalid source specified.** took a view in the Monthly Review that three things preceded capital accumulation in the 20th century; i. slowdown of rate of growth; ii. rise of monopolistic MNCs; and iii. financialization. All the three are result of fundamental problem of absorption of the surplus (overaccumulation) in the advanced capitalist systems. Robert Brenner and others have taken a view that it is fundamentally rooted in the tendency of falling rate of profit, owing to large excess capacities created, permanent crisis in spheres of production, and excessive competition. This led to investment in unproductive speculative financial activities**Invalid source specified.**.

Giovanni Arrighi **Invalid source specified.** proposed that financialization is a result of loss of hegemony of the US in the global system, with the rise of China as a centre of production. China is in the process of building its World System, and Belt-and-Road Initiative can be considered as major program that China offers to countries to connect to a new global trade regime and even offers infrastructural help. Till it matures as an alternative World System, China chose to remain within American World System, by parking its surpluses in US treasuries, that the US wants desperately. Regulation schools hold that financialization is a result of decline of Fordist state in the light of falling rate of profit and a new regulation system of neoliberalism has been embarked on. Painceira **Invalid source specified.** argued that host of emerging countries, along with China, like India, Mexico, South Korea, and Brazil have joined the American World System, by adopting neoliberal regulation and financialized economies. While some of these are trade surplus countries, many are trade deficit countries. Countries with trade deficit experience continuous erosion of currencies with significant improvement in balance of payments. Structural weakness of peripheral capitalism, such as lack of innovation and ability to promote over the ladder in global supply chains, keep them bleeding from periodic capital outflow though short-term financial flows. The damage to the real sector is covered up by domestic financial slush. Neoliberal regime prevents these financial excesses from reaching working class that keeps inflation in check.

5. India's Neoliberal Reforms and Financialization

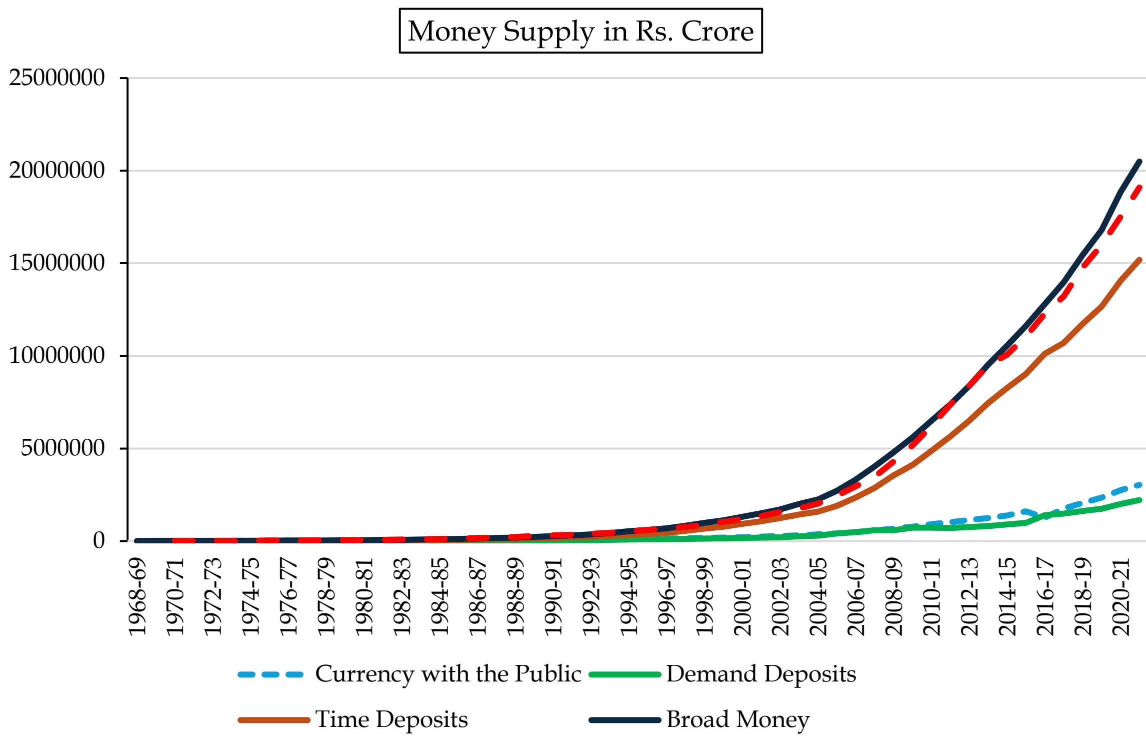
A quick look at the long-term developments of the Indian economy is useful as a background for examining the role of money and growth of finance in the recent decades. India had a more *dirigiste* economy, with certain lead given to public sector in creating infrastructure and heavy industries in the first three decades since independence. The growing economy suffered an agrarian constraint till mid-1970s, as well as infrastructural constraints. The industrial growth between 1950-1991 had been 4.7 percent, agriculture growth was 2.7 percent, and a service sector growth as 6.7 percent during 1951-91. An initial conservative fiscal/monetary stance was liberalized during 1980s, the overall growth rate being 4.5 percent. There are other constructive measures such as considerable investment in building hospitals, medical education, centres of excellence in engineering education, free collegiate education, provision of public transport in most cities, affordable internal transport, banking, public libraries, parks, public sector in key industries, etc, even if these were limited to urban areas, but was meant to spread to other areas. The failure to regulate private accumulation, induce them to spend, evade taxes and stash earnings abroad, refuse to innovate and seek protection from global competition failed the Nehruvian regulation regime. The fall of Soviet Union ended the three decade Rupee-Ruble bilateral trade and needed IMF to bail out the BoP crisis during the 1990 Gulf Crisis. Since world became unipolar, India as dependent periphery for international reserves, is compelled to join the American World System, on the conditions of neoliberalization of the economy. This promised the inflow of FDI and shorter portfolio investments that gave reserves to manage the trade deficit.

Neoliberal reforms gave mixed prospects and changed the nature of the economy. Even after widespread liberalization, India's manufacturing continued to be sluggish. Even though sectors such as telecommunications, banking, insurance, and automobiles received majority of the foreign direct investments, it was aimed to capture domestic market. The information technology sector is the only sector that gave a steady spurt in exports, besides petroleum products. India's import dependence increased and the rating agencies almost capped India's trade deficit to 2% of GDP. The state borrowing is restricted by technocratic bureaucrats and Central Bank Governors, fiscal policy singularly focussed on tax reductions. After a frustrating period of 14 years, India's fortunes turned with the accelerated global growth during 2004-09. India adopted financialization to bolster private corporate accumulation. The financialization of the economy entailed liberal listing of companies on the stock markets, allowing mutual fund companies, converting all public controlled companies into joint stock companies, fast tracking stock listing process, relaxing auditing norms, freeing banks from social lending, widening bond markets and fixed income asset trading, options and future derivatives, commodity futures, housing and real estate lending, and consumer credit. Banks were allowed to float subsidiary investment banks.

Financialization of a capitalist economy can be argued to be a stage of the economy, with a considerable level of development of property rights, growth of the economy, deregulated finance sector and tradeable resources. Less developed economies followed conservative monetary policy, for the fear of losing control over the economy and dependence of the imperialist powers. The financial growth is favoured by the global financial institutions. Where public borrowing, pension fund administration and development funding are subjected to market rules. These things transform an economy from a paper-currency dominated stage to bank credit dominated stage to financialization. This can be seen in case of India, where currency in circulation has steadily fell from 58.8 percent of total money in 1952 to a mere 16 percent in 2022 (see Appendix table 1a), while bank deposits share grew from 39.6 percent to 84 percent (see Appendix table 2a). This is a major feature what post-Keynesians describe as endogenous money where money supply tends to grow copiously feeding the economic growth (see chart 1). The flow of foreign reserves in the form of foreign direct investments and short-term portfolio investment also increases domestic money supply (see chart 2). These reserves are invested back in US securities that allows Central Banks to earn returns. These returns are sometimes used to buy dollars to sterilize rising value of domestic currency, as well as country's creditworthiness. The external commercial borrowing by the private corporate firms is facilitated by leveraging the external reserves of the central bank. India's financialization is thus also facilitated by the external inflows, which is an underlying factor in expanding the finance.

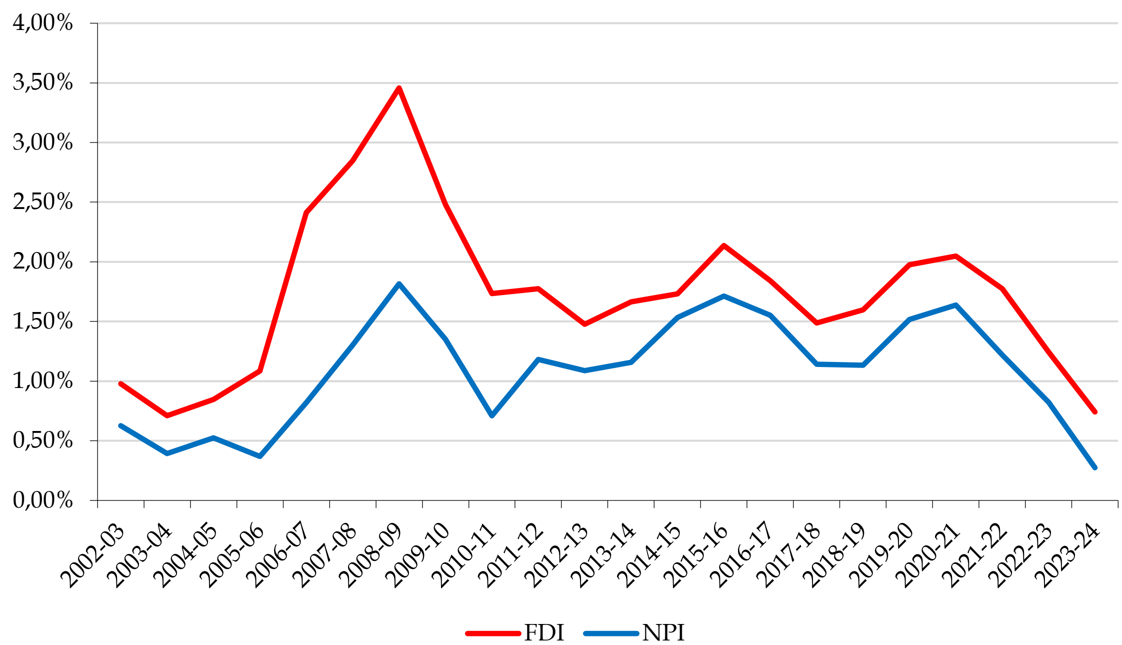
Much of this money supply is banking credit. There are couple of features that entail neoliberalism. First, the share of government credit in the total credit before the economic reforms in 1991 was substantial, it was steadily brought down from 45.6 in 1991 percent to 27.3 percent in 2008. However, it is gone up to 33.7 percent in 2022, which indicates a possible driving up public investment to sustain growth (see Appendix table 3a). While the government credit tended to be high before 1991, it was brought down in the next two decades; and was increased to boost the sagging growth in the post-Global Financial crisis period (see Appendix table 4a). The periods of low growth and share of government credit coincides with the periods of higher growth and share of commercial credit in the total. When we look at corresponding growth in money supply, we observe that rate of M3 has accelerated from 12.8 percent during 1951-90 to 16.7 percent during 1991-2004. There is a marginal decline to 14 percent during 2005-22 (see table 2). These rates are quite high, on a long-term basis, which creates enormous amount of broad money that can drive asset prices. The second aspect of the neoliberal bank credit is denial of credit to small borrowers and handing it on platter to the big corporates (see chart 3). The share of small and micro industries in the overall commercial credit kept falling steadily over time from 1979 to 2022, it fell from 23.3 percent to 17.9 percent (see Appendix table 7a). The share of medium and large industries increased from 76.7 percent to 82.1 percent, out of which a lion's share up to 90 percent of commercial credit went to large scale industries (see Appendix table 8a).

Chart 1. Money supply in Billion Rupees 1968-2021



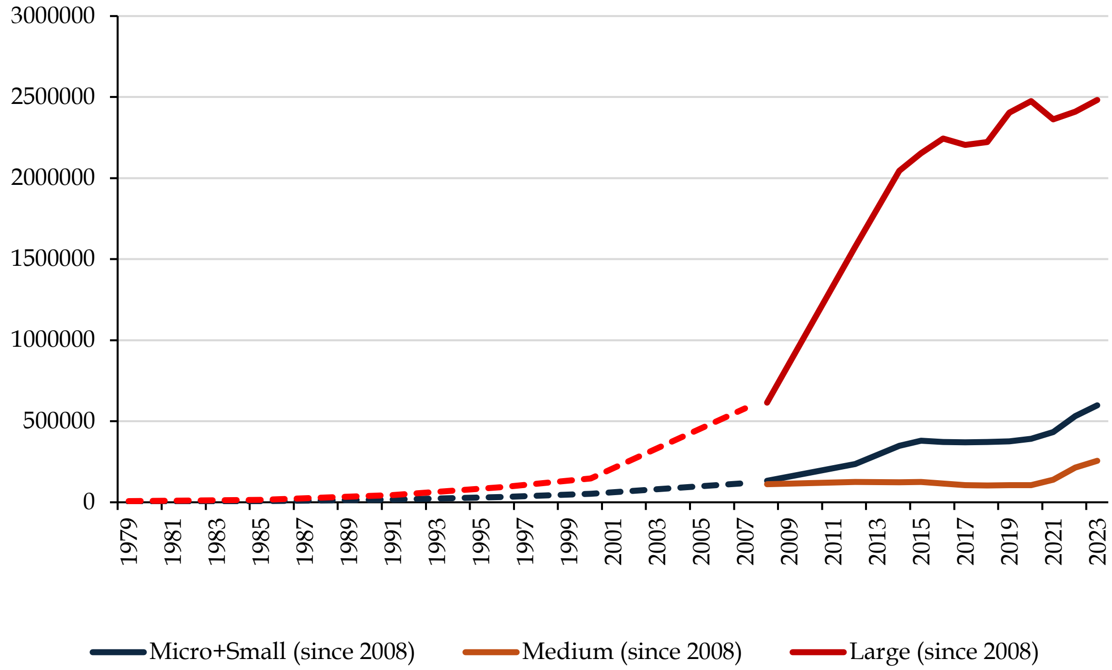
Source: *Reserve Bank of India*

Chart 2. FDI and Net Portfolio Foreign Investments (as % of GDP)



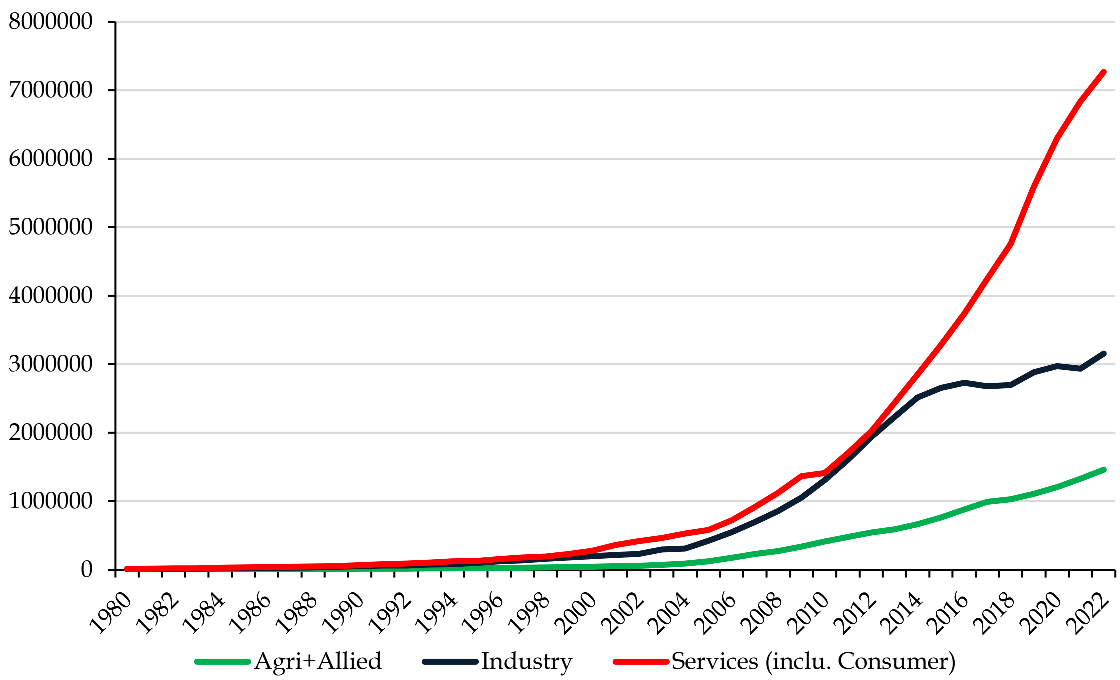
Source: *Reserve Bank of India*

Chart 3. Credit to Industries by Size[27] (in Rupee Crore) from 1979 to 2023



Source: *Reserve Bank of India*

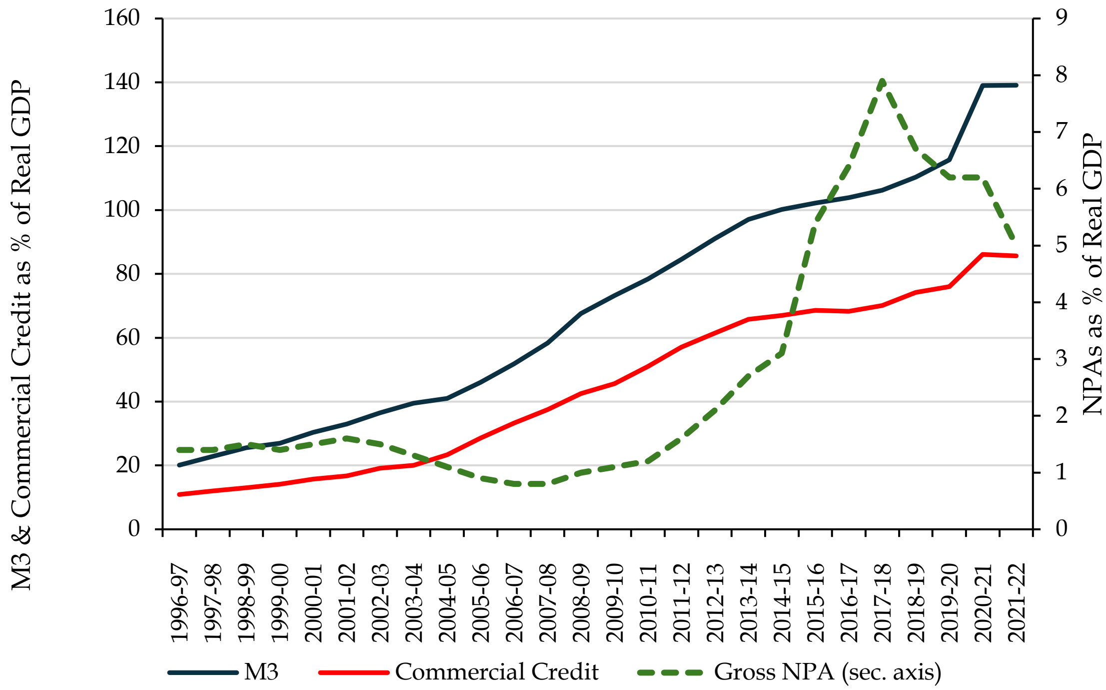
Chart 4. Credit to three Sectors in Rupee Crore from1980 to 2022



Source: *Reserve Bank of India*

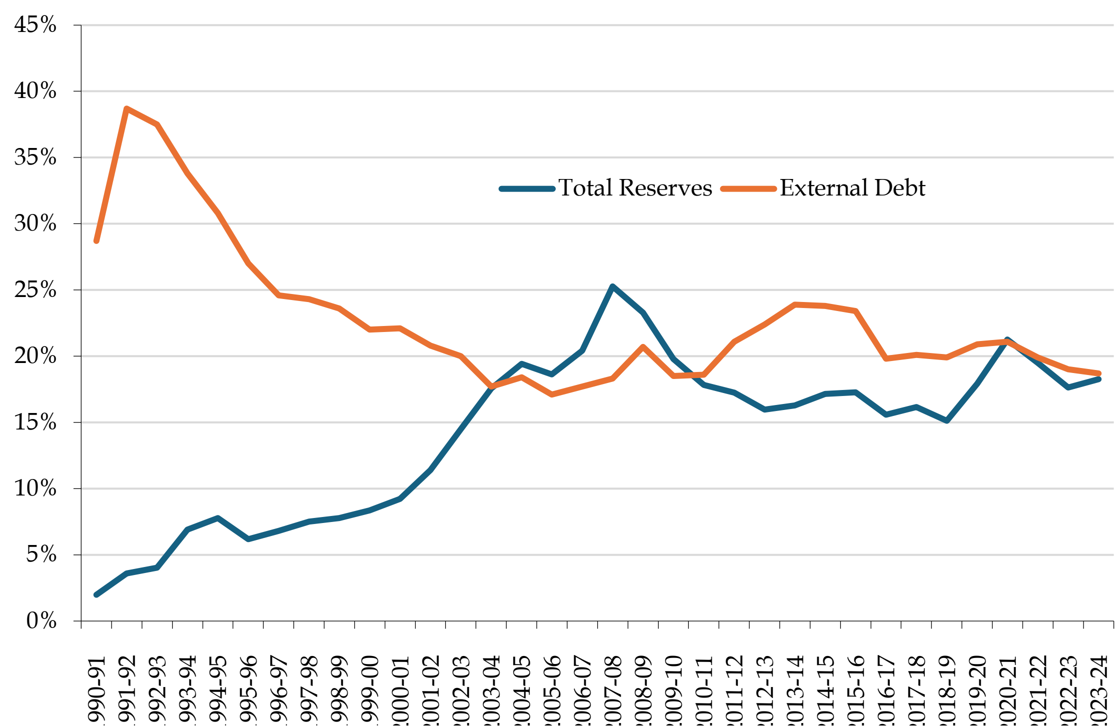
[27] Changes in the classification of industries by the government of India is reflected with a break in the line graphs.

Chart 5. Non-Performing Assets, M3 and Commercial Credit as % of Real GDP



Source: *Reserve Bank of India*

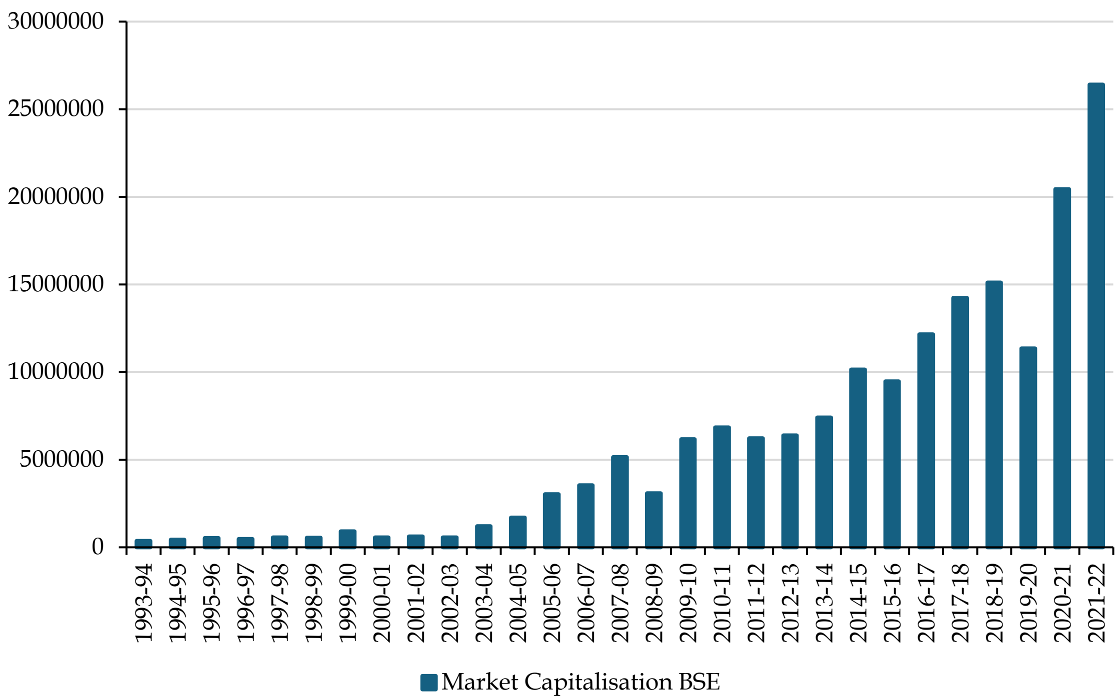
Chart 6. Total Reserves and External Debt (as % of GDP)



Source: *Reserve Bank of India*

The structure of the credit in India in the last 50 years has changed with decline of industrial credit, and services rose to dominance. The personal services such as insurance, banking, finance, and real estate and housing have been on rise (see charts 5, 9, 10). The growth of credit has similar trends, what is interesting is the fact that since 1980s, the share of service sector exceeded 50 percent and it increased to 58 percent by 2022 (see chart 4). The share of industrial credit grew up to 2005 and fell drastically since then. This can be seen not only in sectoral shares, but also in terms of growth rates. The service sector recorded the highest growth of credit to it (especially during the high growth phase 2004-2008), matched by consumer credit (see Appendix tables 5a and 6a). India's credit to industrial sector had been falling in the past forty years and fell to 8.1 during 2017-2022 (see Appendix table 6a). To this extent that share of credit to micro and small industries has been consistently fell and volume of credit to this sector of industries has been low since 1979 (see Appendix table 8a). To conclude, the share of small borrowers has been falling in the Indian industry, the share of industry and manufacturing has been coming down, and the share of service sector has gone up. A substantive component of the services constitutes real estate and housing loans. The rise of housing and real estate finance plays an important role in the financialisation process of the economy (see chart 9, 10). We also have seen a remarkable rise in the land prices and stock market capitalisation in the past twenty years (see chart7, 8 and 9).

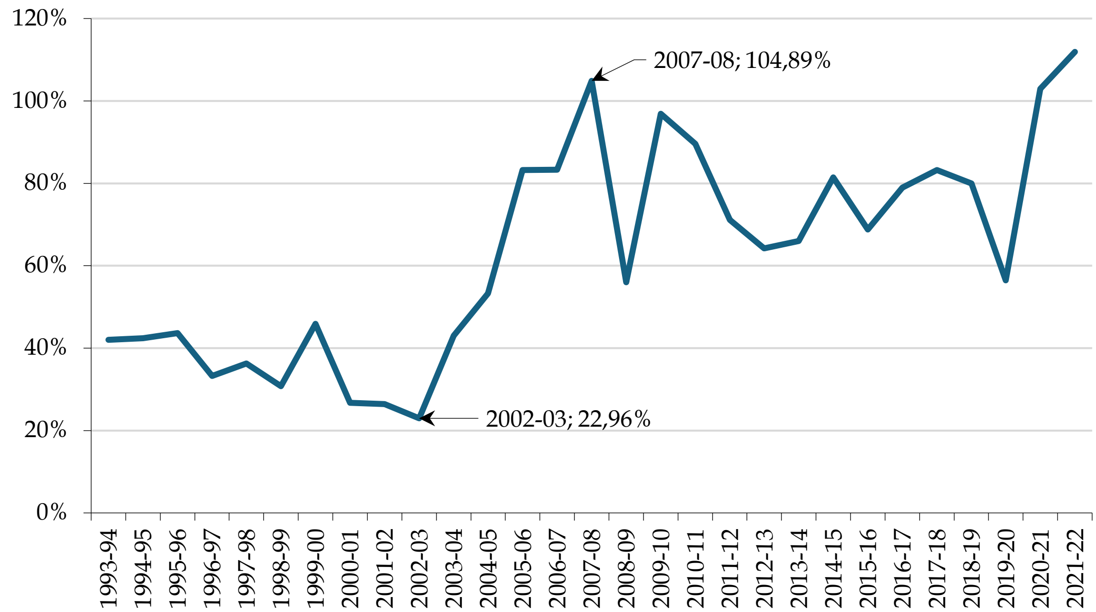
Chart 7: BSE Market Capitalisation (Rs. Crore)



Source: *Reserve Bank of India*

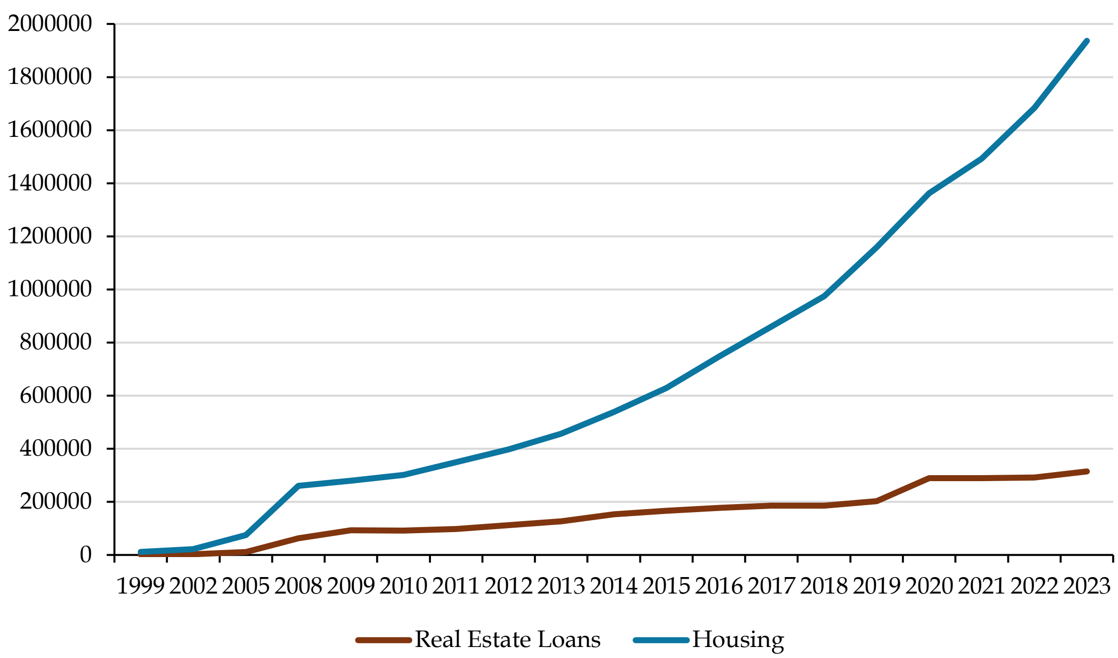
The Bombay Stock Exchange market capitalization had crossed Rs. 250 trillion, which is roughly 240 percent of India's GDP (see chart 7 & 8). In the past twenty years it grew 4515 percent. Such a disproportionate growth of secondary market and capital gains, which typically happens through fusion of banking finance . Such explosion of finance also spilled into housing credit, which has grown by Rs.20 thousand crores to Rs.200 trillion (during 1995-2021. The result is skyrocketing of land prices since 1997, as reflected by the housing price index published by the Reserve Bank of India, shows 280 percent rise during 2018-21 (see figure 10.

Chart 8. BSE-Market Capitalisation (as % of GDP)



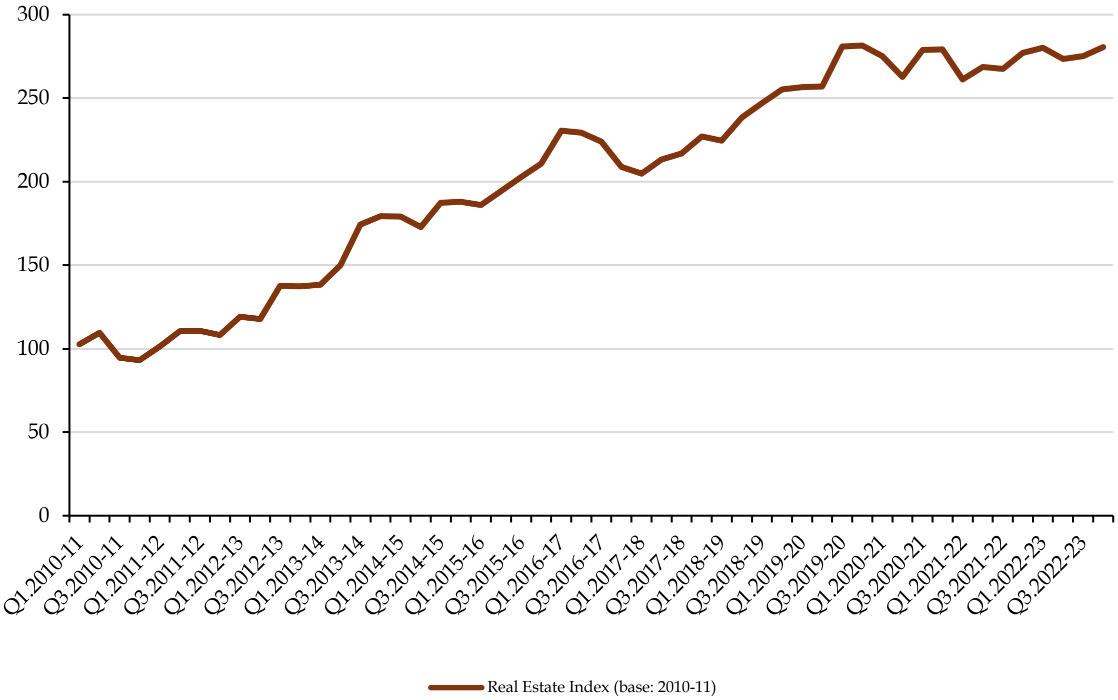
Source: *Reserve Bank of India*

Chart 9. Commercial Credit to Real Estate and Housing (Rs. Crore)



Source: *Reserve Bank of India*

Chart 10. Housing Price Index in India



Source: *Reserve Bank of India*

Chart 11. Dollar Exchange Rate of Rupee

Source: *Reserve Bank of India*

6. Monetary Policy, Inflation Targeting and Exchange Rate

The issue of monetary control is often raised in the policy discourses, which proceeds with a presumption that monetary authorities can exercise certain control over the money creation process and its implications. Since the early seventies, with a revival of classical orthodoxy in the form of monetarism and its variants, tweaking interest rates had been the popular policy to control monetary expansion and its putative impact on inflation. When we considered broad money (M3), it, in fact, comprises of deposits as a major portion, which expand as result of public debt well as private debt. Variety of interest rate instruments are used in practice such as bank rate, repo rate and reverse repo rate to influence money supply. Bank rate is what central bank charges to commercial banks, if they borrow from the former without security. While Repo Rate is what is charged on banks while selling government securities to maintain reserve ratio. The interest rate charged by the banks on commercial loans is called prime lending rate. All these move in the same direction and repo rate is the explicit policy instrument for inflation control. When we did some simple regression tests to see the putative monetary management, using the data published by the Reserve Bank of India. The results indicate that the effect of repo rate on M3, is negative, with very less explanatory power[28] (see table 1). Similar is the result when we regressed prime lending rate on commercial credit, we found it statistically insignificant. These regressions cast doubt on the efficacy on the monetary policy on inflation control and investment process. As argued in the paper, when money creation process involves loans for production, consumption and speculation, determined by a wide array of factors we argued that the interest rates as instrument of influencing the economic activity is but highly unlikely.

The expansion of broad money supply should have significant relation with real income, as it facilitates conversion of money capital into productive capital and realization. As we have argued that it is highly unlikely that the broad money created in a financial year would translate in growth of output in the same period. The regression for Indian data confirms this, M3 has a perverse sign with the output in the current year as well as in the lagged year. It has a significant positive relationship only with a two-year lag (table 2). Thus, this result supports our claim that money supply has to be created substantially ahead of creation of real output, as the transmission process has a mean distance of two years, at least. If the money supply is endogenous, monetary policy of controlling money supply becomes near impossible.

Important departures in the monetary policy during neoliberalism is to confine monetary policy to inflation targeting and leave out output-targeting, besides achieving controlled depreciation, often dubbed as exchange rate stability. Under financialization, calibration of money supply to maintain a targeted low inflation would be the most difficult task. Unless some forms of financial repression are practiced by the state, the most likely happening is the excess money created than the potential output. However, these money balances may end up in asset spheres and inventories, and forcing bad debts on

[28] Methodology applied here is of simple linear regression. Simple Linear Regression output are presented in the tables 9, 10, 11 and 12.

a. The algebraic expression is y = a + bx; where y is the dependent variable, x is the independent variable, a is constant, and b is the coefficient.

b. The results are interpreted against the p-values, t-values, R-squared and D-Watson test.

the banks. For instance, the BSE index has grown 55 times in the past 30 years. The money supply growth in India has significant correlation with BSE stock index (table no.3). The inflationary possibilities should exist only to the extent of excess money entering into wage circuit, while supply bottlenecks too cause inflation. The scope of wage inflation is likely to be less for an economy which experienced considerable fall in the share of wages in the national income **Invalid source specified.**. Therefore, the neoliberal period has witnessed much more asset inflation than the commodity inflation.

Table 1. Log-Linear Regressions

Period	Dependent Variable	Independent Variable	Coeff	T-Value	P-Value	R^2	DW Statistic
1952-2022 (71)	M3	Bank Rate	+3.011	3.69	0.000	0.1647	0.0171
1992-2022 (31)	Commercial Credit	PLR	-2.0892	-1.34	0.190	0.0584	0.0205
2001-2022 (22)	M3	Repo Rate	-1.6052	-1.95	0.065	0.1601	0.1696
2001-2022 (22)	Inflation	Repo Rate	+0.1698	0.43	0.673	0.0091	0.3438
2001-2022 (22)	Inflation (lag 1 year)	Repo Rate	+0.6719	1.72	0.102	0.1343	0.4301

Note: *Linear Regressions algebraic expressions are applied here ($y = a+bx$)*

Table 2. Log Linear Regression Real GDP and M3 (1971-2022)

Dep Var	Ind Var	Coeff	T-Value	P-Value	R^2	DW
Real GDP_t	$M3_t$	-0.6245	-1.12	0.000	0.99	0.2491
Real GDP_t	$M3_{t-1}$	-0.6112	-0.61			
Real GDP_t	$M3_{t-2}$	+1.5857	2.89			

Table 3. Log Linear Regression BSE Sensex (index) and M3 (1st Diff) (1973-2022)

Dep Var	Ind Var	Coeff	T-Value	P-Value	R^2
BSE_Sensex	$\Delta M3_t$	0.8927	23.59	0.000	0.92
BSE_Sensex	$\Delta M3_{t-1}$	0.8696	21.83	0.000	0.92
BSE_Sensex	$\Delta M3_{t-2}$	0.8382	21.05	0.000	0.92

Table 4. Log-Linear Regression

Period (no. of Obs)	Dep Variable	Indep Variable	Coefficient	T-Value	P-Value	R^2	DW Statistic
1987-2022	M3	Inflation	-0.904	-1.75	0.091	0.0922	0.119
1987-2022	M3 (lag 1)	Inflation	-1.131	-2.24	0.033	0.1474	0.161
1987-2022	M3 (lag 2)	Inflation	-1.047	-2.04	0.051	0.1290	0.134
1987-2022	Inflation	M3	-0.101	-1.75	0.091	0.0922	0.848
1987-2022	Inflation (lag 1)	M3	-0.099	-1.70	0.099	0.0879	0.884
1987-2022	Inflation (lag 2)	M3	-0.107	-1.73	0.094	0.0939	0.854

Note: *Linear Regressions algebraic expressions are applied here (In y = a+b In x); (M3=1st difference; Inflation and Growth Rates in levels, after checking for stationarity)*

7. Granger Causality Results

The above results between inflation rates, money supply and policy rates are tested using Granger causality tests[29]. The results of the tests are as following (see table 5 for details):

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[29] We used a granger causality test developed by Toda-Yamamoto (1995) and Dolado and Lutkepohl (1996), popularly known as TYDL model. TYDL Granger (non) causality is used to test the direction of causality between two variables. This particular test is used here because this test can be applied to any series regardless of the order of integration. The Test employs modified WALD test based on VAR modelling.

a. First is to identify the maximum order of integration by applying unit root test. We used ADF test here.
b. Then we create a VAR model on the series at level regardless of their order of integration. Generally, number of optimal lags is determined by a selection criterion.
c. TYDL approach intentionally over-fits the model with additional dmax order of integration. For e.g.,

$$x_t = \delta_0 + \sum_{i=K+1}^{k+\text{dmax}} \alpha_{1i}\, x_{t-i} + \sum_{i=K+1}^{k+\text{dmax}} \alpha_2\, y_{t-i} + \varepsilon_{1t}$$

$$y_t = \eta_0 + \sum_{i=K+1}^{k+\text{dmax}} \beta_{1i}\, y_{t-i} + \sum_{i=K+1}^{k+\text{dmax}} \beta_2\, x_{t-i} + \varepsilon_{2t}$$

Where, x and y are two variables, dmax is the maximum order of integration, δ0 and η0 are constants, εt is the error term, and α and β are the coefficients, k is the optimal lag order (However, for our purposes to test our hypothesis on causal direction of between the variables, we employed 0 lags and 1 lag. The test does not mean misapplication of the model, but using it specifically to understand the dynamics and apply it to specificity of the hypothesis).

d. We apply causality test for non-causality using pairwise equations and modified Wald test (MWald) for the significance of the parameters. The MWald follows Chi-Square(χ2) distribution and the degrees of freedom are equal to the number of time lags(k+dmax).

- There is no causality from Repo rate to Inflation, while Inflation rates Granger-cause repo rate.
- There is no causation from Lending Rate to Commercial Credit, nor commercial credit causing lending rate.
- Rise in Bank Rate causes M3, which is perverse result.
- There is no causality from M3 to Inflation, but Inflation to granger causes M3 to rise.

Repo rates have no causal influence on inflation rates, while repo rate changes are caused by the inflation rate. Second, the commercial credit is unresponsive to lending rates suggesting investment is interest-inelastic, a result proved by plethora of other studies. Third, there is no causality from broad money M3 to inflation, while there is causality other way. These results support the alternative hypotheses of money creation process to the mainstream theory.

Table 5. TYDL Granger (non) Causality Estimates (see Appendix II for methodology)

Period & Variables	Stationarity	[P-Values] Causal Direction →	
Lending Rate (LR) & Commercial Credit (CC)		LR → CC	CC → LR
1991-2022	LR at 1 diff; CC at 2nd diff	0.317	0.367
1991-2022 (1 year lag)		0.300	0.647
Broad Money (M3) & Bank Rate (BR)		M3 → BR	BR → M3
1991-2022	M3 at levels; BR at 1st diff	0.191	0.016**
1991-2022 (1 year lag)		0.346	0.121
Lending Rate (LR) & Bank Rate (BR)		LR → BR	BR →LR
1991-2022	LR and BR at 1st diff	0.026**	0583
1991-2022 (1 year lag)		0.060***	0.940
Inflation Rate (IR) & Bank Rate (BR		IR → BR	BR → LR
1991-2022	Inflation at Levels and BR at 1st diff	0.008*	0.798
1991-2022 (1 year lag)		0.135	0.595
, **, and * are 1%, 5% and 10% level of significance respectively*			

Note: TYDL model for granger (non) causality is followed here.

8. Conclusions

India's path to neoliberalism and financialization needs to be understood as a larger part of integration into the American World System. The Globalization phase, that followed fall of Soviet Union, neoliberalism as Regulation paradigm became the condition for the periphery to join the expanding unipolar World System. The advantages were that

Rejection of the null hypothesis means the presence of non-causality. Thus, TYDL model is set up as follows:

$$x_t = \delta_0 + \sum_{i=1}^{k} \alpha_{1i}\, x_{t-i} + \sum_{i=1}^{k} \alpha_2\, y_{t-i} + \sum_{i=k+1}^{k+\text{dmax}} \alpha_{1i}\, x_{t-i} + \sum_{i=k+1}^{k+\text{dmax}} \alpha_2\, y_{t-i} + \varepsilon_{1t}$$

$$y_t = \eta_0 + \sum_{i=1}^{k} \beta_{1i}\, y_{t-i} + \sum_{i=1}^{k} \beta_2\, x_{t-i} + \sum_{i=k+1}^{k+\text{dmax}} \beta_{1i}\, y_{t-i} + \sum_{i=k+1}^{k+\text{dmax}} \beta_2\, x_{t-i} + \varepsilon_{2t}$$

the new global inflows have temporarily solved balance of payments troubles of India, while surplus value is transferred through capital outflows to the Centre. This erosion of accumulation, which results in contraction of the economy, is given an escape route through financialization, which includes opening financial markets, excess growth of finance, now non-banking firms can raise in the equity markets. The financialisation is a means to overcome the realisation crisis of the firms and its effects on the overall economy. The excess liquidity, is prevented to flow into hands of working class, while copiously flows into asset markets. It also leads to poor asset quality and bad debts with the banks, which are bailed out periodically by the Central Banks. The global integration gave opportunities for countries like India to grow into a status of semi-periphery, which is often hailed as success of economic reforms and global integration. The flip side is the sacrifice of invisible drain of its surplus values to the Centre. Financialization induces means to accumulate and store wealth in assets. The financialization benefits the large capital at the expense of the small, which severely affects informal production in the peripheral countries where majority seek livelihood. India's lacklustre growth of employment and precarious trade deficits reflect the serious lacunae vibrancy of capital in innovation and core strength to grow up the ladder. We have shown that monetary expansion has long lag, which makes short terms management of inflation difficult. Inflation suppression happens through inequality, thereby conventional empirical testing gives insipient results, since the phenomenon is overdetermined. The inflation targeting becomes the global management of inflation rates and short-term exchange rate stability. This regulation regime deprives the Keynesian route to stimulate the aggregate demand by imposing limits on fiscal borrowing. The economy is caged in the global and domestic finance systems.

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APPENDIX (Tables)
Data Source: Reserve Bank of India Data base; compiled by authors.

<u>**General Note:** Shaded cells in the tables reflect changes in methodology or unavailability of data for the period.</u>

Table no. 1a. Relative shares of Cash, Demand Deposits and Time Deposits (in percent)

Item	1952	1971	1991	2004	2008	2017	2022
Cash	58.8	44.1	22.2	17.6	16.4	11	16
DD	24.8	28.5	15.7	13.9	16.1	11.5	11.3
TD	14.8	35.3	69.3	76.7	79.4	73.1	73.5

Source: *Reserve Bank of India*
Note: *DD is Demand Deposits; TD is Time Deposits Source: Reserve Bank of India*

Table no. 2a. Growth Rates of Components of Money Supply (in percent)

Item	1952-1990	1991-2004	2004-2008	2008-2017	2017-2022
Cash (circulation)	10	14.7	15.9	9.5	18.6
DD	11.5	15.6	22.3	10.3	9.6
TD	17.5	17.6	19	15.1	8.5
M1	10.2	14.6	17.9	10.8	14.5
M3	12.8	16.7	18	14.5	10

Source: *Reserve Bank of India*

Table no. 3a. Shares of Government and Commercial Credit in Total Credit (in percent)

Item	1971	1991	2004	2008	2017	2022
Government Credit	45.6	45.3	43.5	27.7	32.3	33.7
Commercial Credit	54.4	54.7	56.5	72.3	67.7	66.3
Total Credit	100	100	100	100	100	100

Source: *Reserve Bank of India*

Table no 4a. Growth rates of Government and Commercial Credit in Total Credit (in percent)

Item	1971-1990	1991-2004	2004-2008	2008-2017	2017-2022
Government Credit	17.7	13.9	4.7	17.8	9.9
Commercial Credit	18	14.6	24.7	15	8.5
Total Credit	17.9	14.3	17.2	15.8	8.9

Source: *Reserve Bank of India*

Table no. 5a. Sectoral Shares in Commercial Credit rate (in percent)

Item	1980	1991	2005	2022
Agriculture + Allied	9.83	10.55	12.4	13.3
Industries	38.72	38.85	42.1	28.6
Services	51.45	50.6	20	27.3
Consumer Credit			25.5	30.7
Total	100	100	100	100

Source: *Reserve Bank of India*

Table no. 6a. Sectoral Commercial Credit Growth (in percent)

Item	1980-1990	1991-2004	2004-2008	2008-2017	2017-2022
Agriculture + Allied	19.6	13.9	32.1	15.3	8.1
Industries	17.3	13.3	28.7	13.5	3.3
Services	16.6	15.6	20.6	15.9	11.3
Consumer Credit			26.7	13.4	16.7

Source: *Reserve Bank of India*

Table no.7a. Compound Annual Growth of Commercial Credit to Industries by Size (in percent)

Item	1979-1990	1991-2004	2004-2008	2008-2017	2017-2022
Small Scale	19.6	12.8			
Micro & Small				10.8	6.3
Medium & Large	16.4	13	24	12.3	2.1
Medium				-0.6	12.6
Large				13.6	1.5
Total Industries	17.2	12.3	22.4	11.4	2.9
Real Estate			62.5	9.3	9.8
Housing			38	7.5	17.9

Source: *Reserve Bank of India*

Table no. 8a. Compound Annual Share of Commercial Credit to Industries by Size (in percent)

Item	1979	1991	2007	2008	2022
Small Scale	23.3	27.9	16.9		
Micro & Small				15.5	17.9
Medium & Large	76.7	72.1	83.1	84.5	82.1
Medium				12.9	7.7
Large				71.6	74.4
Total Industries	100	100	100	100	100

Source: *Reserve Bank of India*

KEY-SECTORS, PRODUCTION LEAKAGES, AND THE IMPORT CONTENT OF EXPORTS OF TOURISM-RELATED ECONOMIC ACTIVITIES OF GREECE: A COMPARISON WITH GERMANY

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Abstract

The purpose of this paper is to examine, using input-output analysis, the position of tourism-related economic activities within the productive structure of the Greek economy. These activities are land transport (H49), water transport (H50), air transport (H51), accommodation and food services (I), real estate (L68), administrative and support service activities (N) and other services (R-S). The analysis draws on secondary data sourced from the WIOD database, covering the period 2000–2014. The results for the Greek economy are compared with the corresponding results for the German economy —the predominantly developed economy of the EU— to identify structural differentiations. Moreover, the results indicate stronger backward linkages of the tourism-related sectors in Germany compared to Greece during the period 2000–2014, with the exception of sectors N and R-S. The forward linkages of the tourism-related sectors in Germany are also stronger compared to the corresponding sectors in Greece, with the exception of sectors I and L68. However, none of the tourism-related sectors constitutes a key-sector for either the Greek or the German economy, with the exception of sector H49 which is displayed as a key-sector for some years for both the German and the Greek economy, and sectors N and R-S which are displayed as key-sectors of the Greek economy for a few years. The average production leakages of the tourism-related sectors in both countries have been increasing over time, and from 2009 and onwards, in Germany exceeded those of the corresponding sectors in Greece. The import content of exports of the tourism-related sectors as a share of the import content of total exports of the economy exceeds 23.9 percent throughout the period 2000-2014, in the case of Greece, while in the case of Germany during the same period, it does not exceed 3.0 percent.

Keywords: tourism-related sectors, key-sectors, input-output analysis, global value chains

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1. Introduction

In 2017, tourism contributed 10 percent to global GDP, while 10 percent of jobs were related to tourism (UNWTO 2018, 3). From 2009 to 2019, international tourist arrivals almost doubled globally, and in 2019, 7 percent of global exports of goods and services were related to tourism (UNWTO 2023, 4; 2024b, 21).

In Greece, tourism contributed 12.5 percent to GDP in 2019, while 17.1 percent of employment was in tourism-related economic activities (INSETE 2020: 15, 18). According to the Bank of Greece, inbound tourism increased by 136.34 percent from 2005 to 2019. In 2019, 87.31 percent of tourists came from abroad and only 12.69 percent were domestic tourists. Export revenues from international tourism (tourism exports) accounted for 45.26 percent of total service exports and 25.04 percent of total goods and services exports. Tourism exports covered 79.9 percent of the goods trade deficit (INSETE 2020: 17). These data highlight the particularly high export orientation of Greek tourism.

The COVID-19 pandemic had a negative impact on global tourism. Compared to 2019, international tourist arrivals were down 72 percent in 2020, while tourism exports were decreased by 63 percent (UNWTO 2023: 5–10). In 2023, tourist arrivals represented 88 percent of 2019 levels, and export revenues represented 95 percent of 2019 levels, with a return to 2019 levels expected in 2024 (UNWTO 2024a: 1–3, 6).

According to INSETE (2021: 14, 17; 2022: 14, 18; 2023: 18, 24), during 2020–2022 tourism's contribution to GDP decreased compared to 2019 but returned to 2019 levels in 2023 (3.9 percent in 2020, 7.4 percent in 2021, 11.5 percent in 2022, 13 percent in 2023). Additionally, employment in tourism-related economic activities decreased, apart from 2021 (15.9 percent in 2020, 17.1 percent in 2021, 16.7 percent in 2022, and 16.4 percent in 2023). Inbound tourism declined both in absolute terms and compared to domestic tourism during 2020–2022 but approached 2019 levels in 2023. The contribution of tourism revenues to both service exports and total exports of goods and services, dramatically decreased during 2020–2022 but slightly approached 2019 levels in 2023. Despite this, in 2022, Greece was among the top 10 global destinations in terms of international tourist arrivals, and ranked 9th (27.8 million arrivals), just behind Germany, which ranked 8th (28.5 million arrivals) (UNWTO 2023: 20, 24). In 2022, 46.01 percent of international tourist arrivals took place in EU-27 countries, while the tourist arrivals in Greece and Germany represented 12.75 percent of all tourist arrivals in the EU-27 (UNWTO 2024b: 7, 12).

The above data highlight the great importance of tourism for the Greek economy and its export orientation. By using input-output analysis, this paper investigates: a) the production linkages (backward and forward) of tourism-related economic activities, and b) the extent to which the exports of tourism-related activities rely on imported inputs as well as the extent of production leakages of these sectors abroad. The results of the above analysis are compared with tourism-related economic activities of Germany, the strongest economy in the EU. The second section reviews the literature on methods used to assess the contribution of tourism to the economy, focusing on the use of input-output analysis. The third section is devoted to the methodology adopted and research limitations, while the fourth section presents the research results. The fifth section outlines the main conclusions.

2. Literature Review

The literature investigates the impact of tourism at the international, national, and/or regional levels using various methodologies. Mazumder et al. (2012) conducted a literature review of studies carried out between 1969–2011 that used input-output models,[34] general equilibrium models, Keynesian multipliers, social accounting matrix models, and tourism satellite accounting models to estimate the impacts of tourism. Of the 49 studies, most used input-output analysis to varying degrees (Mazumder et al. 2012: 286–287). They argue that the choice of method/technique depends on the study's focus, available data, and the assumptions of each study (Mazumder et al. 2012: 290).

Eadington and Redman (1991) suggest that input-output analysis provides detailed information on the interconnections between production sectors, but is often limited by data availability and high data collection costs (Eadington and Redman 1991: 51).

Fletcher (1989) and Briassoulis (1991) also highlighted the utility of input-output analysis in examining tourism's economic impact. Fletcher (1989: 517) attributed the high performance of tourism in South Korea to its relatively low import content of exports, noting that lower import shares increase the impact on demand growth by reducing production leakages abroad (Fletcher 1989: 526–527). Briassoulis (1991: 488–492) highlighted some methodological issues arising from the basic assumptions of input-output analysis and the nature of tourism, particularly focusing on the assumption of fixed technical coefficients.

Frechtling (2011: 5–7) recommends input-output analysis for studying intersectoral transactions, pointing out that input-output analysis is a tool for policies of import substitution, increased domestic production linkages, and consequently higher multiplier impacts of tourism demand or, in other words, reduced production leakages related to tourism spending.

Atan and Arslanturk (2012) examined the backward and forward linkages of the Turkish economy for 2002, calculating multipliers for the "Accommodation and food service activities." Surugiu (2009) calculated the backward and forward linkages for the economic activities of the Romanian economy, specifically for the "Accommodation and food service activities," which was one of the weakest horizontally connected sector.

Archer and Fletcher (1988) and Fletcher (1989) used input-output analysis to compare trade flows, multipliers, and productive leakages of tourism-related economic activities among countries. Khanal et al. (2014) identified key-sectors for the economy of Laos.

Economakis et al. (2015: 437–440) compared Greece's backward linkages with those of Belgium and Germany for 2005, finding that Greece had relatively weak domestic production linkages.

Kolokontes et al. (2018: 51) calculated backward linkages and income and employment multipliers of the Greek economy for 2010, finding that economic activities with the highest multipliers of output, employment, and income, were "water transport services" and "food, beverages and tobacco products," due to their relative size.

Economakis and Markaki (2020: 143–214) investigated the production linkages of the Greek economy in a comparative framework with other EU countries in 2000 and 2014. In their analysis, tourism-related economic activities were not among those with the highest forward or backward linkages in 2014, apart from the economic activity "administrative

[34] The first application of input-output analysis to study the impact of tourism took place in the early 1960s (see Briassoulis 1991: 487).

and support service activities," which was a key-sector of the economy. Additionally, they found that in 2014 the import content of exports was 0.304 or 30.4 percent of total exports.

Mylonas (1999: 3–5, 133–134), by using input-output analysis, estimated that tourism-related economic activities of Greece contributed 10–13 percent of total gross value added in 1992.

Paratsiokas and Danchev (2012: 5, 37) calculated the impact of tourism-related economic activities on the total output of the Greek economy for 2010, and found that tourism contributed 15.1 percent or 34.4 billion euros of total output, while the direct impact on GDP was estimated at 15.2 billion euros.

Kasimati (2016: 60–61), while analyzing quarterly data for Greece from 2000–2013, calculated the average tourism multiplier at 1.21, noting that the "tourism industry" created a 1.0 percent GDP increase in 2013.

Athanassiou et al. (2014: 63) investigated the multiplier effects on total output and employment by sector of Greece in 2010. Their research results indicate that among those sectors with significant multiplier effects on total output and employment, few are associated with the production of internationally tradable goods (Athanassiou et al. 2014: 63, 65). According to this study, this is due to the weak presence of sectors which produce internationally tradable goods within the domestic productive structure, and the consequent high proportion of imports, which increase demand leakage abroad and limit the multiplier effects of domestic sectors (Athanassiou et al. 2014: 63, 65, see also Athanassiou and Tsouma 2013: 68–72). Regarding the sectors related to tourism, their analysis points out that the increase of output of the economic activity "accommodation and food services" exerts significant multiplier effects primarily on employment, due to the fact that it is a labor-intensive sector (Athanassiou et al. 2014: 65–72).

Backinezos et al. (2020) investigated product multipliers, total product multipliers, and value-added and employment multipliers for Greek economic sectors in 2015. Their results indicated that among tourism-related economic activities, the "travel agency and related services" sector was among the top ten sectors with the highest total multipliers, whereas the "accommodation and food services" sector's total multiplier was lower than the economy's average and its simple multiplier was slightly above the economy's average (Backinezos et al. 2020: 14–15).

Athanassiou and Tsouma (2013) calculated the import content of consumption and exports in Greece by sector and for the economy as a whole for the years 2005, 2008, and 2010. In their analysis, the (total) import content, which is separately calculated for consumption and exports and pertains to the entire economy, consists of the direct import content and the indirect import content. The direct import content of consumption refers to the share of domestic consumption covered by imports of final goods and services, while the direct import content of exports refers to the share of exports covered by imports of goods and services without further processing (Athanassiou and Tsouma 2013: 67–68). The indirect import content of consumption refers to the share of imported inputs in the total output directed towards (domestic) consumption, while the indirect import content of exports (or foreign content of exports-FCX in terms of the methodology that we follow) refers to the share of imported inputs in the total output directed towards exports (Athanassiou and Tsouma 2013: 67–68). Additionally, they calculate the indirect import content by economic activity (or production leakages-PL in terms of the methodology that we follow), which reflects the share of imported inputs in total output. Finally, they calculate the direct import content by economic activity, which reflects the share of imported goods and services directed towards final uses (consumption and exports) (Athanassiou and Tsouma 2013: 67–68). The indirect import content reflects the leakage of demand abroad, resulting from the substitution of domestically produced intermediate inputs with imported intermediate inputs, while the direct import content reflects the leakage of demand abroad, resulting from the substitution of domestic production with imported final goods destined for domestic consumption or direct exports. Their research results indicate high values, especially for the indirect import content of exports (23.6 percent in 2005, 27.0 percent in 2008, and 25.3 percent in 2010), which is attributed to "the lack of self-sufficiency" in intermediate inputs and the "gradual shrining of the production structure of the country" (Athanassiou and Tsouma 2013: 69–72). Regarding tourism-related economic activities, they do not report particularly high percentages of an indirect import content by sector, with the exception of the "transportation and storage" sector, whose index value is slightly higher than the average.

3. Methodology

Input-output analysis was developed by Wassily Leontief in the 1930s. Its core idea is that the production of a sector is often used as an input by one or more other sectors. Therefore, input-output analysis allows us to quantify the inter-industry linkages of an economy (Leontief 1986, 19). This is made possible by using input-output tables. The rows of the table depict the distribution of a sector's output to other sectors of the economy (including itself), as well as the final demand for each sector (household consumption, government demand, exports). The columns represent the inputs required for the production of a sector's output, primary inputs (such as labor compensation, profits, taxes), and imports (Miller and Blair 2022: 2–4).

Input-output analysis assumes that each production sector, as well as the economy as a whole, exhibits constant returns to scale, the production technology in each sector is given, and therefore the technical coefficients remain constant, the output of each sector is homogeneous, and there are no restrictions on the supply of inputs (fully elastic supply) (Leontief 1941: 20, 35–41; Leontief 1986: 324–331; Markaki 2013: 36; Ten Raa 2006: 14).

Our analysis is based on the World Input-Output Tables (WIOT) derived from the World Input-Output Database (WIOD) for the years 2000–2014 in current prices and covers 56 sectors. A World Input-Output Table consists of the total of national Input-Output Tables, which are interconnected through trade flows. They are double-entry tables, where the columns record the inputs (intermediate consumption, value added at basic prices, international transport margins) of sectors and the final uses of each country, while the rows record the outputs of each sector to other sectors and to final users. The structure of WIOT is described in detail by Timmer et al. (2015).

The inter-industry transactions (in monetary terms) among all n sectors of the economy are captured as follows (Miller and Blair 2022: 11–12):

$$\mathrm{X} = \mathrm{Z} + \mathrm{Y}$$

where X is the n x 1 column vector where each element X_i represents the output of sector i, Z is the n x n matrix where each element Z_{ij} indicates the inter-industry sales from sector i to sector j, or in other words, it represents the matrix of domestically produced intermediate inputs, Y is the n x 1 column vector where each element Y_i represents the final demand for the product of sector i.

In input-output analysis, it is assumed that the inter-industry flows between sectors i and j are connected by a constant relationship within a given time period. Thus, the quantity of intermediate inputs with which sector *i* supplies sector *j* depends on sector *j*'s output. The relationship between the quantity of sector *j*'s output and the required quantity of intermediate inputs from sector *i* is described as follows (see Miller and Blair 2022, 15 ff):

$$a_{ij} = \frac{Z_{ij}}{X_j}$$

In other words, the term a_{ij} indicates the amount of intermediate inputs from sector *i* (in monetary terms) required to produce one unit of the sector *j*'s output (in monetary terms). This ratio is called the technical coefficient. According to Ten Raa (2006, 14), the extraction of technical coefficients lies at the core of input-output analysis.

Based on the above and given that:

$$a_{ij} = \frac{Z_{ij}}{X_j} \Rightarrow Z_{ij} = a_{ij}\, X_j$$

we can summarize the inter-industry transactions among all n sectors of the economy, which were presented above by incorporating the technical coefficients into the analysis, with the help of the matrices:

$$\mathrm{X} = \mathrm{AX} + \mathrm{Y} \Rightarrow \mathrm{X} - \mathrm{AX} = \mathrm{Y} \Rightarrow \mathrm{X}(I - \mathrm{A}) = \mathrm{Y} \Rightarrow \mathrm{X} = (\mathrm{I} - \mathrm{A})^{-1}\mathrm{Y}$$

where I is the n x n identity matrix, A is the n x n matrix of technical coefficients with elements α_{ij} each of which indicates the amount of inputs from sector *i* required to produce one unit of the sector *j*'s output, $(\mathrm{I} - \mathrm{A})$ is the n x n Leontief matrix, and $(\mathrm{I} - \mathrm{A})^{-1}$ is the n x n inverse Leontief matrix.

It is noted that the inverse Leontief matrix is also called the total requirements matrix and shows how the total output of each sector depends on the level of final demand of each sector in monetary terms (Miller and Blair 2022: 20–21).

The BL index can be used to investigate the extent to which the backward linkages of a sector *j* are strong or weak. In other words, BL shows the degree to which the domestic vertical production linkages, i.e., the linkages of a sector *j* to the other sectors from which it is supplied inputs, are strong or weak. The calculation of the BL index for each sector can be done using the following formula (Miller and Blair 2022: 303–304):

$$BL = \mathrm{i'L}$$

where i is the n x 1 unit column vector and i' is the transpose of vector i, L is the n x n inverse Leontief matrix, and each element of the row vector BL gives the BL index of each of the n sectors, showing the change that will occur in the total output of the economy from a change in the demand for the product of sector *j*.

The normalized BL index can be calculated using the formula:

$$\overline{\mathrm{BL}} = \frac{\mathrm{n\, i'L}}{\mathrm{i'L\, i}}$$

where each element of the vector $\overline{\mathrm{BL}}$ gives the normalized BL index for each sector *j*.

The FL index can be used to investigate the extent to which the forward linkages of a sector i are strong or weak. In other words, FL shows the degree to which the domestic horizontal production linkages, i.e., the linkages of a sector i to the other sectors to which it supplies inputs, are strong or weak. The calculation of the FL index is based on the Ghosh model (Miller and Blair 2022: 304–305). First, it is necessary to construct the matrix B, where each element b_{ij} shows the intermediate sales of sector i to each of the sectors j, as a share of the total output of sector i:

$$b_{ij} = \frac{Z_{ij}}{X_i}$$

Subsequently, following a similar logic as in the case of backward linkages, the Ghosh matrix, I - B, is constructed, and then the inverse Ghosh matrix, $\mathrm{G} = (\mathrm{I} - \mathrm{B})^{-1}$ with elements g_{ij}. Based on the above, the calculation of the FL index for each sector can be done using the following formula (see also Economakis and Markaki 2020, 148):

$$FL = \mathrm{Gi}$$

where G is the n x n inverse Ghosh matrix and each element of the column vector FL gives the FL index of each of the n sectors, showing the change that will occur in the economy's output from a change in the value added of sector i by one monetary unit.

The normalized FL index can be calculated by using the formula:

$$\overline{\mathrm{FL}} = \frac{\mathrm{n\,G\,i}}{\mathrm{i'G\,i}}$$

where each element of the vector $\overline{\mathrm{FL}}$ gives the normalized FL index for each sector i.

It is noted that from the values of both indices $\overline{\mathrm{BL}}$ and $\overline{\mathrm{FL}}$, an overall picture of a sector's linkages with the other sectors of the economy can be derived. When both indices have a value greater than one, the examined sector has strong forward and backward linkages with the other sectors of the economy and constitutes a key-sector of the economy (Blair and Miller 2022: 305–306).

The import content of exports serves as an indicator of the leakage of demand abroad due to the use of imported intermediate inputs (Athanassiou and Tsouma 2013: 67). According to the OECD (2024), the *"import content of exports is defined as the share of imported inputs in the overall exports of a country, and reflects the extent to which a country is a user of foreign inputs."*

The import content can be calculated for the total output of the economy (Bravo and Alvarez 2012: 91–92; Athanassiou and Tsouma 2013: 68), constituting what we subsequently call production leakages (PL). The import content (specifically) of exports can also be calculated both for the economy's exports as a whole (Breda et al. 2009: 192–193) and for the exports of each sector (Hummels et al. 2001: 78–82).

The production leakages (PL) are calculated by using the following formula:[35]

$$PL = i' * A_m * (I - A)^{-1}$$

[35] We use the notations adopted by Economakis and Markaki (2020).

where PL is the row vector where each element shows the share of imported inputs in the total output of sector $\boldsymbol{j}$ or the production leakages of a sector $\boldsymbol{j}$ abroad when the demand for its product increases by one monetary unit, $\boldsymbol{i}'$ is the 1 x n unit row vector, $\boldsymbol{A_m}$ is the n x n matrix of import input coefficients, and $(\boldsymbol{I}-\boldsymbol{A})^{-1}$ is the n x n inverse Leontief matrix.

It is noted that to construct matrix $\boldsymbol{A_m}$, matrix $\boldsymbol{Z_m}$ needs to be derived first, which shows the distribution of intermediate inputs imported from third countries. Each element $\boldsymbol{Z_{m_{ij}}}$ of matrix $\boldsymbol{Z_m}$ is obtained by summing the inputs required for the output of sector $\boldsymbol{j}$ that are imported from sector $\boldsymbol{i}$ of all other countries.

Each element of matrix $\boldsymbol{A_m}$ is then derived as follows:

$$a_{m_{ij}} = \frac{Z_{m_{ij}}}{X_j}$$

while matrix A_m is derived as follows

$$A_m = Z_m\, \hat{X}^{-1}$$

where $\hat{X}$ is the n x n diagonal matrix, while each element of the main diagonal represents the output of sector X_j, and $\hat{X}^{-1}$ is the inverse matrix of $\hat{X}$.

The calculation of the import content of exports can be done by using the formula:

$$FCX = i' * A_m * (I-A)^{-1} \cdot \widehat{EX} \Rightarrow FCX = PL * \widehat{EX}$$

where $\widehat{EX}$ is the n x n diagonal matrix, while each element of the main diagonal represents the share of each sector *j*'s exports in the total exports of the economy. Each element of the row vector FCX shows the share of imported inputs in the exports of sector *j* or the production leakages of sector *j* abroad when the exports of that sector increase by one monetary unit. Summing the elements of the FCX vector results in the import content of exports for the total exports of the economy, which captures the production leakages for the entire economy caused by an increase of the total exports by one monetary unit.

Briassoulis (1991) has grouped the methodological issues related to the use of input-output analysis of tourism into four categories. A key limitation highlighted by her analysis stems from the assumption of constant technical coefficients. According to Briassoulis (1991: 488–490), the assumption of constant technical coefficients is more acceptable for economies where tourism development is in the maturation stage, rather than for economies where tourism development is in an early stage and structural change is significant. Moreover, technical coefficients may change more frequently due to the possibility of substituting inputs (between capital and labor or between different types of labor). However, Archer and Fletcher (1988: 9) argue that tourism activities are fundamentally labor-intensive, and their production functions, and thus their technical coefficients, tend to be quite stable over time. Briassoulis (1991: 491) also argues that since input-output analysis relies on annual data, the technical coefficients derived from it do not reflect seasonality. Finally, Frechtling (2011: 6–7), when referring to the use of input-output analysis in tourism, considers the assumptions of constant returns to scale, the absence of supply constraints, and fixed input and output transactions as unrealistic, and believes that external shocks to which tourism is vulnerable are not sufficiently incorporated into input-output analysis.

When using input-output analysis to investigate tourism, the basic assumption is that tourism is not a traditional economic sector nor a sector that produces multiple products (Briassoulis 1991: 488). Thus, the effects of tourism should be sought across more than one economic activity (Briassoulis 1991: 489).

In order to identify the tourism-related activities, we utilize the conceptual framework of the Tourism Satellite Account, which includes the concepts of "tourism characteristic products" and "tourism characteristic activities (or tourism industries)" (United Nations 2010a: 23; 2010b: 39–40). This methodological choice is made because *"it is recommended that international comparability of tourism should be limited to tourism characteristic products and related activities"* (United Nations 2010b: 40).

Since the data from the input-output tables are provided at a two-digit level, each four-digit ISIC "tourism characteristic activity" is assigned a two-digit ISIC code (or broader grouping) based on the classification of sectors in the input-output tables. Table 1 shows the tourism-related economic activities. This necessary methodological choice is also a limitation of our research.

Table 1. Tourism related economic activities in accordance with WIOD's database classification.

H49	Land transport and transport via pipelines
H50	Water transport
H51	Air transport
I	Accommodation and food service activities
L68	Real estate activities
N	Administrative and support service activities
R-S	Other service activities

Source: *WIOD, authors calculations.*

4. Results

4.1. Backward Linkages

Greece

Table 2 illustrates the backward linkages of tourism-related economic activities. By taking into account the average of the time series for each tourism-related economic activity, we observe that the greatest economic impact results from a change in the demand of the "air transport" economic activity (H51), meaning that this sector exhibits the highest degree of backward linkages.

It is necessary to point out that from table 2 it emerges that the average impact of tourism-related activities is (on average) 1.525 during the period 2000–2014. This average impact of tourism-related economic activities is lower than the average impact of all sectors of the economy.

Regarding the importance of each tourism-related economic activity in Greece, table 3 is more revealing, as it depicts the normalized backward linkages of the tourism-related economic activities. Each element in the table represents the normalized BL index of each tourism-related economic activity per year, showing the average impact exerted by each tourism-related economic activity compared to the average impact of all sectors of the Greek economy.

From the data in table 3, it is evident that only the sectors of "air transport" (H51) and "accommodation and food service activities" (I) consistently show a normalized BL index value greater than one throughout the period 2000–2014.

Germany

Table 4 depicts the backward linkages of tourism-related economic activities in Germany. By taking into account the average of the time series for each tourism-related economic activity, we observe that the greatest impact on the economy is caused by a change in the demand of the "water transport sector" (H50). In other words, this sector shows the highest degree of backward linkages.

It is necessary to point out that from table 4 it emerges that the average impact of tourism-related activities is (on average) 1.688 during the period 2000–2014. This average impact of tourism-related economic activities is higher (in contrast to the case of Greece) than the average impact of all sectors of the economy.

Regarding the importance of each tourism-related economic activity in Germany, table 5 is more revealing, as it depicts the normalized backward linkages of the tourism-related economic activities. Each element in the table represents the normalized BL index of each tourism-related economic activity per year, showing the average impact exerted by each tourism-related economic activity compared to the average impact of all sectors of the German economy.

From the data in table 5, it is evident that the sectors of "land transport and transport via pipelines" (H49), "water transport" (H50), "air transport" (H51), and "accommodation and food service activities" (I) consistently show a normalized BL index value greater than one throughout the period 2000–2014.

4.2 Forward linkages

Greece

Table 6 depicts the forward linkages of each tourism-related economic activity in Greece. By taking into account the average of the time series for each tourism-related economic activity, we observe that the greatest impact on the economy is caused by a change in the added value of the "administrative and support service activities" sector (N). This means that this sector shows the highest degree of forward linkages.

It is necessary to point out that from table 6 it emerges that the average impact of tourism-related economic activities is (on average) 1.459 during the period 2000–2014. This average impact of tourism-related economic activities is significantly lower than the average impact of all sectors of the economy.

Table 2. Backward linkages of the tourism-related economic activities in Greece, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2000–2014
H49	1.574	1.556	1.625	1.501	1.484	1.455	1.529	1.516	1.520	1.556	1.520	1.517	1.557	1.551	1.602	1.538
H50	1.392	1.489	1.516	1.467	1.425	1.419	1.424	1.388	1.389	1.445	1.514	1.512	1.539	1.529	1.480	1.462
H51	1.757	1.736	1.789	1.693	1.689	1.714	1.716	1.678	1.661	1.721	1.581	1.645	1.669	1.653	1.642	1.690
I	1.788	1.734	1.808	1.728	1.714	1.689	1.686	1.648	1.527	1.648	1.646	1.662	1.688	1.665	1.577	1.681
L68	1.191	1.195	1.201	1.224	1.248	1.204	1.195	1.142	1.114	1.125	1.071	1.087	1.077	1.074	1.074	1.148
N	1.674	1.653	1.718	1.601	1.530	1.531	1.553	1.531	1.436	1.464	1.641	1.610	1.684	1.692	1.595	1.594
R_S	1.563	1.561	1.583	1.584	1.557	1.543	1.541	1.528	1.514	1.516	1.586	1.628	1.581	1.578	1.565	1.562
Average of tourism-related economic activities	1.563	1.560	1.606	1.543	1.521	1.508	1.521	1.490	1.452	1.497	1.508	1.523	1.542	1.534	1.505	1.525
Average of all economic activities	1.539	1.546	1.579	1.541	1.522	1.531	1.540	1.535	1.515	1.541	1.565	1.543	1.550	1.537	1.539	1.541

Source: *WIOD, authors calculations*

Table 3: Normalized backward linkages of the tourism-related economic activities of Greece, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49	1.023	1.006	1.029	0.974	0.975	0.951	0.993	0.988	1.004	1.010	0.971	0.983	1.005	1.009	1.041
H50	0.905	0.963	0.960	0.952	0.936	0.927	0.925	0.904	0.917	0.938	0.967	0.979	0.993	0.994	0.962
H51	1.142	1.123	1.133	1.099	1.110	1.120	1.115	1.094	1.097	1.117	1.010	1.066	1.077	1.075	1.067
I	1.162	1.122	1.145	1.122	1.126	1.103	1.095	1.074	1.008	1.070	1.052	1.077	1.089	1.083	1.025
L68	0.774	0.773	0.760	0.794	0.820	0.787	0.776	0.744	0.736	0.730	0.684	0.705	0.695	0.699	0.698
N	1.088	1.069	1.087	1.039	1.005	1.000	1.009	0.998	0.948	0.950	1.048	1.043	1.087	1.101	1.036
R_S	1.016	1.010	1.002	1.028	1.023	1.008	1.001	0.996	1.000	0.984	1.013	1.055	1.020	1.026	1.017

Source: *WIOD, authors calculations*

Table 4. Backward linkages of the tourism-related economic activities in Germany, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2000–2014
H49	1.729	1.715	1.698	1.716	1.726	1.730	1.711	1.714	1.726	1.772	1.793	1.783	1.766	1.747	1.736	***1.737***
H50	1.968	1.958	2.033	2.015	1.970	1.888	2.002	2.053	2.025	1.904	1.936	2.078	2.082	2.026	2.025	***1.998***
H51	1.874	1.959	2.032	2.019	1.999	1.985	1.940	1.949	1.993	1.960	1.898	1.880	1.888	1.849	1.864	***1.939***
I	1.779	1.761	1.750	1.755	1.752	1.759	1.763	1.729	1.750	1.795	1.793	1.778	1.754	1.779	1.770	***1.764***
L68	1.390	1.388	1.357	1.375	1.373	1.378	1.368	1.343	1.333	1.396	1.388	1.373	1.356	1.352	1.340	***1.367***
N	1.618	1.622	1.532	1.548	1.561	1.590	1.572	1.538	1.552	1.583	1.601	1.603	1.592	1.569	1.553	***1.576***
R_S	1.452	1.455	1.437	1.443	1.432	1.428	1.421	1.420	1.419	1.453	1.448	1.448	1.433	1.430	1.421	***1.436***
Average of tourism-related economic activities	***1.687***	***1.694***	***1.691***	***1.696***	***1.688***	***1.680***	***1.683***	***1.678***	***1.685***	***1.695***	***1.694***	***1.706***	***1.696***	***1.679***	***1.673***	***1.688***
Average of all economic activities	***1.647***	***1.654***	***1.657***	***1.667***	***1.659***	***1.664***	***1.655***	***1.652***	***1.661***	***1.684***	***1.663***	***1.662***	***1.640***	***1.635***	***1.625***	***1.655***

Source: *WIOD, authors calculations*

Table 5. Normalized backward linkages of the tourism-related economic activities of Germany, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49	1.050	1.037	1.025	1.029	1.040	1.040	1.034	1.037	1.039	1.052	1.078	1.073	1.077	1.068	1.068
H50	1.195	1.184	1.227	1.209	1.187	1.135	1.210	1.243	1.219	1.131	1.164	1.251	1.269	1.239	1.246
H51	1.138	1.185	1.226	1.211	1.205	1.193	1.173	1.179	1.200	1.164	1.141	1.132	1.151	1.130	1.147
I	1.080	1.065	1.056	1.053	1.056	1.057	1.065	1.046	1.053	1.066	1.078	1.070	1.069	1.088	1.089
L68	0.844	0.840	0.819	0.825	0.828	0.828	0.827	0.813	0.802	0.829	0.835	0.826	0.826	0.827	0.825
N	0.982	0.981	0.925	0.929	0.941	0.956	0.950	0.931	0.935	0.940	0.963	0.965	0.970	0.960	0.956
R_S	0.881	0.880	0.867	0.866	0.863	0.859	0.859	0.860	0.854	0.863	0.870	0.871	0.874	0.874	0.874

Source: *WIOD, authors calculations.*

Regarding the importance of each tourism-related economic activity in Greece, table 7 is more revealing, as it depicts the normalized forward linkages of the tourism-related economic activities. Each element in the table represents the normalized FL index of each tourism-related economic activity per year, showing the average impact exerted by each tourism-related economic activity compared to the average impact of all sectors of the Greek economy.

From the data in table 7, it is evident that only the sectors "real estate activities" (L68) and "administrative and support service activities" (N) consistently show a normalized FL index value greater than one throughout the period 2000–2014.

Germany

Table 8 depicts the forward linkages of each tourism-related economic activity. By taking into account the average of the time series for each tourism-related economic activity, we observe that the greatest impact on the economy is caused by a change in the added value of the "administrative and support service activities" (N) sector. This means that this sector shows the highest degree of forward linkages.

It is necessary to point out that from table 8 it emerges that the average impact of tourism-related economic activities is (on average) 1.659 during the period 2000–2014. This average impact of tourism-related economic activities is lower than the average impact of all sectors of the economy.

Regarding the importance of each tourism-related economic activity in Germany, table 9 is more revealing, as it depicts the normalized forward linkages of the tourism-related economic activities. Each element in the table represents the normalized FL index of each tourism-related economic activity per year, showing the average impact exerted by each tourism-related economic activity compared to the average impact of all sectors of the German economy.

From the data in table 9, it is evident that only the sectors "land transport" (H49) and "administrative and support service activities" (N) consistently show a normalized FL index value greater than one throughout the period 2000–2014.

Key-sectors of the economy

From tables 10 and 11, it appears that for both countries none of the tourism-related economic activities constitute a key-sector of the economy throughout the period 2000–2014, meaning that normalized BL and normalized FL indices are not simultaneously greater than 1

Table 6. Forward linkages of the tourism-related economic activities in Greece, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2000–2014
H49	1.656	1.684	1.757	1.713	1.729	1.727	1.732	1.725	1.686	1.683	1.641	1.607	1.619	1.606	1.610	***1.678***
H50	1.057	1.054	1.059	1.052	1.035	1.037	1.038	1.031	1.027	1.039	1.032	1.039	1.049	1.050	1.046	***1.043***
H51	1.261	1.264	1.322	1.329	1.272	1.287	1.290	1.259	1.257	1.305	1.264	1.275	1.307	1.307	1.302	***1.287***
I	1.093	1.091	1.092	1.092	1.092	1.094	1.097	1.099	1.093	1.098	1.103	1.107	1.104	1.109	1.105	***1.098***
L68	1.750	1.773	1.838	1.777	1.776	1.785	1.819	1.814	1.753	1.765	1.717	1.664	1.671	1.647	1.662	***1.747***
N	2.026	2.070	2.119	2.020	2.032	2.015	2.025	2.019	2.026	1.999	1.916	1.921	1.937	1.922	1.885	***1.996***
R_S	1.351	1.355	1.389	1.383	1.375	1.402	1.409	1.413	1.385	1.373	1.335	1.324	1.319	1.314	1.317	***1.363***
Average of tourism-related economic activities	***1.456***	***1.470***	***1.511***	***1.481***	***1.473***	***1.478***	***1.487***	***1.480***	***1.461***	***1.466***	***1.430***	***1.420***	***1.429***	***1.422***	***1.418***	***1.459***
Average of all economic activities	***1.661***	***1.681***	***1.691***	***1.650***	***1.637***	***1.641***	***1.643***	***1.620***	***1.591***	***1.615***	***1.583***	***1.583***	***1.602***	***1.615***	***1.605***	***1.628***

Source: *WIOD, authors calculations*

Table 7.: Normalized forward linkages of the tourism-related economic activities in Greece, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49	0.997	1.002	1.039	1.038	1.057	1.053	1.054	1.065	1.060	1.042	1.037	1.015	1.011	0.994	1.003
H50	0.637	0.627	0.626	0.638	0.632	0.632	0.632	0.636	0.645	0.643	0.652	0.657	0.655	0.650	0.652
H51	0.759	0.752	0.782	0.806	0.777	0.784	0.785	0.777	0.790	0.808	0.798	0.806	0.816	0.809	0.811
I	0.658	0.649	0.646	0.662	0.667	0.667	0.668	0.678	0.687	0.680	0.697	0.700	0.689	0.687	0.688
L68	1.053	1.055	1.087	1.077	1.085	1.088	1.107	1.120	1.102	1.092	1.085	1.052	1.043	1.020	1.035
N	1.220	1.232	1.253	1.224	1.241	1.228	1.232	1.247	1.273	1.237	1.211	1.214	1.210	1.190	1.174
R_S	0.813	0.806	0.821	0.838	0.840	0.855	0.858	0.872	0.870	0.850	0.843	0.837	0.823	0.814	0.820

Source: *WIOD, authors calculations*

Table 8. Forward linkages of the tourism-related economic activities in Germany, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2000–2014
H49	2.369	2.363	2.317	2.317	2.342	2.339	2.327	2.361	2.391	2.366	2.383	2.410	2.362	2.355	2.335	***2.356***
H50	1.045	1.048	1.015	1.019	1.027	1.024	1.014	1.025	1.161	1.186	1.229	1.270	1.257	1.227	1.222	***1.118***
H51	1.465	1.425	1.392	1.415	1.433	1.443	1.443	1.452	1.452	1.406	1.346	1.396	1.374	1.356	1.350	***1.410***
I	1.083	1.082	1.077	1.073	1.077	1.085	1.095	1.105	1.106	1.107	1.106	1.114	1.105	1.095	1.095	***1.094***
L68	1.566	1.560	1.552	1.563	1.566	1.575	1.581	1.595	1.605	1.608	1.613	1.650	1.616	1.609	1.598	***1.590***
N	2.652	2.658	2.594	2.622	2.627	2.645	2.636	2.628	2.635	2.582	2.513	2.517	2.489	2.480	2.459	***2.582***
R_S	1.467	1.466	1.457	1.463	1.467	1.482	1.492	1.506	1.516	1.483	1.452	1.449	1.430	1.422	1.411	***1.464***
Average of tourism-related economic activities	***1.664***	***1.657***	***1.629***	***1.639***	***1.648***	***1.656***	***1.656***	***1.667***	***1.695***	***1.677***	***1.663***	***1.687***	***1.662***	***1.649***	***1.639***	**1.659**
Average of all economic activities	***1.726***	***1.722***	***1.717***	***1.723***	***1.718***	***1.719***	***1.709***	***1.704***	***1.713***	***1.719***	***1.701***	***1.694***	***1.678***	***1.678***	***1.655***	**1.705**

Source: *WIOD, authors calculations*

Table 9. Normalized forward linkages of the tourism-related economic activities in Germany, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49	1.373	1.372	1.350	1.345	1.363	1.361	1.361	1.386	1.396	1.376	1.401	1.422	1.408	1.403	1.411
H50	0.605	0.609	0.591	0.591	0.598	0.596	0.593	0.602	0.678	0.690	0.722	0.750	0.749	0.732	0.739
H51	0.849	0.828	0.811	0.821	0.835	0.840	0.844	0.852	0.847	0.818	0.791	0.824	0.818	0.808	0.816
I	0.628	0.628	0.627	0.623	0.627	0.631	0.640	0.648	0.646	0.644	0.650	0.658	0.659	0.653	0.662
L68	0.907	0.906	0.904	0.907	0.912	0.916	0.925	0.936	0.937	0.935	0.948	0.974	0.963	0.959	0.966
N	1.537	1.544	1.511	1.522	1.529	1.539	1.542	1.542	1.538	1.502	1.477	1.485	1.483	1.478	1.486
R_S	0.850	0.851	0.849	0.849	0.854	0.862	0.873	0.884	0.885	0.863	0.853	0.855	0.852	0.848	0.852

Source: *WIOD, authors calculations*

Table 10. Key-sectors related to tourism in Greece, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49		x	x						x	x			x		x
H50															
H51															
I															
L68															
N	x	x	x	x	x	x	x				x	x	x	x	x
R_S	x														

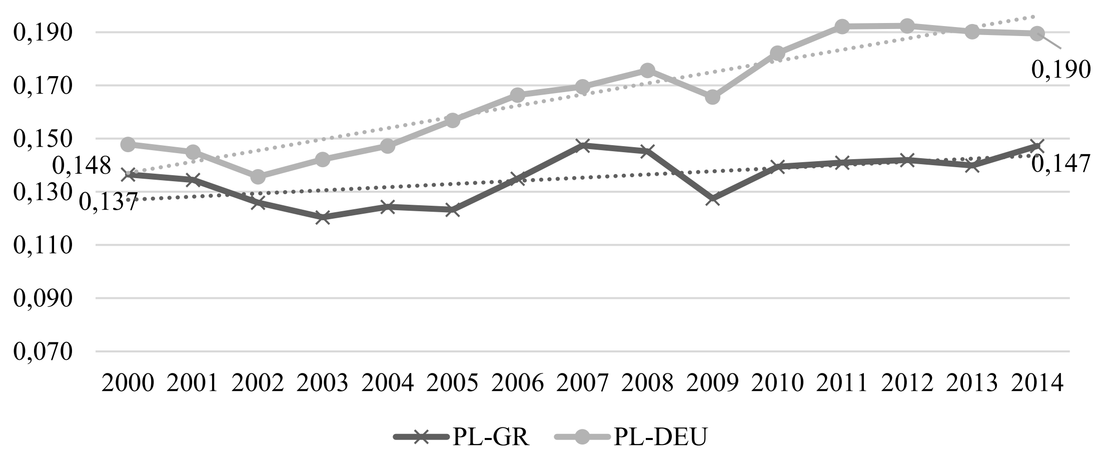
Table 11. Key-sectors related to tourism in Germany, 2000–2014

Economic Activities	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
H49	x	x	x	x	x	x		x	x	x	x	x	x	x	x
H50															
H51															
I															
L68															
N															
R_S															

Production leakages

From figure 1, we observe that Greece consistently has lower average production leakages compared to Germany, and notably, this difference intensifies after the 2008 crisis. Specifically, we notice that Germany's average production leakage, which represents the share of intermediate imported inputs in its output, increases from 0.148 in 2000 to 0.190 in 2014. Greece's average production leakage increases from 0.137 in 2000 to 0.147 in 2014. Therefore, Germany increases its imports of intermediate inputs by 28.57 percent to satisfy the increase of final demand by one monetary unit, whereas Greece increases its imports of intermediate inputs by 9.5 percent, respectively.

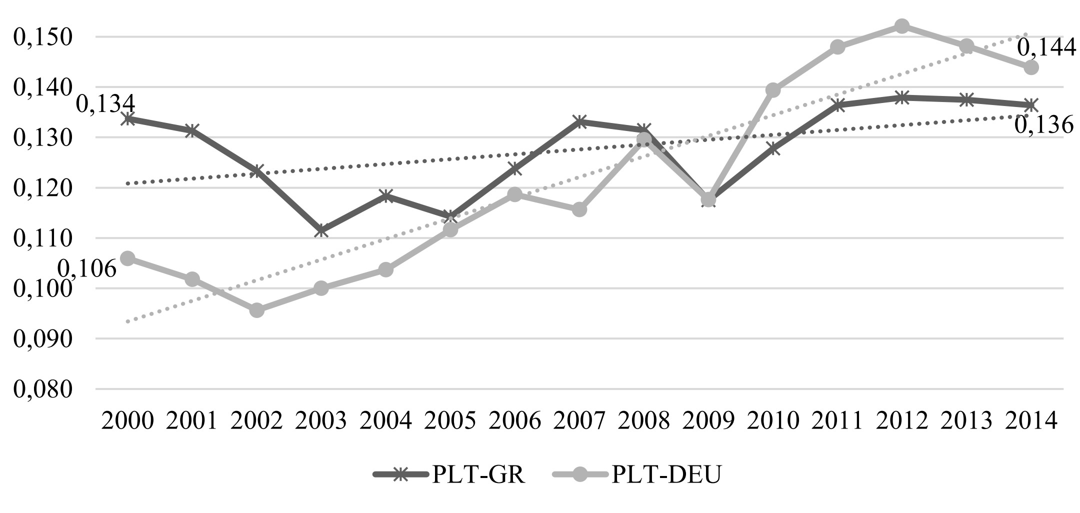
Figure 1. Production leakages of the Greek and German economy (average)



Source: *WIOD, authors calculations*

As shown in figure 2, the tourism-related economic activities do not significantly differ compared to the overall economy, as regards the production leakages. Greece had larger production leakages prior to the onset of the 2008 economic crisis. The production leakages of Germany's tourism-related economic activities increase from 0.106 in 2000 to 0.144 in 2014 (35.84 percent), whereas the production leakages of Greece's tourism-related economic activities increase from 0.134 in 2000 to 0.136 in 2014 (2 percent).

Figure 2. Production leakages of the tourism-related economic activities in Greece and Germany (average)



Source: *WIOD, authors calculations*

From table 12, it is evident that during the examined period, the import content of exports of Greek economy increased from 0.190 in 2000 to 0.304 in 2014. However, for the sectors related to tourism, the import content of exports decreased from 0.079 to 0.073

respectively. It is important to note that the import content of exports for tourism-related economic activities (FCXt) is derived by summing up the FCX indices of each one of tourism-related economic activities.

Table 12. Import content of exports of the Greek economy (FCX) and of tourism-related economic activities (FCXt)

Year	FCX	FCXt	FCXt/FCX
2000	0.190	0.079	0.417
2001	0.200	0.097	0.485
2002	0.185	0.093	0.502
2003	0.176	0.087	0.492
2004	0.185	0.096	0.518
2005	0.197	0.091	0.465
2006	0.223	0.093	0.416
2007	0.227	0.097	0.427
2008	0.236	0.102	0.431
2009	0.199	0.083	0.416
2010	0.238	0.097	0.409
2011	0.284	0.086	0.302
2012	0.324	0.080	0.246
2013	0.308	0.074	0.239
2014	0.304	0.073	0.239

Source: WIOD, authors calculations.

The import content of exports in the German economy increased from 0.230 in 2000 to 0.281 in 2014 (Table 13). The import content of exports of tourism-related economic activities increased from 0.005 to 0.008 respectively. By examining leakages as a relative measure, we observe different structural production patterns between the Greek and German economies. Leakages of the tourism-related sectors as a share of total leakages amount to 41.7 percent for Greece in 2000 and 23.9 percent in 2014 (Table 12), whereas for the German economy, they constitute only 2.3 percent in 2000 and 2.8 percent in 2014 (Table 13).

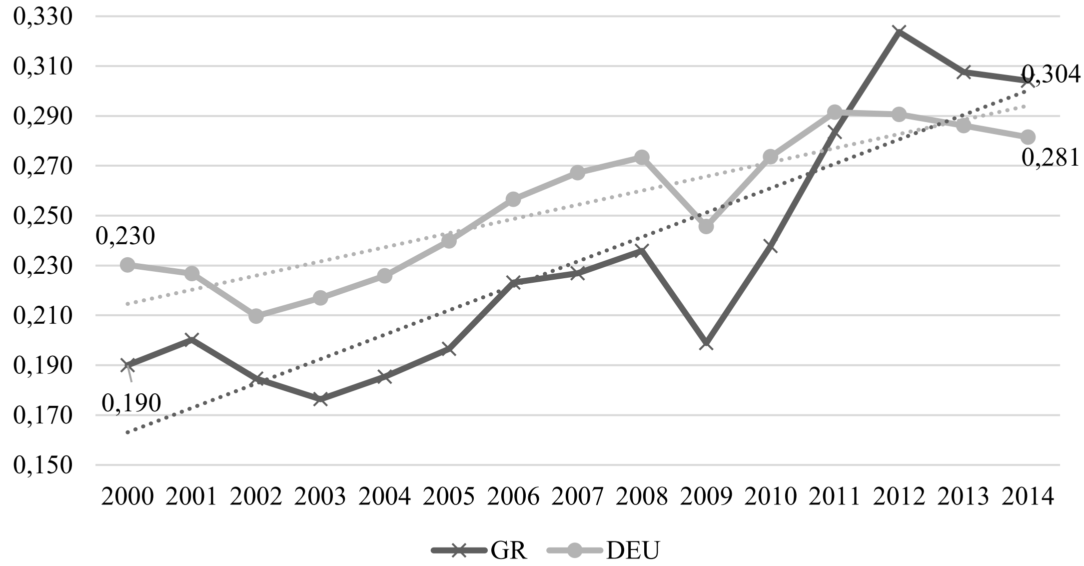
Table 13. Import content of exports of the German economy (FCX) and of tourism-related economic activities (FCXt)

Year	FCX	FCXt	FCXt/FCX
2000	0.230	0.005	0.023
2001	0.227	0.005	0.023
2002	0.210	0.005	0.025
2003	0.217	0.005	0.024
2004	0.226	0.005	0.024
2005	0.240	0.006	0.024
2006	0.257	0.006	0.023
2007	0.267	0.006	0.023
2008	0.273	0.007	0.027
2009	0.246	0.007	0.027
2010	0.274	0.008	0.030
2011	0.291	0.008	0.026
2012	0.291	0.008	0.028
2013	0.286	0.008	0.028
2014	0.281	0.008	0.028

Source: *WIOD, authors calculations*

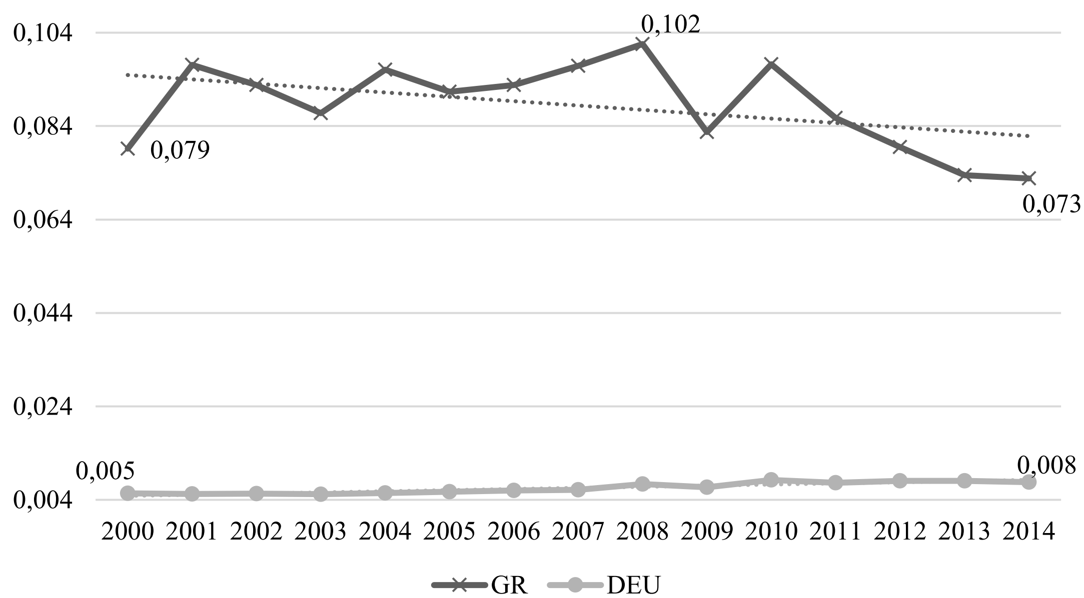
From figures 3 and 4 it is evident that for both countries, the import content of exports (FCX) shows an increasing trend. Specifically, following the economic crisis of 2008, the FCX of the Greek economy grows at a faster rate compared to the corresponding growth rate of the FCX of the German economy, while in 2012, the FCX of the Greek economy surpasses that of the German economy. The FCX of the Greek economy increases by 60 percent between 2000–2014, compared to 22.17 percent for the German economy, respectively. The FCXt of sectors related to tourism during the examined period shows a declining trend for Greece (-7.5 percent), whereas conversely, it shows an upward trend for Germany (+60 percent). The share of import content of exports of tourism related economic activities (FCXt) in the import content of exports of the economy (FCX) for Greece decreases, mainly due to the increase of FCX, largely attributed to the increase of import content of exports of sector C19 (manufacture of coke and refined petroleum products), from 3.9 percent in 2000 to 16.09 percent in 2014, as a percentage of the total exports. Illustrative of the problematic production structure of the Greek economy are the particularly high percentages of FCXt (at least 7 percent of the total exports, over the examined period) compared to the FCXt of Germany (not exceeding 0.9 percent of the total exports during the examined period).

Figure 3. Import content of exports (FCX) of the Greek and German economySource: WIOD, authors calculations



Source: *WIOD, authors calculations*

Figure 4. Import content of exports of the tourism-related economic activities (FCXt) in Greece and Germany



Source: *WIOD, authors calculations*

5. Concluding remarks

From the above analysis it can be concluded that the average backward linkage index (BL) for tourism-related economic activities is lower (1.525) than the average for the entire economy (1.541) for Greece. Conversely, for Germany, the average backward linkage index (BL) for tourism-related economic activities (1.688) is higher compared to the average for the entire economy (1.655). Additionally, for both tourism-related economic activities and the entire economy, the backward linkage indices are higher for Germany compared to Greece. Regarding the evolution over time of the degree of backward linkages of the tourism-related economic activities, there is a decreasing trend for Greece and relative stability for Germany. Among the tourism-related economic activities, the sector with the highest degree of backward linkages in Greece is "air transport" (H51), while for Germany, it is "water transport" (H50). Among the seven broader sectors related to tourism, only two (H51 and I) consistently constitute sectors that are strongly connected to other sectors in terms of backward linkages ($\overline{\mathrm{BL}} > 1$) in Greece, whereas four sectors (H49, H50, H51, I) are strongly connected to other sectors in terms of backward linkages in Germany.

As regards the average forward linkage index (FL) for tourism-related economic activities, it is found to be lower (1.459) than the average for the entire economy (1.628) for Greece. While the average forward linkage index (FL) for tourism-related economic activities is found to be lower (1.659) compared to the average for the entire economy (1.705) for Germany. Additionally, for both tourism-related economic activities and the entire economy, the forward linkage indices are higher for Germany compared to Greece. As regards the evolution over time of the degree of forward linkages in tourism-related economic activities, there is a decreasing trend for Greece and an increasing trend for Germany. Among the tourism-related economic activities, the sector with the highest degree of forward linkages is "administrative and support service activities" (N) for both Greece and Germany. Among the seven broader sectors related to tourism, only two (L68 and N) consistently constitute sectors that are strongly connected to other sectors in terms of forward linkages ($\overline{\mathrm{FL}} > 1$) in Greece, while, two sectors (H49 and N) are also strongly connected to other sectors in terms of forward linkages in Germany.

The comparison of production leakages between Greece and Germany by using the PL index, reveals that during the examined period the German economy has higher production leakages compared to Greece. Both countries show an increasing trend in production leakages over time. Focusing on tourism-related economic activities, it appears that until 2008, these sectors in Greece had higher production leakages on average compared to the same sectors in Germany, whereas from 2009 onwards, these sectors have exhibited lower production leakages compared to the same sectors in Germany. Both countries also show an increasing trend in production leakages for tourism-related economic activities.

As regards the import content of exports, by comparing the FCX index between Greece and Germany the following trends are revealed: during the examined period, the FCX increased by 60 percent for the Greek economy (0.190 in 2000 to 0.304 in 2014), whereas it increased by 22.17 percent for the German economy (0.230 in 2000 to 0.281 in 2014). Specifically for tourism-related economic activities, the import content of exports decreased for Greece from 0.079 in 2000 to 0.073 in 2014, while for Germany it increased from 0.005 in 2000 to 0.008 in 2014. Thus, remains a notably higher FCXt for Greece than in Germany. The different productive structures of the two economies are also evident through the comparison of the import content of exports of tourism-related economic activities as a share of total import content of exports: for Greece, it was 41.7 percent in 2000 and decreased to 23.9 percent in 2014, whereas for Germany it was only 2.3 percent in 2000 and increased slightly to 2.8 percent in 2014. It should be noted that FCXt represents at least 7 percent of total exports of Greece throughout the examined period, while FCXt does not exceed 0.9 percent of total exports of Germany during the same period.

It should be noted that the analysis showed that Germany has higher production leakages compared to Greece for the production of its total output. A possible explanation of this finding is that the German economy, as a more developed economy, produces products of higher technology compared to the Greek economy, and therefore imported inputs of higher value (in monetary terms) are required, compared to the Greek economy. An additional possible explanation is that Germany's apparently higher production leakages, compared to Greece, are due to imports related to intra-firm trade. Moreover, from 2012 onwards the German economy exhibits a lower import component for the production of its exports compared to the Greek economy.

The above underline the higher international competitiveness of Germany compared to Greece, which is reflected in the goods and services balances of the two countries. The German economy not only exports products of a higher technological level — with more production leakages, see figure 1 — compared to the Greek economy (see Economakis and Markaki 2023: 42) but also exhibits a more intense export orientation. Thus, both the ratio of the value (in monetary terms) of exports to imports, and the ratio of the value of exports to total output, is higher for Germany compared to Greece. The above interpretations require further research.

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PART III

REGIONAL & SPATIAL DEVELOPMENT, POVERTY, AND SUSTAINABILITY

POVERTY IN GREECE: THE REGIONAL DIMENSION

Charalampos Daltzoglou [36] *and Alexis Ioannides*[37]

Abstract

The paper outlines the nature of poverty at the regional level. The analysis of poverty rates at the regional level in Greece can contribute to our understanding of the poverty dynamics. In our analysis, we calculate summary measures of inequality and relative poverty rates using both local and national poverty lines, based on the latest available waves of data (EU- SILC). The main variable we use is Relative poverty: the share of people living with less that the 60 percent of the national median equivalized disposable income (after social transfers). This index is straightforward to comprehend, can be calculated using readily available, does not necessitate gathering complex and expensive data, and enhances comparability with official Greek and European statistical estimates (ELSTAT)

The analysis examines how Greek debt crisis and Economic Adjustment Programmes affects the regional poverty index. The main scope of this paper is to map poverty and contribute to the aim of a targeted regional social policy. The paper aims to deepen research in and highlight the significance of the regional trends in poverty analysis. A major impact can be possibly achieved in terms of developing improved suggestions, affecting the policy-making process.

Finally, we investigate regional convergence towards poverty for the whole period of Greek debt crisis, before and after that. The results show that there is a trend of convergence during the Greek debt crisis, whereas divergence is observed between regions when Economic Adjustment Programmes are over. Another interesting result is that in 2019 (first year of Covid-19), it was observed the highest level of divergence in regional poverty rate.

Keywords: *Regional Poverty, Income inequality, Poverty analysis, Regional Income, Geography of Poverty*

1. Introduction

Globalization, the free market, the financial crisis of 2008, and the health crisis (Covid-19) have all contributed to the significant evolution of regional disparities, which are now more difficult to address (Artelaris 2020). In recent years, the European Union (EU) and its member states have considerably altered and prioritized regional development policies as a result of their decline. Initially, it appears that regional disparities between EU member states have decreased (since the 1980s); however, intra-regional disparities continue to exist. (Iammarino, Rodriguez-Pose, and Storper 2019).

When examining the factors that contribute to regional inequalities, it is evident that regions within the European Union are currently undergoing significant and unprecedented changes due to the processes of globalization and economic integration. As a consequence, wealthier regions, referred to as the 'elite' by Neumark (2017), are continuously widening the gap between themselves and poorer regions. Undoubtedly, the 2008 financial crisis played a significant role in the emergence of regional disparities, leading to the reduction of these disparities in many instances (Mazzola and Pizzuto 2020).

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Furthermore, political shifts such as the anti-establishment movement have played a significant role in contributing to regional inequalities. These changes have been closely linked to shifts in regional inequality, as highlighted by Artelaris and Tsirbas (2018) and Dijkstra, Poelman, and Rodríguez-Pose (2019). Additionally, the ongoing COVID-19 issue has the capacity to exacerbate regional disparities (Bailey et al., 2020) due to varying levels of preparedness among different regions.

Furthermore, there has been substantial research interest in the examination of two distinct but related issues, as a result of the aforementioned. The analysis examines the correlation between regional disparities and Greek fiscal policy, and specifically the regional dimension of Greek poverty. Despite prior research efforts, there is limited knowledge regarding these challenges, which are significant for both theory and policy.

Regional disparities are associated with both the growth rates of different regions and the changing structure of their economies (Förster et al., 2003). For instance, the economic crisis we faced was not one-dimensional nor homogeneous across all regions. On the other hand, it has had a considerable impact on and increased the socioeconomic conditions in specific regions, unfairly decreasing income levels and increasing poverty. This finding confirmed and supported for both Greece (Monastiriotis, 2011; Psycharis et al. 2011; Bakas and Papapetrou, 2012; Psycharis et al., 2014) and the European Union (Committee of the Regions, 2010).

It is crucial to consider regional differences in poverty risk when developing and executing policy. It is imperative that policymakers consider the fact that poverty can have significant regional characteristics, as targeted policies may prove to be more effective than general interventions. Separated data for lower geographical (regional) areas is likely to be more valuable to policymakers, despite the fact that national-level indicators are useful for monitoring global trends. The basic approach to regionally reducing socioeconomic indicators is to target regional policy and identify the regional factors of economic inequality and poverty that have the greatest impact.

Certainly, central policy should consider the extent and the regions to which it impacts (Artelaris 2014). For instance, it is highly unlikely that policies to increase employment in these regions would be more effective and would reduce inequalities if poverty is associated with specific regions of ageing and the national pension system is reformed. The regional dimension and the distribution of poverty and well-being within a country at different regional levels can be used to investigate the relationship between poverty and other economic, social and geographical factors and is a useful tool for analysis and policy making.

2. Theoretical Background / Literature review

Initially, it is conceivable that there will be a relationship between the geography of income inequality and the geography of income per capita. The Kuznets (1955) curve answers this association by demonstrating that income inequality is influenced by income per capita in an inverted 'u'-curve. income inequality increases as regions progress to higher welfare levels, and it then decreases when the mature periods of development, as demonstrated by this curve. Workers are likely to transition from low-paying sectors, such as the large primary sector, to high-paying sectors, such as the secondary and tertiary sectors, during the initial phases of economic development. This movement contributes to the exacerbation of income inequality. In the latter phases of economic development, income inequality decreases as the low-paid sectors contract and the high-paid sectors expand. The local level examination of the inverted 'U'-turn hypothesis is a fascinating and applicable research area. Breau and Lee (2023) examine whether interpersonal income inequality grows following the completion of the initial inverted-'U' pattern by examining a distinctive panel dataset of Canadian regions. The analysis supports the hypothesis of a sideways 'S'-shaped curve that delineates a wavelike decrease to increase transition, with a turning point in the late 1990s/early 2000s.

Several researchers have seen a substantial reduction in poverty on a worldwide scale, both in absolute and relative terms, over the past few decades. (Sala-i-Martin2004; Chen and Ravallion 2004; Nielsen 2009). However, the rate of decline has not been consistent across countries (Fosu, 2010), and numerous studies have indicated that poverty and inequality are likely to exacerbate in the future (Hillebrand 2008). The shortage of literature on the regional dimension of poverty in Greece is primarily attributable to the limited availability of data (regional microdata is only available at the NUTS II level. Consequently, Greece has not been incorporated into the analyses of international studies that have investigated regional poverty in the EU (Jesuit et al., 2003).

Based on data from national household budget surveys (HBS) from European data sources (ECHP, EU-SILC), a series of studies have shown that poverty and inequalities in Greece have been consistently decreasing over the past four decades. However, they still remain higher than the average in Europe The decrease in the proportion of people living in poverty compared to others was especially significant in the initial ten years following the downfall of the dictatorship in 1974. After that, it began to show signs of stabilization. However, the reduction in the number of people living in extreme poverty persisted consistently during the entire time. However, an analysis of poverty at the regional level has been attempted just a limited number of times at the national level.

Firstly, Mpalourdos and Yfantopoulos (2001, 2007) rate frequencies across demographic groups and socioeconomic categories is illustrated by Kikilias et al. (2005). The poverty rate is higher than the average for individuals under the age of 25, including children and those who are still in the early phases of their working lives or are still in education and higher rates observed among those over 75 years old. The poverty rates are relatively greater among the unemployed, and the less educated, despite the fact that there is a perceived increase in the poverty rate among those with intermediate and higher education. Mitrakos (2014) verified this finding about aspects of poverty.

Secondly, the results of the national economy's reaction to the economic crisis suggest that poverty has increased in Greece. Matsaganis and Leventi (2013), who concentrate primarily on the distributional consequences of the economic crisis, contend that relative income poverty has marginally increased in recent years (until 2011). In an additional study, Matsaganis and Leventi (2014) also demonstrate that poverty in Greece increased slightly from 20 percent in 2009 to 21.3 percent in 2012. However, when the poverty threshold is established at pre-crisis levels, poverty increased significantly to 37 percent in 2012 compared to 2005. In an analysis of the economic crisis's impact on energy poverty, Dagoumas and Kitsios (2014) contend that the crisis has a substantial effect on electricity consumption and the willingness of individuals to pay their expenses. They do so by utilizing per capita electricity consumption. Urban areas that began four decades ago (Mitrakos 2014) continue into the crisis period, while more remote areas, such as the Peloponnese and Epirus, have been less affected. The impact of the crisis appears to be most evident in larger regions (e.g., Attica and Central Macedonia). This analysis serves as an initial approach to the study of social impact at the regional level.

Moreover, researchers (Artelaris 2014; Kikilias 2005; Mpalourdos and Yfantopoulos 2001) conducted an examination of the regional distribution of income and poverty in Greece, focusing on the intensity and extent of it. The research results demonstrate that there are hard centers, which are regions with the highest values of inequality and poverty indicators and poor average incomes. (Regions of Epirus, Central Greece Peloponnese, Eastern Macedonia-Thrace, and Western Greece). In contrast to previous regions, the poverty rates are substantially better and nearly unchanged in the regions of Central Macedonia and South Aegean, as well as Attica.

The regional dimension has been the focus of more focused research on poverty at the regional level. Regional disparities appear to be substantial in a country with a national poverty rate that is comparatively high (at the European level). Each region is indicative of the substantial rise in the national poverty rate during a period of severe recession. Nevertheless, this occurs at varying rates and in a manner that exacerbates regional disparities. Additionally, it is crucial that the most significant increase in poverty rates is observed in large and relatively prosperous metropolitan areas. The results of the study (Matsaganis and Leventi, 2014) has demonstrated an increase in poverty rates in recent years (at the national level) Additionally, the effects of the economic crisis are more apparent in metropolitan areas than in the regions (e.g., Peloponnese and Epirus) (e.g., Psycharis et al. 2011; Dagoumas and Kitsios 2014; Psycharis et al., 2014).

The distribution of income at the regional level did not change considerably during the post-crisis period, as evidenced by the Attica region's continued dominance in the overall national income distribution, in contrast to previous studies (Psycharis and Pantazis 2016).The structure of inequality appears to have been influenced by the economic crisis (Andriopoulou et al. 2018). The results they have provided suggest that a portion of the overall inequality can be attributed to inequalities between socio-economic and social categories. Another significant finding is that inequality in Greece has risen during the economic crisis.

Finally, there is an interesting research that focus a link between income inequality and education at the municipal level (Panori and Psycharis 2019). The findings indicate that there is a detrimental correlation between income and educational level . It is crucial to consider the significance of local resources in the analysis, including human capital and social economic changes at the national level (Crisis). Unfortunately, there is an absence of recent research on income inequality and poverty at the regional level. The most recent study (Psycharis et al. 2023) utilized micro data from ELSTAT to compare income inequalities between the regions of Attica and the rest of Greece during the Covid-19 pandemic. The study employed income inequality indicators as Gini and Theil. The findings indicate that the Attica region exhibits a greater degree of income and consumption inequality than the rest of Greece, as indicated by the national indicators.

3. Data and methodology

3.1. Data

The data included for this research are micro-data obtained from the yearly survey. The SILC (Survey on Income and Living Conditions) is conducted by ELSTAT (Hellenic statistical authority) and provides information on household income and living conditions. The survey includes the income reference period from 2009 to 2022, (Eu Silc 2010 to 2023). EU-SILC (European Union statistics on income and living conditions) is an important database of data on social issues in the member states of the European Union, as well as in other countries such as Norway, Switzerland, and Iceland. it provides information on income, living conditions, and other significant elements of the social situation. Eu-Silc is designed to promote ad hoc research and function as a formal mechanism for monitoring the progress made toward the social agenda objectives of Europe 2030. As part of the Europe 2030 objectives, the employment rate among individuals aged 20-64 is to be increased to 75 percent, and a minimum of 20 million individuals must be lifted out of destitution and social exclusion. It is imperative to evaluate the social situation and make decisions regarding social protection policy and programs in the EU member states and associated countries based on the statistics provided by EU-SILC.

The poverty risk in each region is illustrated in its annual reports on economic inequality with EU-SILC microdata, ELSTAT has provided regional-level poverty risk analyses in recent years (2018, 2019, 2020, 2021, 2022). The regional income analysis is an in-house elaboration based on additional data requested from ELSAT, as no information was provided at the regional level in previous years. The period of 2009-2022 is the time framework that has been examined in order to draw conclusions regarding the period during Greek debt Crisis and the Crisis of Covid-19.

3.2. Methodology

The analysis of poverty rates at regional level in Greece will contribute much to our understanding of the regional poverty dynamics. For our analysis, we calculate relative poverty rates using both regional and national poverty lines, based on the latest available data (database EU- SILC).

The main indicator is the relative poverty rate: the share of people living with less that the 60 percent of the national median equivalized disposable income (after social transfers). The poverty indicator (is based on the basis that household economies of scale) is stable across regions and correlated with household income. In our study we compare poverty rates between Greek regions. The results of the research are based on the concept of relative poverty. Consequently, the poverty line will vary and affected by yearly income changes over the period 2009–2022. The equivalized disposable income is determined by aggregating the income of all household members from all sources and subsequently dividing it by the equivalence scale. The equivalence scale adopted is as follows: 1 for the first adult in the household, 0.5 for the second adult, 0.5 for the first member of each additional adult group, and 0.3 for each minor member**.** Secondly, we analyzed indicator poverty threshold, between regions. The aim of second calculation is to examine and evaluate the poverty criteria in every region in depth. Regional thresholds are calculated using EUSILC data (HELSTAT) of regional income population. The regional threshold is calculated by regional income and provides an alternative method for analyzing regional relative poverty disparities.

The paper aims to deepen research and highlight the significance of the regional trends to enrich knowledge. A great impact can be achieved in terms of developing improved suggestions, affecting the policy-making process. Also, we light on the developments in the welfare and living conditions of the Greek population, and especially at a regional level, during Greek Economic Debt Crisis and a health (COVID-19) shock. The socioeconomic inequalities of the Greek regions are quite resilient, whereas the effect of the social transfers is rather weak in changing the levels of inequality and poverty. The study of inter-regional differences in inequality and poverty is an urgent need for the Greek society and a very helpful tool for policy makers.

4. Results

The aim of our analysis is to outline the research on socioeconomic inequalities in Greece and its regions. The analysis will be meaningful and contributive to new knowledge and practice. The analysis is based on two time periods: the Greek debt crisis and the period before and after it, including the Covid-19 period. The years under consideration were selected based on the duration of the Economic Adjustment Programme in order to emphasize the effect on regional rates. Whenever the 2011 and 2012 ELSTAT reports indicated that the affected incomes for the years 2010 and 2011 were submitted to the Economic Adjustment Programme. The associated data strands from ELSTAT (2013,2014,2015) have been selected, as the second Economic Adjustment Programme was published in 2012 until 2015. The third Economic Adjustment Programme, which was inked in 2015 until 2018. The most recent years are analyzed using annual reports from ELSTAT.

4.1. Regional Poverty rates in Greek Debt Crisis

Generally, regarding the research results, the first and second Economic Adjustment Programmes appear to create a decrease in regional disparities because of decreasing poverty thresholds (see Table 1). The third Economic Adjustment Program appears to be effectively decreasing poverty rates and regional inequities. Despite the fact that the Greek debt crisis was over, regional disparities have increased in recent years. At regional level and during the examined whole time, the regions of Attica and South Aegean demonstrate a lower poverty rate compared to the national rate. On the other hand, Western Macedonia and Western Greece exhibit an increased rate than the national rate. The same conditions appear for the regions of Eastern Macedonia and Thrace, which has only higher rate than the national average in 2012 and North Aegean which has only higher rate in 2009.

Especially, it is interesting that the first Economic Adjustment Program revealed a negative effect on the regions of Attica and the island regions, with a substantial rise in poverty rates. This emphasizes the problematic nature of the economic measures of the first memorandum, considering that these regions possessed a competitive advantage (tourism) over other regions. The sector of tourism plays a crucial role in the Greek economy, and consequently, the Greek Debt crisis and the Economic Adjustment Program have had a significant negative effect on the tourism industry. The first Economic Adjustment Program included tax raises, which influenced the costs of tourism services and the incomes of island regions.

Table 1. Relative Poverty Rates (percent)

	2010	*2012*	*2015*	*2018*	*2019*	*2020*	*2021*	*2022*
Attica	*16,38*	*22,89*	*17,3*	*14,9*	*13,7*	*12,1*	*12,9*	*13,8*
North Aegean	*21,83*	*25,87*	*22,36*	*21*	*20,7*	*21,4*	*22,7*	*24,6*
South Aegean	*19,18*	*21,91*	*20,18*	*17*	*16,9*	*14*	*17,5*	*15,8*
Crete	*14,68*	*21,69*	*22,22*	*20*	*15,2*	*14,1*	*14,9*	*10,1*
Eastern Macedonia and Thrace	*29,29*	*22,32*	*21,73*	*21,8*	*24,3*	*26,1*	*29*	*26,1*
Central Macedonia	*23,18*	*21,44*	*21,5*	*18,7*	*20,6*	*21,7*	*25,5*	*23,8*
Western Macedonia	*31,61*	*24,3*	*23,58*	*24,3*	*21,6*	*25,3*	*21,5*	*25,4*
Epirus	*23,21*	*23,2*	*23,85*	*19,6*	*17,4*	*19,1*	*21,1*	*15,8*
Thessaly	*25,79*	*24,32*	*23,58*	*21,4*	*19*	*17,4*	*19,7*	*18,7*
Ionian Islands	*17,13*	*24,15*	*20,13*	*17,2*	*13,9*	*10*	*20,1*	*22,6*
Western Greece	*26,96*	*26,27*	*28,99*	*24,5*	*23,8*	*27*	*28,5*	*26,7*
Central Greece	*30,26*	*27,54*	*17,22*	*19,1*	*20,3*	*19,9*	*24,2*	*25,4*
Peloponnese	*24,79*	*24,95*	*23,91*	*19*	*19,7*	*20,4*	*24,2*	*23,4*
Greece	***20,1***	***23,1***	***21,38***	***18,5***	***17,9***	***17,7***	***19,6***	***18,8***

Also, in the same way, the second Economic adjustment contained tax increases, public sector expenses limitations, and decreases in the wages and pensions of public sector employees. This period mostly affected the poverty rates of Western Greece and Eastern Macedonia and Thrace, with poverty rates higher than the national average. The regions of Attica and Central Greece have now lower poverty rates compared to than the national rate and to other regions.

Finally, the third Economic Adjustment contained fiscal reforms and fight against tax evasion. During the period from 2015 to 2017, there has been a noticeable improvement in poverty rates (in contrast to two previous economic adjustments). Nevertheless, the regions of Western Greece, Eastern Macedonia and Thrace and Western Macedonia illustrate dramatically higher poverty rates in comparison to the other regions and especially to the South Aegean and Attica, which are considerably lower than the national average rate.

A special mention should be made for the Region of Attica. In all of the examined years, the Attica region's poverty rate is significantly lower than the national average and shows significant disparities in comparison to other regions. This emphasizes the necessity of examining poverty rates at the regional level in order to reach to specific conclusions. The region of Attica has been in a beneficial position for a long time, and its disparity with the other regions in terms of the poverty rate has been increasing in recent years (before and after Greek Debt Crisis).

4.2. Regional Poverty in recent years

As a whole, there are no significant variations in the national poverty rate between the years 2019 and 2022. The poverty rate in 2021 experienced an alarming increase, mainly due to the negative effect of the Covid-19 pandemic on incomes. On the one hand, the regions of Eastern Macedonia-Thrace, Western Greece, North Aegean, Western Macedonia, Central Macedonia, Central Greece, and Peloponnese exhibit either higher poverty rates or an increasing trend in poverty rates. Each previous referred region displays an individual negative behavior and will be analyzed further later. In contrast, the South Aegean and Crete regions have lower rates compared to both the national index and other regions. Another category refers to the regions of Thessaly and Epirus, which are in close proximity to the national poverty rate while Attica is a special case of a region, as it shows the lowest poverty rate and significantly underperforms throughout the recent years.

Initially, the poverty rate in Eastern Macedonia and Thrace is consistently higher than the national average, that range from 3.5 to 9.8 percentage points during all the examining period. In fact, the poverty rate in the pandemic period Covid-19 (2020) was the highest in all of Greece. The Regions of Central and Western Greece exhibit a similar scenario where two regions have higher poverty rate than national.

Poverty rates are also high in Western Greece. In particular, the poverty rate in Western Greece was 26.7 percent in 2022, and 28.5 percent in 2020. The results indicate that this region is the most impoverished of all regions in terms of poverty. Central Greece appears in a related manner, with rates that are exceedingly similar to those of Western Greece. In 2021, Central Greece (24,2 percent) had affected by Pandemia – Covid 19 and increased in 2022 (25,4) The rate has been on the rise since 2012. Poverty rates in the Peloponnese continue to rise, in 2021 (24,2 percent) , which is 7.8 percentage points higher than the national rate. In reality, this region appears to be deviating from the national average, despite the fact that it was in close proximity to it in 2018 (only 0.5 percentage points above).

Central Macedonia, with rates that exceed the national poverty rate over time. However, the poverty rate in Western Macedonia for 2022 (24.9 percent) has a considerable increase from 2020 (19.5 percent). The poverty rate for Western Macedonia is noticeable negative because is the highest in Europe for 2022. One finding for the region is that the distribution of income has a lot of substantial alterations during the 2017-2022 period and consequently reflected in the poverty line and significant impact on poverty rates. In same direction the region of North Aegean which is over national rate and have an increasing tend on poverty rate and differed form national rate. In terms of the evolution of the poverty rate over time, the Region of Epirus is one of the unique environments. The data in the Table for the Region of Epirus also display major differences between years, which is likely to result on the poverty rate's sensitivity to variations in the national poverty line. For this reason, the results should be interpreted with caution and concentrate on the changes in the income distribution of each region in such cases. Additionally, there is a noticeable decrease between the years 2021 (21,1 percent) and 2022 (15,8 percent).

Also, the results for poverty rates in the Region of Thessaly indicate that the region was in a more disadvantaged position than the national average, as poverty levels have increased over time. Poverty has been on an increasing trend since 2018, with a nearly increase in 2020 (20 percent) and an increase in 2022 (20,4 percent), despite a decrease in 2018.

The poverty rate for the Ionian Islands region needs particular attention. Between 2017 and 2019, poverty experienced a significant decline, leading to a situation in 2019 (10 percent of poverty rate). Conversely, the poverty rate in this Region experiences a significant increase (doubled) in the year 2020. This finding can be attributable to the combination of changes in income distribution and the fact that the Pandemia (Covid-19) affects Ionian incomes. Nevertheless, by 2022, the poverty rate decreases to 17.8 percent, slightly mitigating the previous year's losses. The regions of Crete and South Aegean remained untouched and resistant as compared to the whole regions and the national rate. Poverty rates increased slightly in 2021, which represents a "dissonance" in the positive perception of the regions. Indeed, the region of Crete has the lowest rate among all regions in 2022.

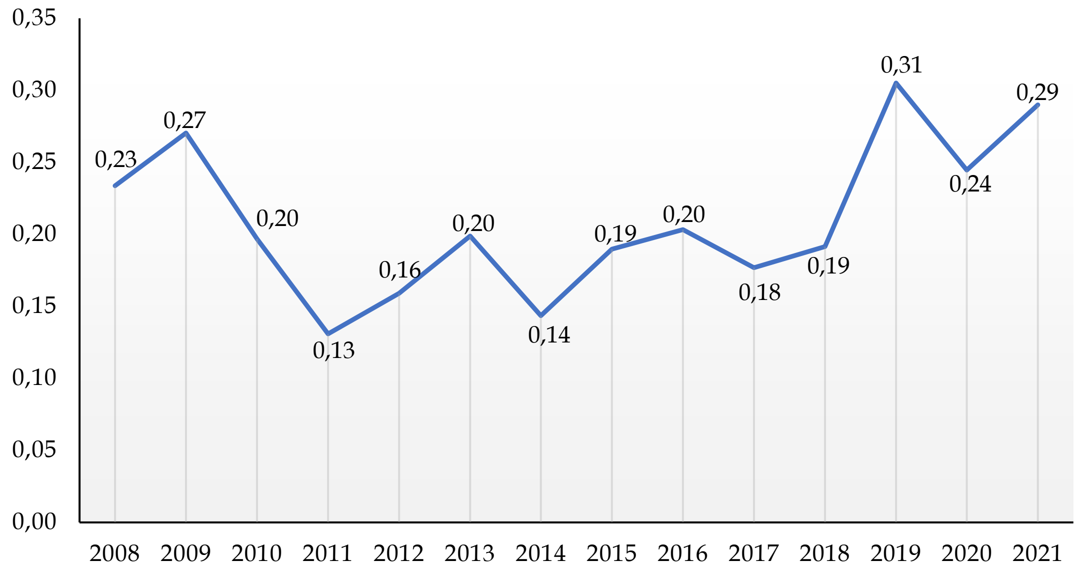
In fact, the situation in Attica has the exceptional characteristics. The region of Attica has lower poverty rates than 5 points below the national rate and a significant disparity from the regional poverty rates. For example, in 2020, it deviates by 14 percent from the region of Eastern Macedonia-Thrace, 15 percent in 2021, and 13 percent in 2022 from the region of Western Greece. This emphasizes the tendency to increase the disparity from the other areas and the divergence across regions at the national scale.

4.3. Convergence of Regional Poverty

The current research analysis will focus on σ convergence, which aims to examine the risk of poverty at the level of convergence, rather than a specific category under consideration. -Β-convergence may not accurately reflect changes in the global or regional dispersion of income or economic indicators, as it disregards overall inequality (Konat 2021). Additionally, a more comprehensive economic approach is offered for σ convergence by examining the overall dispersion, which provides a broader perspective on global or regional trends. Lastly, it illustrates general trends without specifying which regions are over or on bottom , but rather the degree. The regional convergence "σ" is employed in econometric methodologies to represent standard deviation. Sigma convergence in the context of economic convergence entails a decrease in the income inequality or dispersion of the poverty rate between regions. Sigma convergence is characterized by the economic performance of less developed regions catching up to more developed regions. The concept of sigma convergence is often used in the examination of economic growth and development to figure out whether global or regional income inequalities are increasing or decreasing over time. It is important to highlight that the presence of convergence is not simply a single analysis. The concept of convergence does not necessarily imply improvements in living conditions, welfare, or the reduction of social exclusion for all members of the society.

The analysis of σ Convergence (see Figure 1) reveals serious variations in poverty risk rates across different regions. Initially, there is a notable disparity in the rates between 2009 and 2010. This can be attributed to the regional disparity in income that existed during the examining period. During the period from 2010 to 2017, when Economic Adjustment Programs were implemented, there was a clear trend of decreasing regional inequality. Regional convergence occurred as a result of the significant decrease on the Greek income and poverty threshold for the whole Greece.

Figure 1. Trend of σ-convergence



Our findings reveal that the Greek Debt Crisis had a dual effect on poverty rates. On one side, it led to a reduction in disparity and convergence due to the rapid decline in Greek income. However, on the other hand, the years following the Greek Debt Crisis showed an increase in disparity in poverty rates among regions. In the last two years, and particularly in 2021, there has been a substantial increase in the dispersion of poverty rates among regions. Also, it is clear that the regional inequalities tend to be bigger in recent years and needs to be investigated.

The overall increase in income dispersion between regions is a result of the structural differentiation of the characteristics (demographic, productive). This is due to the fact that the income levels of regions are significantly different from one another and demonstrate the wide range in the social conditions that are widespread in each Region.

Eventually, the financial crisis resulted in a regional convergence of poverty rates as a result of a decrease in economic sectors across all areas (including tourism, industrial activity, and the agricultural sector). After the Greek debt crisis, it seems like the adoption of changes, including the neoliberalization of the state and regional organizations through extensive privatization of public services, resulted in disparities between different regions. Regions that mainly depend on tourism for their economy are recognized for surpassing the national rates, despite being impacted by the Covid-19 in 2021. The year 2021, marked by the Covid-19 pandemic, is notable for its significant regional disparity, one explanation concerns about the distribution of financing for the pandemic, which was considered to be unfair. The region of Attica plays an essential role in causing the growing divergence from other regions.

4.4. Regional Poverty Threshold

Regional income poverty threshold analysis focuses on examining poverty levels within specific regions. The poverty threshold is the income level below which individuals are deemed poor and encounter challenges in fulfilling their fundamental necessities, including food, housing, healthcare, and education. The aim of the regional poverty threshold analysis is to examine the disparities in income between the minimum income region and other regions, as well as national rates. The poverty threshold's regional analysis is a consequence of the examination of the median income in the various regions of Greece. The median income is the income that is located at the center of an income distribution, thereby dividing the distribution into two equal parts. The main feature of the survey in issue is that it is the related attempt to compare the incomes of inhabitants across various regions. This is due to the fact that the poverty threshold is determined by the median of the incomes of citizens within the region. The purpose of examining regional poverty threshold is to understand the causes linked to poverty, taking consideration the potential variations across different regions. The time series for statistical analysis were selected to be both before and after Greek debt crisis, to emphasize the effect of Economic Adjustment Programs on regional incomes.

Table 2: Poverty Threshold €

	2010	***2012***	***2015***	***2018***	***2020***	***2021***	***2022***
Attica	*8101*	*5351*	*4484*	*5336*	*6487*	*6279*	*6612*
North Aegean	*7000*	*4316*	*4818*	*4179*	*4989*	*4808*	*4939*
South Aegean	*6820*	*5003*	*4154*	*4102*	*5408*	*5140*	*5352*
Crete	*7414*	*5188*	*4513*	*4461*	*5254*	*5257*	*5877*
Eastern Macedonia and Thrace	*5841*	*4955*	*4811*	*4144*	*4799*	*4616*	*5064,*
Central Macedonia	*6324*	*5032*	*4412*	*4316*	*4940*	*4585*	*5205*
Western Macedonia	*6566*	*5332*	*4406*	*4346*	*4930*	*4582*	*4878*
Epirus	*6300*	*5345*	*4399*	*4347*	*5086*	*4891*	*5408*
Thessaly	*6306*	*4612*	*4472*	*4377*	*4611*	*4968*	*5264*
Ionian Islands	*6722*	*5091*	*4552*	*4504*	*5169*	*4816*	*5454*
Western Greece	*5820*	*4789*	*4276*	*3894*	*4930*	*4602*	*5130*
Central Greece	*5757*	*5032*	*4724*	*4616*	*5014*	*4847*	*5200*
Peloponnese	*6126*	*4967*	*4873*	*4403*	*5249*	*4602*	*5130*
Greece	***7178***	***5023***	***4512***	***4718***	***5269***	***5251***	***5712***

As well as the poverty rates, regions demonstrated different results towards the poverty threshold in response to the fiscal crisis as we can see in Table 2. Initially, based on the data from the first period in 2010 (which is related to incomes in 2009), it is evident that the poverty thresholds at the regional level are significantly higher compared to other examined years (2012, 2015, 2018, 2020, 2021). The national poverty threshold is over by only two regions: Crete (which is in close) and Attica (which is quite faraway).

The poverty thresholds of Attica, Epirus, and Western Macedonia in 2012 are significantly higher than the national poverty threshold. In 2015, the completion of the second Economic Adjustment Program resulted in a significant decrease in the incomes of Greek citizens, leading to a decrease in poverty thresholds. On one hand, there is a bigger homogeneity in the regional poverty thresholds. However, on the other hand, the incomes of inhabitants in Attica, South Aegean, Central Macedonia, Western Macedonia, Epirus, Ionian Islands, and Western Greece fall below the national threshold, which is an unusual occurrence. The research findings mentioned above are unique due to the identification of unique thresholds in many regions, including Attica, South Aegean (down to poverty Threesold) and Eastern Macedonia and Thrace, and North Aegean (up to threesold). The mixed results of poverty thresholds are resulted by First and Second Economic adjustment which shocked Greek economy.

However, all regions have observed the same trend (stable values) that are in 2018.Despite, the poverty rates at the regional level affected positively, the poverty thresholds increased slightly. One more time the region of Attica changes positively and impacted the national value. The poverty rate of Eastern Macedonia and Thrace and Western Greece experienced significant decreases, while the other regional threshold values remained stable.

Examining the years after Economic Adjustment Programs (2018-2022), an obvious increase in the poverty threshold is observed at both the national and regional levels. The region of Attica should be given particular attention, as is the case with the analysis of poverty rates. Attica is the only region which has higher value than the national poverty threshold. This supports the belief that the values of the Attica region have a very strong influence on national indicators and so, national rates should be investigated at the regional level. During the Covid-19 health crisis, there has been an overall decrease in regional poverty thresholds, indicating a contraction in earnings. Unfortunately, there is once more an obvious difference between the Attica region and the other regions, as the Peloponnese, Central Macedonia, and South Aegean regions, that have experienced the most significant decrease in poverty levels. In the latest examination year (2022), the influence of Attica's income on the national rating is once again noticeable. Attica is the unique region where the income exceeds the national threshold, regardless the fact that the national value and did not appear the real picture of other regions (North Aegean, West Macedonia)

In summary, the analysis has revealed substantial regional differences in poverty thresholds that require further investigation. The Attica region has been above the national thresholds (with the exception of 2015). Furthermore, regional disparities in Greece have been observed to have grown after the Greek debt crisis and show a tendency to continue increasing to the following years.

The combination of the analysis of poverty rates and the poverty threshold leads, among others, to an important conclusion. This is that the value of labor power differs between the Greek regions. The region of Attica, in particular, as well as those of the South Aegean and Crete, consistently exhibit higher incomes and lower poverty rates compared to the rest of the regions. This constant discrepancy is a strong indication of the existence of a significant difference in the value of the labor power between these regions and the rest of the country. This difference in turn, highlights the divergent conditions that prevail for workers in the various regions of the country and also highlights its geographical economic heterogeneity.

5. Discussion and conclusions

The main purpose of the research has been the investigation the poverty at the regional level in Greece during and after the Greek debt crisis. The poverty rates in the various regions of Greece demonstrate significant variations over time. The economic development trends in each region have been significantly influenced by the unique characteristics of each region, resulting in a variety of social conditions that are evident in poverty rates.

The research results show that poverty has a regional dimension, meaning that certain regions or areas are more sensitive to poverty than others. Targeted regional policies are required to mitigate this aspect of poverty. These policies have an opportunity to establish mechanisms that will serve as a buffer against the phenomenon of poverty and, in many cases, prevent it. Certainly, the Economic Adjustment Programmes affected more the poverty rates and thresholds during Greek Debt crisis.

Firstly, several regions (particularly Attica, South Aegean, and Crete) have demonstrated a higher level of resistance for the effects of Greek Debt Crisis and pandemic, whereas many regions are not ready. However, the local economies varied significantly in terms of their physiognomy, primarily due to their reliance on industries that have been heavily impacted by the pandemic, such as tourism and its associated activities. It is important to mention that the most advantageous regions tend to be on the islands and Attica. It appears that there are significant differences across various regions, (particularly Attica, the islands, and the South Aegean region) when compared to other regions. Especially, Attica has been in a beneficial position for a long time, and its disparity with regions in terms of the national poverty rate has been increasing in recent years. The Attica region maintains the highest position among all Greek regions and has the lowest poverty rates, which significantly influence the national rates. In recent years, the region of Attica has experienced an increasing divergence from other regions, resulting in a higher level of disparity between them.

Secondly the Greek debt crisis has led in a significant reduction of the poverty threshold and smaller poverty rates among regions. These results rather suggest that convergence occurred as a result of a substantial decrease in the poverty threshold, whereas regional divergence was the result of the Greek economic debt crisis. However, the unexpecting finding corners about the period before and after Greek Debt Crisis. This could be the result of the distinct characteristics of the regional economies, which were mostly brought about by their dependence on industry, production methods, and mismatched regional policy targets. Additionally, regional markets frequently experience a sense of weakness in the context of free trade and globalization. Another explanation relates to the disparity emphasized by the region of Attica and the island regions in comparison to the regions. During the pre-and post-crisis period, the Attica and island regions increase their disparities.

Particularly the most noticeable finding deals with the year of Covid-19. The results demonstrated greatest disparity between regional poverty rates. Additionally, it is evident that Covid-19 did not affect all regions equally; rather, it was more common in tourist regions, resulting in a regional disparity between them.

Lastly, it is evident from the findings of the research that specific regions are significantly poorer than others, and that phenomenon of property has a stronger impact in these regions. Consequently, the findings of this analysis highlight the regions must have executed regional policies that correspond to the unique characteristics of each region.

An essential result can be taken from the analysis of poverty rates and the poverty threshold, among other determinants. The Attica region, along with the South Aegean and Crete regions, consistently demonstrate greater income levels and lower poverty rates in comparison to other regions. This persistent disparity indicates the presence of a significant divergence in the worth of labor between these regions and the rest of the country. This difference, in turn, shows how different working conditions are in different parts of the country and how unequal the country's economy is across Greek geography.

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THE INSTITUTIONAL ANALYSIS ON RURAL REVITALIZATION PROJECTS: BASED ON YUWAN VILLAGE CASE

Rong Kang[38]

Abstract

This research is the institutional Analysis on Rural Revitalization Projects: based on Yuwan Village Case, aims to demonstrate that strategies of sustainability and sustainable innovations depend on both private and public supports and initiatives. By analyzing a typical case in a rural area, Yuwan Village Complex Project to be exact, we underline the role played by government policies, but also by entrepreneurs and private assets.

On the public side, the government policy of rural revitalization in China has offered fundamental policy framework. On the private side, the case study of Yuwan Village shows that individual contribution of an entrepreneur has been key to initiate an ecological and social innovation in this rural area.

Located in southern Shaanxi Province, Yuwan Village is a rural area in the lower mountains Qingling Mountains, with a good natural endowment, but poor development conditions. By combining the innovative strategy and government policies, the Yuwan Village Complex may be regarded as having formed a good sustainable business model, benefiting the various stakeholders.

1. Introduction

The articulation between tourism and sustainability has already been developed in the academic literature. For an overview of the literature, see (Force et al. 2018; Santos et al. 2021; Kelman 2021). Green innovations are as the main drivers for sustainability (Stern and Valero 2021; Martin et al. 2020) Innovation has many respects, not only technological innovations, but also organizational innovations, social and cultural innovations This is on this sectoral aspect that this paper takes place: we describe the creation of the Yuwan Village Complex, as one of the possible touristic innovations in favor of sustainability. This project's starting point is the urgent need to break with the traditional implementation of touristic policies, that are energy-intensive because of transportation constraints and the need for energy to provide a reliable supply (Ahmad et al. 2022 op. cit.; Tang et al. 2017). The Yuwan village Project, which covers an area of over 700 acres, is known as the "Yuwan village Rural Complex". It is a project that began renovating and developing the Yuwan village in 2018 in response to the National Rural Revitalization Strategy. The National Rural Revitalization Strategy refers to the Chinese government's efforts in 2017 to promote the integration of urban and rural development, promote rural economic construction, and optimize the ecological environment.

A sustainable economic strategy is never easy to formulate and in rural areas due to the very strong centralizing/urbanizing forces, both economic and political is especially challenging. This is due to the configuration of sociodemographic specificities: which in the literature is called a "hollow village" (Qu et al. 2017, in the sense that this area has

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experienced over the last decades sharp rural exodus (Liu et al. 2023). Especially the young labor force has left its home to seek jobs in urban area.

The project that will be analyzed here is located in the Qinling Mountains. The Qinling Mountains are the geographical boundary between the north and south of China, with towering mountains and towering peaks. The Chang'an River, originating from the Qinling Mountains, turns into a circular bay between the mountain ranges flowing through Ningshan County, Shaanxi Province, forming a natural Tai Chi map of over a hundred acres in size,as shown in Figure 1.

Figure 1. Geographical Location of Yuwan Village

Ningshan County, Ankang City, Shaanxi Province, is located at the southern foot of the middle section of the Qinling Mountains. With a 33° north latitude and a forest coverage of 90.2%39, Ningshan, the region is mild and humid without extreme heat or cold. Yuwan Village in Chengguan Town is located here, covering an area of 12.5 square kilometers, with 661 acres of arable land and over 20000 acres of forest land.

It has a jurisdiction over four village groups of 155 households. The total population is 435 people. Among them, 25 households have developed well and the category of them is "out of poverty"; 17 households depend on subsistence allowances, and 6 households are severely impoverished40.

Since the climate is favourable to cultivating rice, rice has been the dominant crop since ancient times. Located in the mountain area separating the northern and southern part of China, Yuwan Village displays traces of north-south integration everywhere. For example, fruits which typically grow in the south, such as citron; and grow in the north,

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[39] The data is sourced from official statistical data of Ningshan County.
[40] The data is sourced from official statistical data of Ningshan County.

such as persimmons; can be found in the village. From Yuwan Village to Xi'an, it is only 158 kilometres, approximately two hours by car. The case we studied is about the Yuwan village project that occurred in Yuwan Village.

2. The hollow village issue

The expression “hollow village” expresses the idea of a large number of people migrated, of land and houses abandoned. In China, over the last three decades, more than 290 million people have left the rural areas to settle in urban places. The migrants prefer the big cities[41]. This exodus has been especially marked for the young and middle-aged people who want to have better living conditions better jobs. Statistics shows that such expectations are mostly correct, although they have lower wages, less access to education thus are "discriminated”. Elderly, women and children were “left behind” in the countryside. Before the beginning of the innovative project, at Yuwan Village, only over 60 villagers still lived in the village.

3. Causes and problems

The rural hollowing out is mainly due to the accelerated development of urbanization, and the large gap between rural and urban areas in various aspects, such as elderly care, medical care, education environment, etc., which has led to the loss of population in rural areas. The influx of young and middle-aged labour into cities also reflects the contradiction between people's growing need for a better life and unbalanced and insufficient development.

4. Forming a hollow environment

Being at a second stage of urbanization, the cities are still very attractive. In order to find better economic opportunities and living conditions, farmers have left rural areas to seek development in cities. The city has got access to main utilities (natural gas, tap water etc), they have better medical and educational resources.

Since the reform and opening up in 1978 China has also experienced decades of accumulation of funds and technology in agriculture, leading to a decrease in the needs for agricultural labour force (see below). With progress in agricultural technology, adjustment of crop planting structure, use of large machinery, and gradual reduction of rural labour demand, there has been sharp reduced employment opportunities for farmers.

[41] Cities with a permanent population of over 1 million but not exceeding 5 million in urban areas are called big cities.

Figure 2. The population of rural area in China (1978-2020) absolute number (left axis) and as share of total population (right axis)

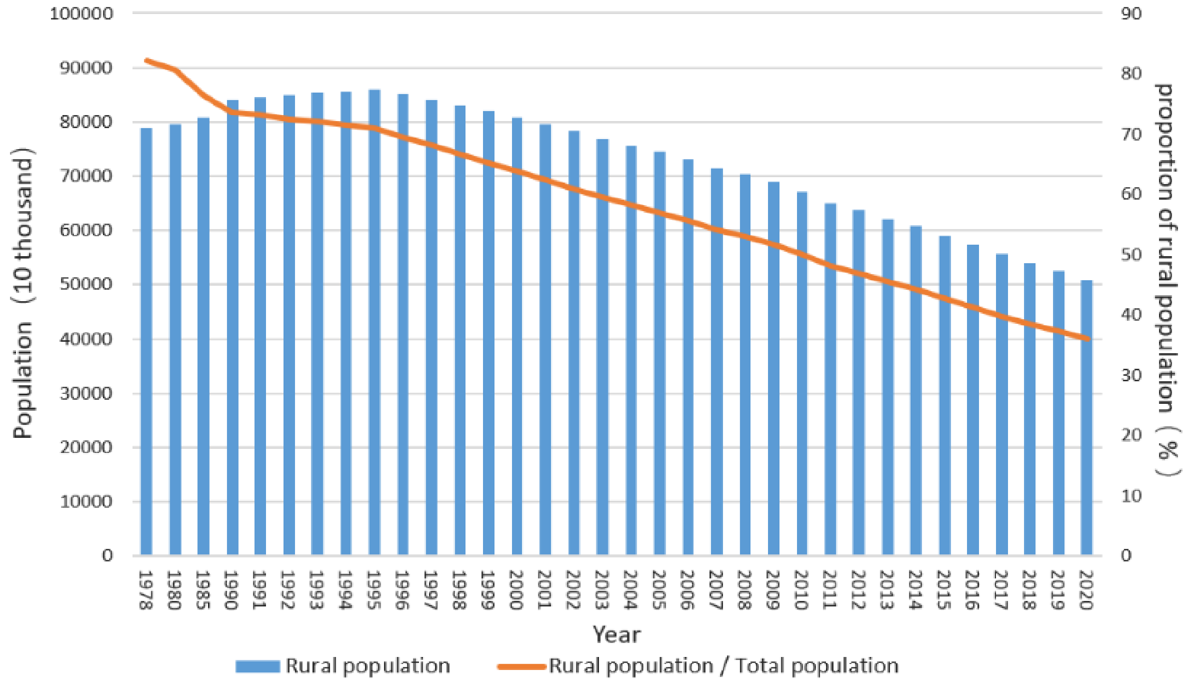
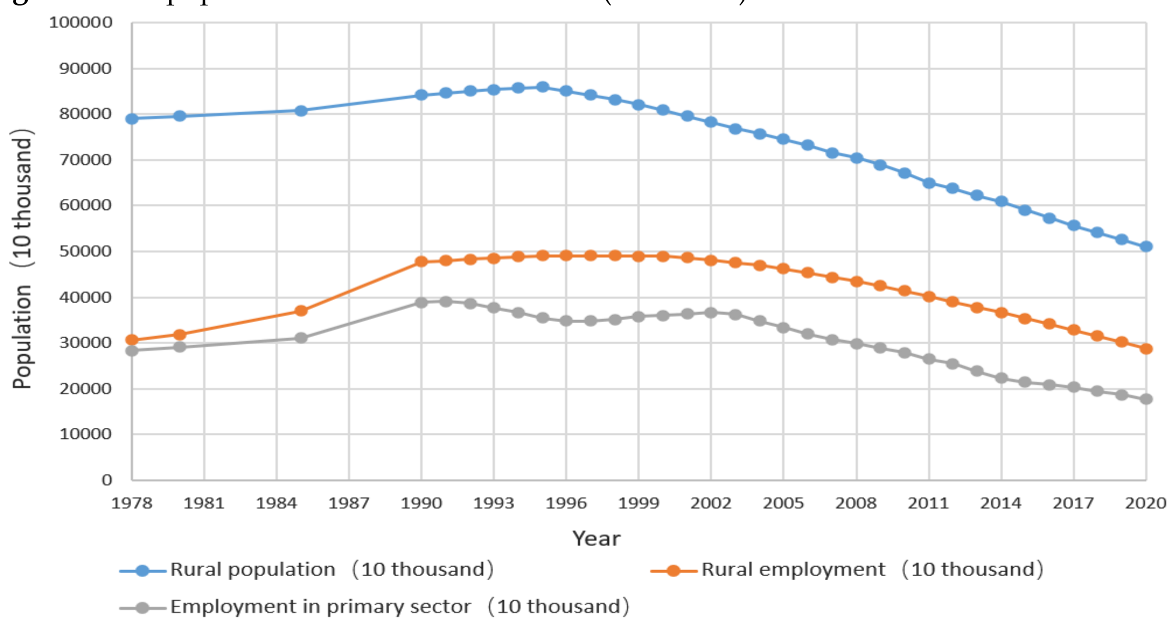
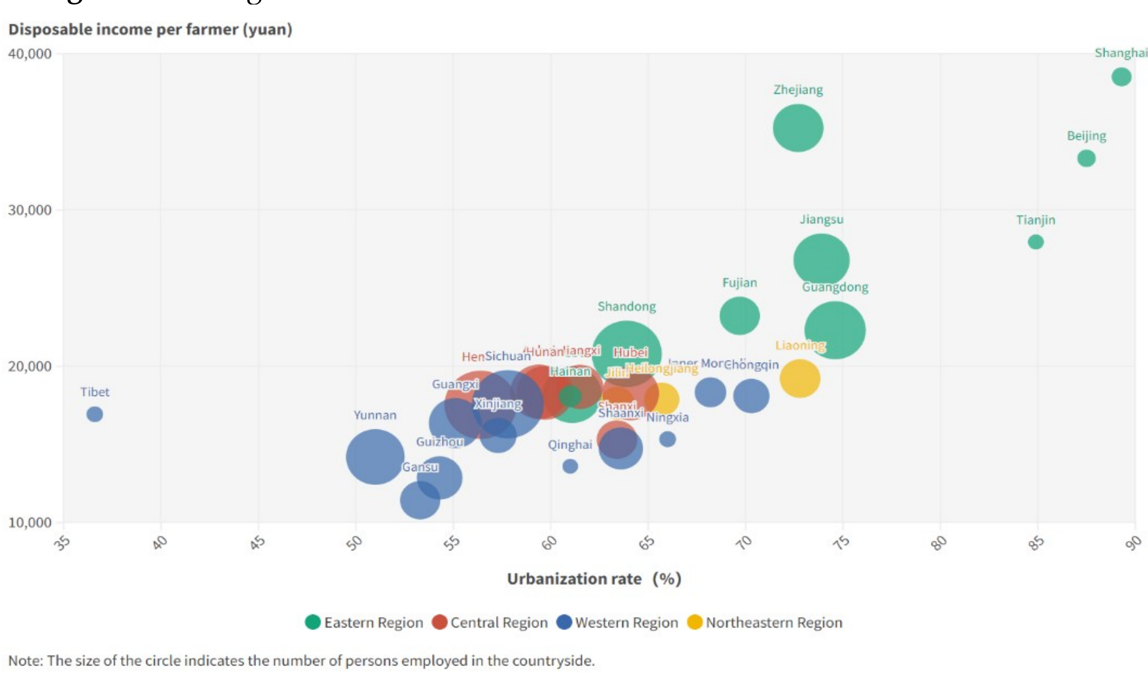


Figure 3. The population of rural area in China (1978-2021)



In the above part of the figure, it shows the population in rural area in China is decreasing within the past years, and the percentage of population in rural area in total population is also decreasing. In the bottom part of the figure, the blue and orange lines represent the working population and the population employed in the primary industry in rural area in China, which also shows both of the two indexes are decreasing within recent 30 years.

Figure 4: The regional rates of urbanization



5. The negative impact of hollowing out

The hollowing out of rural areas has brought a series of negative impacts. Firstly, this exodus has led to farmland abandoned, fertile soils are left uncultivated, and reduced economic activities. Agriculture still represented 14,7% of the Chinese PIB in 2000. In 2022, agriculture only represents 7,3% of GDP (source: Statista, 2023). As far as the employment is concerned, the agricultural employment represented according to the World Bank 50% of total employment in 2000, and only 24% in 2022[42] (source: World Bank).

The lagging economic development in agriculture leads to an insufficient supply of agricultural products, which is closely related to the insufficient supply of rural labour force. All this has led to food safety issues, food security issues, and the intensification of rural poverty. If rural land is abandoned and left uncultivated, it will inevitably have a significant impact on China's food security.

Moreover, the lack of labour and talent in rural areas has impoverished the development potential of the rural economy. In addition, the lack of rural infrastructure and public services also limits the quality of life and social development of rural residents. Some rural roads are blocked, which leads to the inability to connect cities and rural areas, and cities cannot effectively drive rural development.

Last but not least, the hollowing out of rural areas, has led to a strong investment in public infrastructures (roads, and more generally access to the rural areas, utilities, but also health care, education etc.). Yet, these investments are a strong condition for the revival of rural area.

[42] https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=CN

In summary, the problem of rural hollowing out is a complex socio-economic problem that requires comprehensive consideration of various factors such as rural infrastructure, public services, and industrial development, and corresponding policy measures to be taken to solve.

6. The conditions for the innovative Yuwan Village Complex Project

6.1. The private conditions for the initiative

The complex project set up based both on the abandoned dam with an existing building and the small fertile valley with 700 acres of possible agricultural productions. An old hydropower station is still visible at the entrance of Yuwan Village. Built in the 1960s it has been abandoned for many years. Due to the limited land available for construction in Yuwan Village, in the 2019 project design phase, the person that later became the main private investor came up with the idea of transforming this old dam into an ecological community center. This was the starting space for the renovation plan of Yuwan Village.[43]

The man behind the community centre idea was a real estate capitalist in Xi’An,. Xi’An is the only big city close enough Yuwan to make a weekend trip to Yuwan attractive. Is is a two-hour drive from Xi’An which has more than 10 million inhabitants, so no lack of potential customers.

This real estate devolper, herafter called the key investor, KI, bought 17 unoccupied homesteads, renovated over 100 acres of abandoned land, and carried out protective design and renovation of the vacant old houses.The renovation has been operated in the original style of Yuwan Village's characteristic buildings while developing a healthy homestay industry. The company of the Yuwan Village Complex owned by the KI includes after a few years, homestays, youth tourism, tent camps, and ecological community centres.

As is known from the literature engaged and creative involvement on leadership is an important success factor (see Waite, 2014). The KI recruited a visiting professor of architecture at the University of Miami in the United States (Professor Pei Zhao), to provide conceptual and technical guidance on the renovation of hydropower stations. The renovation plan aimed at retaining the first floor of the hydropower station as a future public activity space as much as possible and demolish and renovate the second floor of the hydropower station, using transparent glass materials to reflect a spacious and bright future as a reception, rest, and viewing space. The third floor of the hydropower station follows the local wooden construction method, to preserve the local architectural characteristics. Nowadays, the old hydropower station has become a landmark building in Yuwan Village, with a library and a coffee shop on the first floor. The second floor is dedicated to the main ecological community, as the registration centre for homestays, youth tourism, and tents. The third floor has become a place for cultural projects.

Among the conditions of possibility of the project, it must be said that the country proposed a rural revitalization strategy: the Yuwan village project fully conforms to the development direction of rural revitalization, following the overall trend of national development, and being in a position to profit from public support.

[43] Before the implementation of the Yuwan village project, the land in rural areas was privately owned by the current farmers.

6.2. The economics conditions of possibility

The KI got to know the Yuwan village when he was invited by a friend who belongs to this village. This friend introduced the KI not only to the village, but also to the beautiful landscape surrounding the village. It became many visits as the he became interested not only as a visitor enjoying the village, but as an investor, getting into serious discussions with the local people about the developing it into a village development project, into a win-win project for both the KI and the villagers.

According to interview with the KI and villagers, now the revenue of the project can reach local people through four types of income. The first type is rent, KI rents the abandon houses in the village, sign a long-run (30 years) renting contract, renovate the houses and sell as hotel rooms, the villagers who rent the houses to the KI get renting income. The second is called land rent, which refers to rice paddle, this part of land belong to the villagers, so by signing renting contracts with the villagers, generally the renting price is similar in nearby location and geographical characteristics. The third type is labour, now the housekeeping, restaurant, general cleaning services are provided by villagers who are employed by the KI's company, they get task-based salary every month. Dividend is the part villagers can get from village administration office. Since KI must sign contract with village administration office who represent all villagers to handle collective issues, KI's company promise to share a fixed 6% profit which forms the fourth type of income for villagers.

The government, village collectives, enterprises, and angel investors mutually promote and develop together, transforming exogenous development into endogenous development, and creating a harmonious community.

6.3. The public condition of possibility of the innovation

An approach that would be totally firm focused would fail to address the importance, for the development of this innovation, of the role played by the Chinese State in the deployment of this eco-project. This is a point previously brought in the debate by Mazzucato (2013) when presenting "the importance of debunking public vs; private sector myths". Thus, in the second year of 2018, Lao Hu, the founder of Luchaishan Jihe and Yuwan village, visited Yuwan Village in Ankang City, Shaanxi Province for on-site inspection. He decided to create the Yuwan village project *in response to the* call for national rural revitalization.

Lao Hu also responded to the national call and later identified ecological agriculture as one of the pillar industries of the Yuwan village project, vigorously developing green ecological agriculture within Yuwan Village. And gradually established a Crested Ibis Protection Field, successfully established a Crested Ibis Protection Base locally, and achieved good protection of local wildlife, achieving harmonious coexistence between humans and nature.

In the same year, with the support of the Ningshan County Government, the Yuwan village project received financing. The Ningshan County Government provides financing guarantees for Yuwan village, greatly facilitating project financing at the beginning of Yuwan village (see box 1).

On January 5, 2019, the Ministry of Natural Resources and the Ministry of Agriculture and Rural Affairs issued a notice on strengthening and improving the protection of permanent basic farmland, which put forward higher requirements for maintaining the red line of farmland and the control line of permanent basic farmland. This coincides with the plan of the Yuwan village project to vigorously support the reclamation and protection of farmland in Yuwan Village. This policy further strengthens the determination of the Yuwan village project to implement the plan for protecting and restoring farmland.

Box 1: The rural revitalization strategy of the Chinese Government
October 18, 2017, the report of the 19th National Congress of the Communist Party of China first proposed the rural revitalization strategy, pointing out that the issue of agriculture, rural areas, and farmers is a fundamental issue related to the national economy and people's livelihood. On December 29, 2017, the Central Rural Work Conference proposed to take the path of socialist rural revitalization with Chinese characteristics, putting importance to agriculture, to farmers, to the rural areas). On July 6, 2018, the Ministry of Agriculture and Rural Affairs issued a notice on the issuance of the "Technical Guidelines for Agricultural Green Development (2018-2030)", expressing strong support for the development of rural green industries and the development of ecological agriculture in rural areas. On February 14, 2019, the State Council issued the "Guiding Opinions on Effectively Utilizing the Role of Government Financing Guarantee Funds to Support the Development of Small and Micro Enterprises and" Agriculture, Rural Areas, and Farmers ". The" Opinions "emphasized the need to standardize the operation of government financing guarantee funds, make up for market deficiencies, lower the threshold for guarantee services, focus on alleviating financing difficulties and high costs in inclusive fields such as small and micro enterprises and" agriculture, rural areas, and farmers ", support the development of strategic emerging industries, and promote public entrepreneurship Massive innovation.

On June 28, 2019, the State Council issued the "Guiding Opinions on Promoting Rural Industrial Revitalization", which emphasized the need to rely on rural characteristic resources and develop rural characteristic key industries in rural revitalization. Under the guidance of this policy guideline, the Yuwan village project relies on the beautiful scenery of Yuwan Village and vigorously develops the homestay tourism industry. Relying on its rice fields to form characteristic agricultural products of Zhulu rice, it has achieved the development of characteristic industries relying on local advantageous resources and driven rural revitalization through industry.

On July 29, 2020, the Ministry of Natural Resources issued a notice on the "Eight Prohibitions" of the Ministry of Agriculture and Rural Affairs regarding the unauthorized occupation of farmland for building houses in rural areas, which explicitly prohibited the use of farmland for building houses in rural areas. Due to this impact, the construction of homestays in Yuwan village has also been minimized as much as possible, without occupying arable land. The main focus is on the Han and Tang Dynasty post houses that have been renovated based on successful communication and exchange with local residents, as well as the canopy on the rice fields. Successfully achieved the harmonious coexistence of homestays and farmland.

On December 25, 2020, the National Development and Reform Commission issued an opinion on actively promoting the use of work as a substitute for relief in the field of agricultural and rural infrastructure construction. The opinion suggests that in rural areas, the impact of the epidemic on people's income should be reduced through the construction of infrastructure and the use of work as a substitute for relief. At the national call, the Yuwan village project hired local residents to participate in the renovation of the Yuwan Village hydropower station, homestay, and museum. It also hired local residents to engage in the service industry, providing certain employment opportunities for local villagers and reducing the impact of the epidemic on Yuwan Village (see also Chao et al. (2009) who have already pointed out the role played by tourism on employment and welfare opportunities).

7. The activities developed by the firm

7.1. The agricultural activity

The agricultural activities in the village mentioned in this case, that is the base for developing ecotourism, which featured by having Nipponia Nippon birds in the village, has been created by Lao Hu. In this village, although the farmers who still stay at the village grow vegetables and corns as we have seen when we visited there, the rice growing has been abandoned for many years. In the initiative stage of this ecotourism project, Lao Hu?? believed that Nipponia Nippon birds is the Unique Selling Pointing, and this type of birds depend on rice paddle to get food, so the most important agricultural activity, restoring rice paddle is done by Lao Hu.

Crested ibis coexist with rice, and the lack of application of any chemical fertilizer significantly increases the added value of agricultural products, increasing the income of villagers. Villagers are also willing to take root in their own land. At the same time, the cultivation of fungi such as morel also increases the income of the Yuwan village project;

The crop brand "Yuwan village Zhulu Mountain Rice" under the Yuwan village project is produced in the Yuwan Reclamation "Crested Ibis Conservation Field". After more than 160 days and nearly 4000 hours of natural nourishment, it has achieved a bumper harvest. It has become a representative of ecological green food products in Shaanxi and has been awarded the title of "100 Excellent Brands in Agriculture, Rural Areas, and Farmers in China"; Successfully selected for the "Rural Revitalization" special train and made its debut on Beijing Metro Line 1. Luchaishan Group has also become one of the exemplary representative enterprises for rural revitalization in the new era. These all represent that the Yuwan village has been widely recognized by society.

7.2. A touristic place with a Homestay

In October 2020, Luchaishanji, Hantang Yishanju, began construction, planning to carry out protective renovation and construction of 30 vacant old houses in the village. Lucai Mountain Collection committed to create high-quality homestays. The idea was to provide a place of tranquillity for tourists, in proximity to genuine nature. In the summer of 2021, the Luchaishan Collection boutique homestay was completed and opened.

A “White House Creative Restaurant” and other physical community supporting facilities have also been built one after another, and Lucai Mountain has gradually become a visible and tangible resort providing a large range of touristic services. Since its completion in 2019, an average of 5 000 tourists have come to this resort. Although visitors decreased in the covid period, it rebounded after the pandemic, showing a fast resilience.

7.3. Youth tourism with tent camp: The idea of a slow tourism?

The tent camp in Yuwan village has an independent brand: Gran Peng. Gran Peng can be considered the only tent camp in the country erected on rice fields. The tent area is integrated with rice, corn, and lotus, reflecting the concept of harmonious coexistence between humans and nature. More than ten tents and sky curtains were scattered in the rice fields, with soft soil underfoot, as if stepping on clouds. The tent area is symbolically in rupture with traditional urban buildings. Its carbon footprint is obviously smaller than the establishment of buildings, promoting ecological.

The aim here was to restore natural charm and allow guests to integrate into natural spaces. But the idea was also to incorporate a natural aesthetic of life (landscape of rice fields, lotus pond wetland, leading to a luxurious camping site.

White House Restaurant. In the idea of producing a combine set of activities, the Yuwan Village has developed a "food aesthetics - natural dining table". Most ingredients are produced locally, presenting the authentic flavour of southern Shaanxi.

The overall project should not be reduced to an attractive and luxurious place for tourists. Obviously the Yuwan village project has provided employment opportunities, allowing some young migrant workers to return to their hometowns. According to the Ankang Daily, villager Ping Xiongmei has given up his life of leaving his hometown and become a staff member of the project industrial park. With good employment opportunity, Yuwan Village may be one of the possibilities to revitalize this rural area: homestays, restaurants, cafes, require new types of workers, which are conducive to the return of young and middle-aged people.

By making good use of the corner villages in the village, the Yuwan Village Museum has been developed, showcasing local sentiment and improving the living environment of the village. A 2A level public toilet has been established, while also eliminating some safety hazards and attracting tourists.

8. The impulsion effect of a capitalist entrepreneur

8.1. A strong marketing strategy

The Yuwan village project embodies the concept of the "Chinese Land Aesthetics Revival Plan" proposed and upheld by Lao Hu. The marketing strategies (either in the Beijing Metro Line 1, or in news reports about "Lucai Mountain Collection" or a series of reports on "Learning Power") are focusing on “aesthetic”, “beauty” and “nature”. arguments about beauty are broken down into several dimensions: art, design[44], scenery construction[45]. On the aesthetic side, the entrepreneur Hu proposed the China Land Aesthetics Revival Plan in 2015. The idea underlying this plan is that every piece of land has its natural endowment, and the development of land requires adaptation, discovery,

[44] The homestay is made of a mix of brick, stone, cement, and wooden brass creates a harmonious atmosphere of warmth and cold.

[45] From the air, Yuwan Village looks like a "Eight Trigrams Map", with white walls, black tiles, old trees, and rice fields on one side; On the other side is the village square

and shaping. Therefore, “what revives here is not the land, but the people (interview with M. Lu). Ultimately, what needs to be achieved is the “harmony and unity between nature and humans”.

Box 2: The Lucai Mountain Collection
The company that developed the project is called "Lucai Mountain Collection", which was born in Lanqiao Town, where the Tang Dynasty poet Wang Wei created the "Wangchuan Collection". The names of homestays are "Wangmu", "Yuxiang", "Empty Mountain", "Deep Forest", and "Moss Up", mostly derived from Wang Wei's poem "Wangchuan Collection of Deer Chai". "Empty mountains do not see people, but people speak loudly. Return to the deep forest, and reflect on the moss." This poem is written about a rare empty mountain, a towering forest of ancient trees, creating a realm of emptiness and seclusion. On the official account of Luchaishan Collection, the column containing all articles is called "See the Mountain"; The column that collects character stories is called "Deer Chai Ke"; The program "Experience Deer Chai" currently includes two of its projects: Ningshan Fishing Bay and Hanyin Fengyan.

The aesthetic practice of the Yuwan village project has won some honors: at the "2020 China Rural Innovation Map" award ceremony, the Yuwan village Pastoral Complex won the "Industrial Innovation Pastoral Complex" award. In March 2023, the "Ten Years of Homestay" China Homestay Summit Forum and the Snow Deer Award Ceremony were held in Hainan. The "Yuwan village Agricultural and Creative Rural Complex" was awarded the "Rural Revitalization Forum Rural Construction Annual Model" in 2023.

8.2. Restoring and maintaining the ecosystem together with the local government

At the beginning of the Yuwan village project, Lao Hu recognized the need to restore the ecology. He communicated with the local government and rural cooperatives, and the first step was to repair the weirs and canals, adopt ancient planting methods, and strictly follow the 25cm standard × Restore the planting of 200 acres of rice fields in the village with a spacing of 10cm between plants and holes[46]. The purpose of this rice field is not to produce rice, but more importantly, to restore the natural landscape and form a healthy and complete rice field Crested Ibis ecosystem, allowing Crested Ibis to have a more natural and excellent habitat. The entrepreneur Lu encouraged villagers to cultivate land and improve production efficiency through mechanized transplanting. But he also introduced the principle of "never using pesticides or chemical fertilizers", and used rapeseed residue as organic fertilizer, adhering to green production, avoiding environmental pollution as much as possible. He established an ecological community, paying attention to the protection of vegetation, and conducting occasional investigations and studies on the local vegetation environment. At the end of 2020, the seminar on the conservation and development of the Ningshan Crested Ibis habitat in China was held in

[46] Yuwan Village had experienced difficult moments in the defence of Crested Ibis. According to the villagers, there were originally 8 crested ibis, but due to the decreasing number of farmers in the village, the rice fields were abandoned for 16 consecutive years, and the number of crested ibis lost its habitat, dropping to three or four.

Yuwan Village. Scholars and experts protecting Crested Ibis conducted in-depth discussions in this village, focusing on the current situation and challenges of the breeding of Crested Ibis species in China, the development experience of wild release of Ningshan Crested Ibis, and rural agricultural farmers based on Crested Ibis conservation and development.

One of the consequences, is the protection of the crested Ibis. The crested ibis, also known as the ibis or red crane, has white feathers and a bright red part from the forehead to the cheeks. It has a long willow leaf shaped feather crown on the back pillow and is known as the "auspicious bird" and "Eastern gem". This bird is famous for its rare form, and is a precious wading bird unique to the Asian region. Crested ibis are ecological indicator species in forest and wetland ecosystems, requiring foraging and reproduction on trees in shallow wetlands, with high environmental sensitivity. With the changes in the environment in which Crested Ibis rely for survival due to human activities, the distribution range of crested ibis has rapidly shrunk, and the number has gradually decreased since the 19th century. From 1978 to 1981, the Institute of Zoology of the Chinese Academy of Sciences carried out a three-year survey, and only on May 23 and 30, 1981, two pairs of adults and three juveniles were found in Jinjiahe and Yaojiagou, Yangxian County, Qinling Mountains. It was the only record of successful natural reproduction of Crested Ibis known in the world at that time. The leading scientist Liu Yinzeng proposed that "the discovery of this crested ibis population not only opened a new chapter for the nearly twenty years long disappearance of crested ibis in China, but also made contributions to saving this precious animal in the world. Currently, the number of crested ibis discovered is extremely rare, and some are afraid of being disturbed, so effective protection measures will continue to be taken." (Liu Yinzeng, 1981)

Subsequently, Yangxian established a "Ibis Protection Group", with a professional team and a wide range of remnants among the people. At that time, in the activity area of the crested ibis, it was not allowed to cut down trees, use pesticides, engage in hunting, and open up wasteland and set fire. Comprehensive care, including field protection and artificial breeding, has achieved significant results. Every summer and autumn, the crested ibis flies from mountainous areas to hills and plains, expanding its range of activities, and finally surpassing 100 in both the wild and artificial populations. At the same time, the release of wild animals has also been steadily carried out. In 2007, in Zhaigou Village, Ningshan County, Ankang City, Shaanxi Province, 26 crested ibis were released into the mountains and forests. In the following years, the wild released crested ibis crossed the Qinling Mountains, Tongchuan Ju River Basin, Baoji Qianhu Wetland and other areas, welcoming the soaring figure of crested ibis one after another.

In 2018, when Lao Hu first came to Yuwan Village, realized that it was the "habitat" chosen by the crested Ibis : the village of Zhaigou, where 27 crested ibis were released, is only 15 kilometers away from Yuwan Village, and crested ibis have become a habitual neighbor of villagers in Yuwan Village. From then on, Lao Hu began the "Chinese Land Aesthetics Revival Plan" with the crested ibis as the starting point.

8.3. The support of the Lucai Mountain Collection

The story of Yuwan village cannot be told without the "Lucai Mountain Collection"; Lucai Shanji Co., Ltd. is a subsidiary of Xi'an Haihetian Cultural and Creative Industry Development Co., Ltd. established in 2018, with over 200 employees. The rural aesthetics represented by the daily life of Yuwan Village can be read in the official account of "Luchai Mountain Collection". This official account, which was first created in July 2018, has become the spiritual link of people in the "Luchai" community.

The first article on the official account of Luchaishan Collection was titled "the young picnickers fleeing from the office", pointing out that its original idea was to attract urban customers, who would like to get rid of the overload in urban life and approach nature.

9. Conclusions

Global economic recovery, and even more so sustainable economic growth, has been hampered by crises such as the Covid pandemic, wars and conflicts, the disruption of global supply chains, and the effects of ongoing climate change. Smart economic policies are needed to unleash the power of technology, innovation and entrepreneurship, on local, regional, and global levels. An inclusive, equitable growth path towards resource-efficient green economies is the key objective.

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THE FORMATION AND THE DISSOLUTION OF THE POST-WAR KEYNESIAN CONSENSUS: THE WELFARE STATE, THE PLANNING OF THE BUILT ENVIRONMENT AND THE NEOLIBERAL TRANSITION IN BRITAIN

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Abstract

In Britain between 1945 and 1975 a capitalist state planning based on Keynesian economic principles and a cross party-political consensus, created the frame for the development of a series of welfare policies and attempted the decommodification of certain domains of life. Collective life during that period was administered largely by the state. The paper presents the formation of this particular social and historical milieu, created by the social policies of the welfare state in the post-war Britain and the built infrastructure and institutional architectures produced for it. The paper traces the social, economic and political changes that took place in this period and focuses on their effects on the British population, attempting to analyse them through an examination of the built environment, its planning and the social policies that made them possible. Specifically, the paper argues that the built environment played a fundamental role in the formation of the British welfare state and contributed to the formulation of the population as social citizens. It is important that this condition and above all the construction of the modern welfare state are understood as a consensus in the context of the development of a liberal government that sought to resolve the serious social problems arising from the spread of capitalism, the extensive industrialization and the rise of workers movements in the late 19th and early of the 20th century. On the contrary, the gradual dissolution of the welfare state and the strong criticism and discrediting of planning and the public production of the built environment from the late 1960s onwards marked the transition from liberal to neoliberal forms of governance and the break of this consensus. The paper looks into how this transition has been realized in housing, education, healthcare and public space. The deregulation of the production and maintenance of the built environment had direct consequences to the quality of collective life and the welfare of the population as well as people's understanding and practice of social and political citizenship.

The modern welfare state needs to be understood within the development of liberal government and its attempts to resolve the serious social problems that were created from the development of capitalism, the extreme industrialization and urbanization. In the end of the nineteenth century a major factor for poverty was the very low wages. Unemployment and irregular employment were important factors, as were the old age, disability, and widowhood. The acquisition of voting power by the working class with the reform acts that took place, as well as the threat of socialism after the 1917 communist revolution, put great pressure on the states to offer social and economic provisions to people. In order to address these conditions, some proto-welfare policies were initiated by liberal governments. Liberalism was split between the total freedom of the market

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(laissez-faire) approach and the need for social reformism. The provisions aimed to sustain the necessary labour force for the operations of capitalism and control the workers movement.

Despite these first efforts, the situation worsened after another economic crisis, the famous crash of 1929. In the aftermath of the Wall Street and London exchange stock market crashes, the United States and the industrialized world fell into the Great Depression. The explanation for this crisis, which was proposed by John Maynard Keynes is that the reduction in consumption led to deflation and loss of investment confidence, which made holding money profitable and increased the economic recession as the circulation of money was limited. Following this observation, Keynes in *The General Theory of Employment, Interest, and Money*, published in 1936, developed an approach on how to reform capitalism through the implementation of demand side policies. According to Keynes, the lower aggregate expenditures and the collective non-investment can lead the economy to operate at low levels leading to further decline of income and increase of unemployment. Keynes advocated for an active response by the public sector to influence aggregate demand and sustain high levels of aggregate supply and demand, which would also guarantee employment. Keynesian economic theory has been put in practice in many countries through the implementation of economic and social policies, which rely on state intervention and planning. The most well-known example of the application of Keynesian economic policies can be found in the post–war reconstruction of European countries and the formation of welfare states, where there was a clear state intervention, regulation of markets and planning of the economy to sustain high demand and full employment. In addition, at the end of World War II, a series of international organizations were put in place that aimed to regulate the economic and military relations between countries providing a relative stability. Most notably, the Bretton Woods System which established the rules for commercial and financial relations (with the requirement by each country to maintain its exchange rate tied to gold).

The emergence of the welfare states can be considered as the result of the negotiation of the economic and social balances between the different economic classes. It is an attempt to diminish the economic gaps through the socialization of consumption. In a sense, it is a compromise that would avoid any form of up rise of the working classes. According to Asa Briggs, a welfare state is "a state in which organized power is deliberately used in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services." (Briggs 1961: 228). Welfare policies aimed to sustain a strong and reliable labour force with improved productivity and work output, while they constituted an expansion of rights. Thomas H. Marshall in his text Citizenship *and Social Class* proposed that the welfare states achieved the expansion of citizenship to include not only civil and political rights but also social rights, which became the claims of full membership to a community. However, the constitution of the political and most importantly of social rights, challenged the inequalities between social classes and "in the twentieth century, citizenship and the capitalist class system have been at war." (Marshall 1950: 29). Although Marshall sees social rights (and the welfare state) as challenges to capitalism, Marxist theorists consider them a way through which the state managed to maintain consent on capitalism and eliminate dissension. For Antonio Negri, this way the state recognizes "the political emergence of the working class while finding new means (through a complete restructuration of the social mechanism for the extraction of relative surplus value) of politically controlling this new class within the workings of the system." (Negri 1988: 6). This signaled a restructuring of capitalism and the emergence of a new condition, in which, the dialectic of capitalist exploitation is socialized through the intervention of the state.

In Britain a cross party-political consensus was formed after World War II that lasted till the advent of Margaret Thatcher in government in 1979, which agreed on the importance of welfare provisions, the maintenance of full employment, and social security. There was an agreement that high state expenditure, and the regulation of the economy based on Keynesian principles were necessary to sustain economic growth. The principles according to which, the state assumed responsibility for its citizens' welfare, can be found in the *Report on Social Insurance and Allied Services* that was published in 1942 that was prepared by William Beveridge. The report identified five evils that needed to be addressed by the state: want, ignorance, disease, squalor, and idleness. State interventions for social security, education, healthcare, housing, and full employment would resolve these problems and provide a minimum standard of living to all British citizens. The report proposed a comprehensive system of social insurance based on a flat rate of contributions by working people in order to receive security and adequate flat rate benefits in the case of unemployment, sickness, injury, and old age within a unified administrative responsibility by the state. The proposed reforms could develop within the operations of capitalism, and thus, they were welcomed by all the political parties. The welfare state provisions covered the majority of the society, while the rich and the poor had equal rights to them. Between 1945 and 1951 the Labour government of Clement Attlee put forward a series of acts that formed the British welfare system. National insurance became compulsory with the *National Insurance Act* in 1946. The *National Health Service Act* published the same year, made possible the provision of free medical care for all and the establishment of a network of hospitals and medical centres. A series of education acts between 1944 and 1948 made education compulsory and free. The *Housing White Paper* that was published in 1944 addressed the problems of housing and the living conditions through the construction of shelters, temporary housing, and the clearance of slums. While, the *New Towns Act* of 1946 and the *Town and County Planning Act* of 1947 made mandatory the acquisition of permission and a high tax for any land development, transferring the control and the regulation of land to the local planning authorities.

All these initiatives were supported by the development of physical infrastructure. Through the building of new towns, housing, schools and later of hospitals and universities, the British state initiated the largest part of architectural construction. The central and local governments were responsible for the majority of building production while, the use of land, as well as the development of industries, were under state regulation and ministerial planning. In most cases, these projects were planned, designed, and built by local councils with the supervision of ministries. Architectural departments were created in many ministries and by the 1960s around fifty percent of the architects in Britain were employed directly or indirectly by the state. The large building programs relied on economy, the use of standard designs and components, on serialization and prefabrication. These techniques were employed in constructions such as schools, hospitals, stations, etc. As plans and layouts were based on practicality, issues of style became secondary. Thus, it was the public sector and the bureaucratic state, through an architectural production that aimed to address the needs of the population that completely altered the built environment and created the post-war urban landscape of Britain (Bullock 2002).

The *Housing White Paper* put forward the objectives and first plans for housing. The initial measures were directed towards covering the large post-war housing needs by building new houses, the largest percentage of which were council houses. This was facilitated by the offering of construction subsidies that encouraged the construction of new houses. Interestingly, both the Labour party and the Conservative party made commitments to build a large number of houses annually. In the period from 1945 to 1951, the state addressed the urgent needs in housing by offering temporary housing and building new housing estates in an efficient and economic manner. The design, planning and construction of social housing were centralized and controlled by the state and the local authorities. In 1951, with the change in government, there was an opening to the market to participate in covering the housing needs. There was increased collaboration with private companies, which worked for local authorities to raise the number of houses built, but this sometimes resulted in buildings of low quality. From 1964 onwards the production of social housing stopped being the priority of state planning. Nonetheless, the report *Homes for Today and Tomorrow* by the Parker Morris Committee was published in 1961 in order to address the new living expectations of people, and define the living standards provisions (Manoochehri 2012: 13-67).

At the end of the World War II, a series of education acts, most notably the *Education Act* of 1944 made education compulsory and free in Britain. This way, education was not considered a financial burden by the families anymore and the number of students attending education increased. Education was an essential pillar of the welfare state. The acts attempted to create equal opportunities for students from different backgrounds, the age for leaving school was set to fifteen years and the grammar school fees were removed. A three-tiered educational system of grammar, technical and secondary modern schools was adopted. Later the secondary and higher education were expanded too. All these initiatives were supported by the development of the physical infrastructure of the educational system. The Ministry of Education in collaboration with the Local Education Authorities were responsible for the development of these facilities (Lowe 2005: 204-244). The building of schools became a priority in the post-war period and there are many interesting architectural examples that resulted from the post-war school building programs (Saint 1987). The welfare state schools were designed by the local authorities to provide an education for all, independently of the social or economic status of the students. This way, they nurtured in their classrooms a sense of equality and meritocracy about the post-war society, but most importantly, they offered a space of possibilities and optimism for tomorrow. In this sense, the post-war schools cultivated a sense of citizenship and belonging to a community.

The end of war also accentuated the need for more university graduates that would acquire the required skills in order to participate in the industrial and economic growth of the country. It was decided that the Local Education Authorities (L.E.A.) would cover the students' fees and in 1953, grants to university students became mandatory, making the university accessible to more people. It was the publication of the *Report on Higher Education* in 1963 that put forward a plan for the building of many new universities and the expansion of existing ones. Between 1960 and 1968 seventeen new universities were created in England, while many existing ones expanded (Harwood 2015: 205-274). It is important to underline that the expansion of free higher education, which was supported by an extensive building program for universities, created the necessary space and time for students to practice their right to education, and to acquire the skills and knowledge that were essential for their professional development, while they remained independent spaces of study, research, and free dialogue, that cultivated social citizenship.

Social security for workers in the form of public healthcare was another essential provision of the welfare state. The creation of National Health Service (NHS) unified all the pre-existing health care services in one system. It established fourteen regional hospital boards, to organize the hospital services in fourteen large areas of the country. Although the healthcare provisions by the state began straight after the war, the actual development of its physical infrastructure took longer time to be achieved. Initially, in order to address the post-war needs, the NHS developed in collaboration with the local authorities a network of healthcare centres. The health care centres were very few up to the 1940s. The London County Council put forward a plan of building one hundred sixty-two health centres that would be developed in coordination to the *Town and Country Planning Act* that was under elaboration in 1947. The late 1950s brought intense criticism for the separation of NHS in hospitals, general practice, and local health authorities and brought the idea of the establishment of district general hospitals. The *Hospital Plan for England and Wales* that was published in 1962 approved the development of district general hospitals for population areas of about one hundred and twenty-five thousand people, aiming to place a general hospital in every community. Forty new general hospitals were to be built and another one hundred thirty-four modernized. The NHS established its own architectural department, which oversaw the building of hospitals, investigated their technical and environmental aspects as well as the implementation of new technologies.

The British Prime Minister Harold Macmillan stated in 1957, that "people never had it so good."[48] Indeed, low unemployment and stable salaries for more citizens, increased the living standards. The welfare state, through state intervention, the planning of the built environment and the realization of public welfare programs, expanded the social rights of people. The control of land and housing repressed and controlled rents. The welfare provisions and the regulation of private enterprises achieved the decommodification of certain domains of life such as housing, healthcare and education. The public building programs addressed people's basic needs and public buildings were designed to maximize their social use value. "The planning of the built environment was one of the key areas in which the welfare sought to achieve its ambitions of economic redistribution and social welfare." (Avermaete et al.: 13-14). This reformist approach worked for a while and there was a long period of economic expansion that many historians characterize as the "golden age of capitalism".

The years that followed signify a transition from social democracy to neoliberal forms of government, which are based on facilitating market competition and promoting individual enterprise. Neoliberal governments since the 1980s applied monetarist

[48] Speech of Harold Macmillan, the Conservative Prime Minister, in Bedford in July 1957. Macmillan was in office between 1957 and 1963 and was succeeded by Harold Wilson, the Labour Prime Minister.

economic policies that aimed to control the amount of money in circulation to reduce inflation. One of the ways to do this was to reduce public expenditures and restructure the welfare provisions. This economic approach signalled the abandonment of the post-war Keynesian commitment to full employment, and allowed for a "natural rate" of unemployment to exist, which is considered expected and even desirable in a neoliberal market economy that aims to be competitive.[49] Later, supply-side economics were also introduced reducing taxation, increasing production incentives, and eliminating any regulative restrictions (such as employment controls or any legal or financial controls) to allow for competition and an enterprise market to develop. The result was a significant rise in poverty from the 1980s onwards. While, national markets became much more vulnerable to international changes due to the globalization and deregulation of production, and trade. For many analysts, these changes signified an important restructuring of capitalism and for others an evolution of it (Boltanski and Chiapello 2017).[50]

Margaret Thatcher, who came to power in 1979 introduced market-oriented reform policies leading to the deregulation of markets and the withdrawal of public social and economic provisions. This resulted to the dissolution of the existing welfare states. Thatcher adopted monetarism as an economic policy that could control the amount of money in circulation and reduce inflation.[51] One of the ways to do this was to reduce public expenditures and restructure the welfare provisions. These deregulations affected all of the domains that during the post-war period were planned and regulated by the state in order to allow for welfare provisions to materialize. They affected social security, employment, healthcare, education and housing. The 1980s brought a significant fall in the real expenditures on such provisions. The real value of benefits was cut, and the number of claimants was controlled and reduced. This approach of "deserving benefits" was culminated at the replacement of unemployment benefits and income support with the Jobseeker's Allowance (J.S.A.) in 1993, after a fundamental review of public spending. The discussion on who deserves to be supported signaled a retraction of the welfare provisions as social rights. A few years later, all new pension schemes were privatized and only the old ones remained within the state's responsibility.

In healthcare, provisions became the responsibility of regional and district health authorities, where general managers were put in charge to control expenditures and be accountable for the hospital budgets.[52] Healthcare budgets were limited. Procedures of comparative costing and competitive tendering were introduced in the providers of supplies and services. Eventually, in 1989 the *Working for Patients White Paper* put forward a reform by the government, creating an internal market in healthcare that was based on the "purchaser-provider" division. "The purchasers were initially to be the District Health

[49] The idea of a natural rate of unemployment was developed by the economists Milton Friedman and Edmund Phelps in the late 1960s to reflect the rate of unemployment, when markets have stable inflation rates.

[50] Fredric Jameson following Ernest Mandel's theorization of the evolution and periodization of capitalism, considers this period as the late capitalism.

[51] Monetarism relies on the control of money supply and was introduced in Britain in the *Medium Term Financial Strategy* of 1985.

[52] These initiatives were based on the report *Reflections on the Management of the National Health Service* of the Nuffield Trust prepared by the economist Alain Enthoven in 1985.

Authorities. The providers, competing for business and therefore constantly seeking to drive down costs, were either publicly funded hospitals (encouraged to turn themselves into independent trusts) or private ones." (Lowe 2005: 355). These changes increased the administrative costs and reintroduced commercial principles into healthcare. Most importantly, they created a competitive market in healthcare. Commercial principals started prevailing the provisions in education too. The *Education Reform Act* of 1988 introduced a voucher system into education and transformed education into an internally competitive market. Parents and students would act as consumers judging and acting according to the quality of educational services provided by the schools. The University Grants Committee was also abolished in the same year. The University Funding Council that replaced it, became responsible for funding and imposed a series of funding constraints toward higher education, while it allocated contracts instead of grants to universities. The gradual reduction in the expenditures of the state toward higher education brought the introduction of tuition fees in higher education at the end of the 1990s based on income criteria.[53] Later, the increase in tuition fees has promoted the formation of a student loan system and the imposition of debt to young graduate employees. This way, education became more economically relevant and accountable to its newly formed consumers rather than an independent provider of knowledge to all citizens.

Although, plans to completely privatize the NHS and education failed, in the 1980s, the deregulation of education and healthcare, formed internal markets, the operations of which, were gradually outsourced. This way, the state created new markets (most often oligopolized ones) and allowed the expansion of private enterprises into previously public domains. A series of privatizations took place transferring the ownership and operation of public utilities, infrastructures, and services to private companies.[54] The "right to buy", the right of the tenants of social housing to buy their homes, existed since the 1950s, but was activated by the *Housing Act* of 1980 that provided the incentives for this to be realized by offering the houses in a large discount to their occupants. This provided the opportunity for a large proportion of the population to own their homes. However, it also reduced the stock of available social housing and increased the social gap between owners and non-owners. A very large percentage of housing passed from public to private ownership, altering significantly the housing market, as it contributed to the commercial speculation on properties, and boosted the financial markets of mortgage and private debt. The previously publicly owned houses of social welfare provision were transformed into equities of private wealth. In parallel, public expenditure on housing was reduced and the subsidies to local government from the central government ended. Public housing entered the real estate housing market and the council tenants had to pay full rents, competitive to the ones in the market.[55] The entitlement to housing transformed

[53] These were introduced through the *Teaching and Higher Education Act* of 1998.

[54] British Airways, British Steel, British Oil, British Aerospace, British Coal, British Telecom, Regional electricity, and water supplies were all privatized. These privatizations were presented as opportunities given by the state to the people to buy into these services, but in reality, they allowed large private companies to buy their largest share and form oligopolies.

[55] The local government was to only manage the building projects and allocations of housing rather than be responsible for their construction, which was outsourced to housing associations and private developers.

from a right to a very limited and controlled provision of social security offered only to the ones in severe need.

Through these acts, the British governments of the 1980s and 1990s replaced the classic welfare state planning that was at large based on state intervention, with policies that promoted individual enterprise and competition. Citizens have started being addressed as consumers of services and self-actualizing entrepreneurs that needed to act according to their interests (Dardot and Laval 2018: 101-121) . Thus, the state was not any more responsible for social welfare and equality of opportunities. For many analysts, this constituted the dismantling of the foundations of the British welfare state. For others, its restructuring. The formation of internal markets in healthcare and education, that were initiated, meant that the ministries were not anymore directly responsible for the building and maintenance of hospitals, schools, and universities (Lowe 2005: 353-365). The boards that managed these institutions became self-regulated and responsible for managing the buildings and operations of their institutions independently and according to their budgets and funding. This, in most cases, signaled a reduction in the quality of the built environment and a significant difference between the quality of services provided by the wealthy and poor institutions. The supplies for the production and service of these buildings were objects of commercial competition and were outsourced to the private sector. This was realized either by contracting out of government services or by eventually forming public-private partnerships. Public-private partnerships would involve long term contracts, with specific arrangements on risk and funding allocations, in which private companies would make a profit by providing public services. The quality of services and buildings was not assured.

The buildings and land that belonged to the local councils and the public domain decreased (Christophers 2018), in contrast to private building initiatives of offices, houses, and commercial buildings that expanded. It is characteristic that one of the important initiatives of Margaret Thatcher as Prime Minister regarding the development of the built environment, was the creation of enterprise zones that operated outside the control of local governments.[56] In enterprise zones, the government implemented policies to encourage investments and economic growth in the form of incentives of infrastructure, flexible planning regulations, and tax breaks that would attract capital investment. These attempts to attract international business and investments became a form of urban strategy for the growth of towns and cities within the context of national de-industrialization and global techno-informational revolution. This way, entrepreneurship became an essential aspect of urban strategies.

Thus, the rationally planned development of the built environment according to the social needs of the citizens of the post-war period was transformed into a speculative enterprise in the pursuit of economic profit, where the public sector carries the risks and the private sector, the benefits. The cost of the incentives provided to attract these investments and the destructions that they sometimes cause, often outwrite the jobs and benefits that these developments offer to the local communities. Most importantly, these initiatives develop a form of governance of the urban space that is realized through diverse economic agents and politico-economic forces, transforming the urban space into a space of economic competition for the pursuit of private economic profit rather than a

[56] The creation of enterprise zones was introduced by the chancellor and head of the treasury, Geoffrey Howe in 1980.

space of social welfare and equality (Harvey 1989). These initiatives have been constitutive to formation of the neoliberal urban spaces that we currently inhabit, the disappearance of public spaces and infrastructures, which could re-active a lost sense of social and political citizenship.

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POLITICAL ECONOMY ANALYSIS OF KEY CLIMATE GOVERNANCE MECHANISMS: ETS & CARBON TAX AND DIVIDEND

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Abstract

The Emission Trading System (ETS) as a market-based approach to fight against the global warming trend is currently considered as the most favored Climate Governance Mechanism. However, foreign Marxists point out that climate change is the consequence of capitalist purpose and mode of production. That is to say, the accumulation of capital rather than the so-called external diseconomy due to unclear property rights of public goods should take responsibility for climate change. They believe that the above mechanism fails to recognize the causes of climate change in essence, coupled with the inequality of capitalist society, resulting in the unsatisfactory effects of the carbon emissions trading system at the present stage. Thus, it is doubtful whether ETS can achieve emission reduction and then mitigate the climate change issue fundamentally.

The international carbon trading platforms are divided into allowance-based trade and project-based trade according to different trading objects. From the perspective of political economy, this paper analyzes the existing problems and causes respectively for the operational process of the emissions trading market in China and around the world. Specifically, the problems include inefficient technology of accounting, loose control to carbon emissions, excessively low carbon prices, inequity in distribution of emission rights, poor regulation, lots of speculation and arbitrage, as well as few participants, etc.

In contrast, the proposal of Carbon Tax and Dividend seems more logical and operational. It is also easier to arouse widespread participation from the public and popular support since the underlying idea is that carbon is only taxed where it is produced or imported originally which involves few companies and enterprises, while the taxes are returned to the public by cash electronically, which benefits all citizens. The proposition of climate change is closely related to the destiny of all mankind. Its universality determines that the climate governance actions require broad understanding and participation of the public. Only a climate governance project that has total involvement and benefits the public in return can break through the limitations of the existing mechanism. At the same time, it will also play a role in adjusting income redistribution, stimulating consumption and promoting economic development to a certain extent while realizing the goal of emission reduction at an early date and saving the planet and human beings themselves. Even though the end of the capitalist mode of production makes it antithetical to the ultimate goal of curbing climate change, this does not mean that it is possible to be rid of capitalism in the short term. On the contrary, the positive role of capitalism in climate governance may need to be properly utilized for a considerable period of time, including a dialectical view of various market-based climate governance mechanisms. On the other hand, the political will of sovereign States is key to climate governance, because only it can provide the most basic material and institutional guarantees for such action.

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1. Introduction

The AR6 Synthesis Report: Climate Change 2023 finalized and released by the Intergovernmental Panel on Climate Change (IPCC) tells that "Human activities, principally through emissions of greenhouse gases, have unequivocally caused global warming, with global surface temperature reaching 1.1°C above 1850-1900 in 2011-2020. Human-caused climate change is already affecting many weather and climate extremes in every region across the globe. (IPCC 2023:15)" What is worse, its adverse impacts will continue to intensify. The situation of increasingly frequent droughts and wildfires, significant sea level rise, serious threats to food security, life and health, as well as the imminent collapse of ecosystems is not far away. "Never have we been so close - albeit on a temporary basis at the moment - to the 1.5° C lower limit of the Paris Agreement on climate change." said World Meteorological Organization (WMO) Secretary-General Celeste Saulo in *Climate Change Indicators Reached Record Levels in 2023: WMO* (World Meteorological Organization 2023), "The WMO community is sounding the Red Alert to the world." The reality is urgent.

2. Interpretation of the causes of climate change by Western Mainstream Economics and the Carbon Emissions Trading System

Carbon emission trading, as one of the market-based tools to combat climate change, has gained increasing attention in the past decade. It has been widely adopted and practiced in Jurisdictions such as the European Union, New Zealand and California-Quebec. According to *Emissions Trading Worldwide: 2024 ICAP Status Report* (ICAP 2024:23):

- Jurisdictions accounting for 58 percent of global GDP are using the carbon emissions trading systems;
- Emerging economies are increasingly turning to carbon trading and adapting the design to local circumstances;
- Global revenue from carbon trading systems exceeded $74bn in 2023, reaching another record high

2.1 The causes of climate change

The design and construction of carbon markets is rooted in the ecological thinking of western mainstream economics and its interpretation of climate change. The core of the ecological thinking can be summarized by the term "technological correction" (Hu and Dong 2015:6). Western mainstream economists advocate a series of policy measures and technical means within the framework of the capitalist system to deal with climate change and the multiple ecological and social crises caused by it, the purpose of which is to better stabilize and maintain the existing social and economic relations. They generally agree that natural resources and environment, including climate, are scarce as public goods. And this scarcity should be reflected in commodity prices, so as to reach the optimal allocation of resources through market regulation and achieve sustainable economic and social development. However, it is precisely because of this public product attribute of unclear property rights that it falls into "the tragedy of the commons" (Hardin 1968:1245). Strong negative externalities and the resulting market failure are considered as the main cause of climate change by western mainstream economics. Based on the theory of property rights proposed by Coase, some scholars in this field have developed the theory of environmental property rights which is applicable to the problem of ecological environment. This logic has led to the emergence of market-involved climate protection and remediation solutions that attempt to solve the problem by internalizing negative externalities - pricing them. The carbon trading market evolved from this.

In 1968, Dales, an American economist, proposed the concept of Emissions-Trading Program for the first time, defining the emission right, that is the right to discharge pollutants into the environment under the conditions stipulated by law (Dales 1968:45). In 1994, The United Nations Framework Convention on Climate Change (UNFCCC) came into effect, establishing the principle of "Common but Differentiated Responsibilities"; In 1997, the Kyoto Protocol was agreed. As the first legally binding international agreement to set emission reduction or limitation targets, and to delineate obligations between developed and developing countries, the Kyoto Protocol guides international carbon negotiations, enriches market-based measures of emission reduction, and incentivizes economic actors to achieve growth transformation by defining "differentiated emission reduction" targets as well as establishing three flexible mechanisms for "offshore emission reductions" - Joint Implementation (JI), Clean Development Mechanism (CDM) and Emissions Trading (ET) (Tu 2005:68), in order to control greenhouse gas (GHG) emissions and slow down the process of climate change. In 2016, The Paris Agreement was signed, ushering in a new model of global climate governance centered on "Nationally Determined Contributions (NDCs)", which set out the arrangements for post-2020 global actions on climate change.

2.2 The operational mechanism of the Carbon Emissions Trading System and its drawbacks

Since the U.S. Environmental Protection Agency (EPA) first used carbon emissions trading to control air and river pollution sources (Zhang 2022:73), the carbon emission trading system has been gradually established and developed. Domestic and foreign scholars have analyzed and studied the market system from many perspectives, including design concepts, organizational structures, laws and regulations, specific operations and empirical studies, and gradually found its own shortcomings. The question of whether the carbon emissions trading market can cope with the climate change crisis has arisen. The following is a brief analysis of the main contents and existing problems of this trading system.

2.2.1Quota-based market: The cap-and-trade system

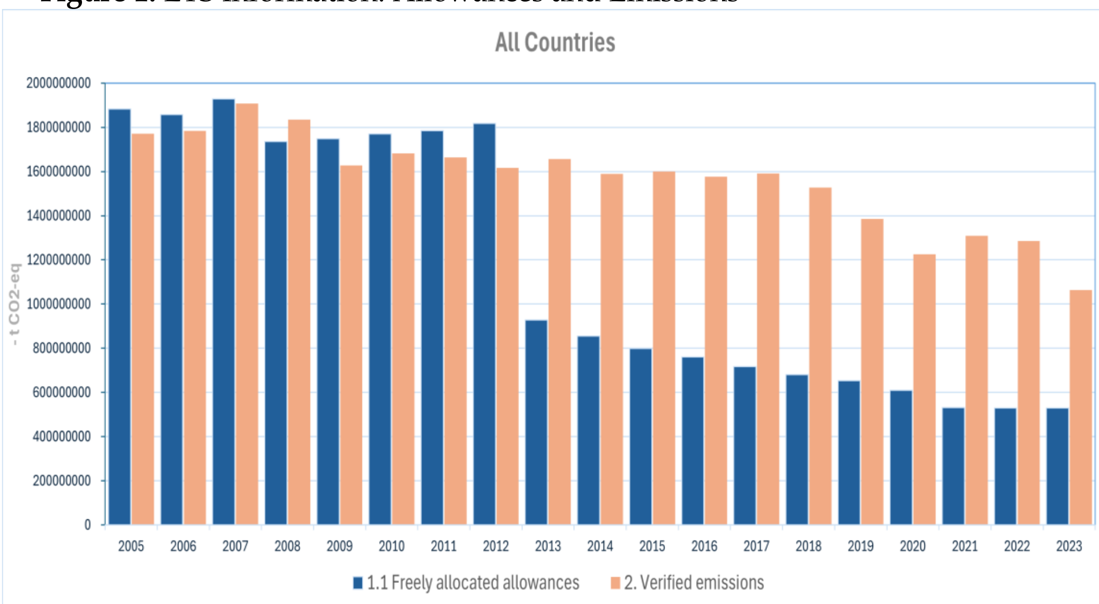
The cap-and-trade system refers to controlling the total amount of greenhouse gas emissions and then allocating emission allowances to various emitters, with flexible trading between surplus and deficit ones. To realize the establishment of this mechanism, three steps need to be completed.

Firstly, the major greenhouse gas affecting the climate is quantified and converted into carbon dioxide equivalent (CO_2e) to artificially create a fixed and comparable trading object. However, the paths of greenhouse gas influencing on the climate are very complex and which are hard to be interpreted accurately with the carbon dioxide equivalent (Xie, Cheng, and Li 2014:65). Moreover, with the continuous progress of atmospheric science and technology, the accounting standards for carbon dioxide equivalent are also evolving and updating. Currently, the “2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories” is used in conjunction with the “2006 IPCC Guidelines for National Greenhouse Gas Inventories” (IPCC 2019). They have become the latest methodology and rules for the preparation of greenhouse gas inventories in countries around the world. However, due to the actual situation of various countries, there are also differences in the preparation of national accounting standards. Taking China as an example, the method to compile the inventory of the “Third Biennial Update Report on Climate Change in the People's Republic of China” is gradually shifting to the “2006 IPCC Guidelines for National Greenhouse Gas Inventories”, mainly following it and the “Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories” (Ministry of Ecology and Environment 2023). Carbon accounting is the basis for fair and effective development of carbon trading. Any errors and adjustments will inevitably interfere with the formation of the carbon price and affect the stability of the carbon market.

Secondly, according to environmental constraints (for example, the long-term temperature rise control target of The Paris Agreement is 2 ° C above the pre-industrial level, preferably within 1.5 ° C), the remaining global emission space is measured and emission rights quotas are allocated. However, there have also been issues of loose total quota control and unfair distribution in the historical implementation process of this step. “State and Trends of Carbon Pricing 2024” released by World Bank in May 2024 shows that carbon price range recommended by the High-Level Commission on Carbon Prices to limit temperature rise to well below 2°C is $63-127 per ton CO^2e; and carbon price levels consistent with limiting temperature rises to 1.5°C is $226-385 per ton CO^2e by 2030 (World Bank 2024:35). In contrast, on April 1, 2024, the EU ETS with the highest carbon price worldwide barely exceeded $60 per ton CO^2e, while the price in China National ETS was less than $15 per ton CO2e. This suggests that carbon price levels are still not consistent with the ambition needed to achieve the Paris Agreement goal. And at the same time, it reflects that the supply of allowances is in surplus. Although as it is shown in the Figure 1, freely allocated allowances have been decreasing year by year since 2013, coupled with the impact of COVID-19 and other factors, the spot and futures prices of carbon allowances were increased, the current relatively low carbon price compared to the target is still unable to form an effective constraint on the pollution of enterprises, let alone the transformation to the green production mode.

Also, the allocation of emission allowances runs counter to the principle of “Common but Differentiated Responsibilities and Respective Capabilities”. Under the Nationally Determined Contributions model within the framework of the Paris Agreement, there are significant differences in the allocation of emission reduction responsibilities among different countries. Certain developed countries have taken advantage of rules and standards by interpreting "the principles of equity" on their own to shift the responsibility for reducing emissions to developing countries. For example, certain developed countries advocate recognizing carbon emission responsibility from a production perspective rather than a consumption perspective. Obviously, this is not reasonable. Ferng (Ferng 2003:125) argues that the responsibility for carbon emissions should be attributed to the inherent drivers of pollution rather than to the direct carbon emitters. “The Consumer Carbon Emissions Research Report (2024)” published by Chinese Academy of Sciences (CAS) shows that from 1990 to 2019, carbon emissions from the consumer end in major developed countries were generally higher than those from the production end, and vice versa in major developing countries. The carbon emissions from the production end of Non-Organization for Economic Co-operation and Development (OECD) countries or regions, mainly developing countries, have always been higher than those from the consumption end, with the difference gradually expanding from 1.47 billion tons in 1990 to 4.17 billion tons in 2019 (Chinese Academy of Sciences 2024). This difference, when further multiplied by the market price per ton of carbon emission allowances, results in huge economic losses in the hundreds of billions. And this provides ample potential for developed countries to suppress emerging economies and maintain their own economic hegemony.

Figure 1. ETS Information: Allowances and Emissions



Source: *European Environment Agency*

Thirdly, carbon emission rights are artificially given a value so that they can be circulated as "commodities" in the specific markets, with economies exchanging them according to the gap between their needs and the allowances they receive. Due to the imperfect premise mentioned above, it is conceivable that the practice of carbon trading will not be as successful as it should be. On top of that, the transaction itself is not conducive to the exploration and progress of new energy technologies. Because emissions have become something that can be done for a price. Unfortunately, that the richest and the most capable of developing advanced energy-saving technologies are the same countries.

Last but not least, the important difference between carbon markets and commodity markets in general is that the government is the key creator of demand and supply for emission allowances, which implies that it is unable to play the role of a "night watchman" (Zhou et al. 2024:107445). This means that the government may become the "central bank" of carbon emission allowances, and the market forces which are supposed to regulate the price of carbon in order to reduce emissions are weakened, that is contradictory to the original design of carbon trading practices.

2.2.2 Project-based market: Clean Development Mechanism

In addition to the cap-and-trade system, carbon emission trading can also be done through projects. The project-based trade is also perceived as an offsetting mechanism which adopts the principle of "baseline-and-credit". The carbon offsets (or "carbon credits") which is known as Certified Emission Reductions (CERs) issued by the standard-setting bodies is the gap between emissions produced by the project and emissions in a baseline scenario. Jurisdictions can generate carbon offsets from removal or sequestration of emissions through either direct actions (such as forestation projects) and/or emerging technologies (such as carbon capture) (Hong Kong Exchanges 2023:12). The CDM introduced by the Kyoto Protocol is a typical representative of this.

The CDM is a cooperative approach between developed countries and developing countries to reduce emissions. Western mainstream economists claim that CDM is a "win-win" mechanism. On the one hand, through project cooperation, developing countries can obtain the necessary financial and technical support to stimulate employment and promote sustainable economic development while improving energy efficiency and the domestic environment. On the other hand, developed countries can fulfil their emission reduction commitments at a lower cost and disseminate clean energy technologies, products and ideas in this way (Chen 2012:45). Ultimately, both sides can work together to address the challenges of climate change and promote global green and low-carbon development.

However, this is not the case. The list of CDM-scandals is very long. First of all, the effect of emissions reduction is in doubt. CDM offsets are actually considered as "hypothetical" emission reductions as they compare the project emissions with emissions under "business as usual (BaU)". Then the followed-up question would be that is it possible to measure "hypothetical" reductions in an objective way? Given the length of the statistical period (usually) of 100 years and the extremely complex reality, the differences in emissions caused by the economic and social changes driven by the projects themselves are difficult to estimate (Xie and Cheng 2014:22). So, the answer is self-evident. Meanwhile, there is also a lack of scientific mechanism for evaluating the technological sophistication of the transferred technology, the benefits of emission reduction, etc.

Furthermore, over-financialization threatens market stability. Due to the fact that carbon emission rights have both commodity and financial attributes; and it not only has economic value, but also represents the confrontation of international political forces, it has led to a crazy influx of financial capital, and the carbon market has gradually been occupied by financial activities. Carbon financial instruments and carbon financial derivatives linked with allowances and offsets are gradually introduced by major carbon exchanges around the world. Compared with the traditional financial markets, which are built on the basis of real commodities, the carbon financial market takes CERs, a "virtual" commodity, as the subject matter. In addition, the limited effectiveness of international environmental protection treaties such as the Kyoto Protocol and the uncertainty of the actual implementation actions of each contracting party have exacerbated the instability of the carbon finance market, making its product prices vulnerable and more speculative. China used to be one of the major host countries for CDM projects globally and was CERs' largest supplier in the primary market. One way for Chinese companies to participate in carbon finance transactions is through major international investment banks acting as intermediaries, buying Chinese CDM projects and then packaging them for sale in the global carbon market. According to the data, the purchase price of CERs in China is generally $8-10 per ton, and when they are packaged as futures contracts in the EU ETS market, the price rises to €15-17 per ton (Wei n.d.). Such a wide range of trading prices is bound to attract speculators to enter the markets and pursue profits, then inflate bubbles. At the same time, it also makes the development of the CDM projects go far from its original design intent.

Moreover, the emphasis on certified emission reduction has been placed on "certification" rather than emission reduction. Wara (2008) has calculated that the yearly costs for abating HFC-23 in all developing countries would be about €26 million, while through the CDM, Annex I buyers paid between €250 and €750 million in total (Wara 2008:1760). Surprisingly, it was profitable to produce more HFC-23 to get CDM. At the same time, in terms of the types of projects approved by the National Development and Reform Commission (NDRC) of China, as well as the types of projects registered and issued on the Executive Board (EB), new energy and renewable energy projects had the largest number of approvals and the largest number of applications, but with a low rate of success and a lower rate of obtaining issuance. The proportion of emission reduction is small relative to the number and scale of their projects (Huang 2016:326). On the other hand, the situation of HFC-23 decomposition projects is exactly the opposite. The reason is that HFC-23 and N20 decomposition projects have low development cost, low risk, little technical difficulty, and it can effectively mitigate climate change; while except for increasing potential fiscal revenue, their contribution to the host country does not include improving the employment environment and promoting sustainable economic development, which results in the situation mentioned above. It can be seen that the selection and construction of CDM projects are affected by many factors, and its initial and ultimate goal - emission reduction, seems to become the least important point. In addition, it can be seen from the above expression that the process to get “certified” emission reduction is very complicated, involving numerous participants, multiple interests, and considerable profits. Therefore, “cooperation” and “confrontation” will inevitably rise among buyers, sellers, third parties, managers and many other stakeholders or opponents. Rent seeking is a very clear case.

In fact, during the third phase of the EU ETS reform, which started in 2013, the number of registered CDM projects and the number of licensed projects declined significantly. By the reform phase four, the CERs were no longer accepted[59]. In addition to EU ETS, other representative carbon offsets around the world, such as New Zealand and the United States, have also gradually abandoned the international offset mechanism after 2015. And the countries such as China and South Korea, which continued the methods and processes of CDM to build domestic offset mechanisms, have also suspended relevant work or reduced the compliance ratio. However, in October 2023, the Ministry of Ecology and Environment of the People’s Republic of China, and the State Administration for Market Regulation issued the “Management Measures for Voluntary Emission Reduction Trading of Greenhouse Gases (Trial)”, marking the restart of China’s Certified Voluntary Emission Reduction (CCER). Subsequently, the Ministry of Ecology and Environment officially released the first batch of project methodologies for voluntary greenhouse gas emission

[59] There have been four reform phases of the development in EU ETS – Phase 1 (2005-2007), Phase 2 (2008-2012), Phase 3 (2013-2020), Phase 4 (2021-2030).

reduction projects, including afforestation carbon sinks, grid connected solar thermal power generation, grid connected offshore wind power generation, and mangrove cultivation (Ministry of Ecology and Environment 2023). It seems that this article still has significant practical significance for the discussion of CDM.

3. The root of climate change from the perspective of Marxist economics

Foreign Marxists have explained the problem of climate change from a deeper perspective of productivity and production relations. They have pinpointed that climate change is the consequence of accumulation of capital, and accumulation of capital is the effective and only way for countless individual capitalists and even capitalist societies as a whole to reap profits and thus maintain their economic dominance. Marx revealed the nature of capital's pursuit for its own infinite expansion early on: "The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits. (Marx [1867] 1990:247)" That is to say, in the capitalist society, the purpose of production is accumulation of wealth in the form of surplus-value instead of consumption of use-value. Therefore, in order to keep the process of capital accumulation going without interruption, the capitalists strive to compete for limited resources, improve the machinery and equipment to increase the productivity of labour, exploit the surplus value of the workers, and expand reproduction. As the snowball of capital continues to grow bigger, the exploitation, plunder and pollution of natural resources and the environment are getting out of control. And the chain of material exchange between human beings and nature breaks down, ultimately triggering a global ecological crisis, of which climate change is only one aspect. James O 'Connor argues in his book *Natural Causes: Essays in Ecological Marxism* that "Nature is a point of departure for capital but typically not a point of return. Nature is an economic tap and also a sink, but a tap that can run dry and a sink that can clog up. (O'Connor 1997:56)"

This paragraph well reflects O 'Connor's Ecological Marxism thought and points out the "second contradiction" of capitalism, which is the contradiction between capitalist productive forces and the relations of production, as well as the conditions of production. That is, the contradiction between the infinite nature of capitalist production and the finite nature of production conditions. This essentially leads to the ecological crisis and economic crisis of capitalism.

On top of capital accumulation as the root cause, the imbalance of capitalist development has further exacerbated the breadth and depth of ecological crisis (Chu 2023:138).

O 'Connor inherited and developed Marx's theory of "metabolic disruption" by extending the imbalance of development between urban and rural areas to the imbalance of development between developed and less developed regions on a global scale. Due to the extremely unbalanced development among regions and countries, profit-seeking capital transfers rich energy resources and cheap labour from underdeveloped regions to developed regions through international economic organizations and multinational corporations, combining them with their advanced experience, technology and sophisticated social division of labour. At the same time, resource-intensive and highly polluting industries in developed areas are transferred to less developed areas, so as to achieve the "export" of pollution and the "ecological colonization" of these countries and regions. This series of operations allows capitalism to expand its reproduction on the basis of more abundant supplies, lower costs, and seemingly no need to pay its own price. Therefore, the exploitation and plunder of resources are more reckless, resulting in the destruction of the global natural environment and the outbreak of ecological crises.

Overall, the nature of the capitalist system, which is money-oriented and endless greed for expansion, determines the unsustainability of its development. Any effort to reduce pollution and save resources, including technological innovation, is not motivated by concern for the future of the living environment itself, but because environmental issues have become a stumbling block on the way to accumulate capital, reap profits, and seek hegemony (Meng 2021:63). The reason why the carbon market has not been effective in addressing climate change is that it has "commoditized environmental resources" by endowing natural resources such as land, air, forest and water with a certain price, so that they can be freely bought and sold in the market like ordinary commodities. This approach covers up the root cause of climate change, and marks the ecological environment as capital, which makes it become private goods that can be disposed of at will. Moving towards the wrong goal will not reach the destination. The same, market-based solutions will not fundamentally solve the problem of climate change.

4. Fee and Dividend system

Although carbon pricing policy is not a fundamental solution to the problem of climate change, in view of the current rate of global temperature and sea level rise, it is also an option to mitigate the imminent crisis.

In addition to the carbon market discussed extensively in the previous section, Fee and Dividend, as another carbon pricing policy, has attracted widespread attention and is considered to be the most effective way to promote rapid emission reduction.

The "Fee and Dividend" system was proposed by James E. Hansen (Foster 2023), who was the formerly Director of the NASA Goddard Institute for Space Studies, and now is an Adjunct Professor at Columbia University's Earth Institute. Under the system, a fee would be charged at source for the carbon content of fossil fuels, and it would rise by a fixed amount each year. Specifically, the fossil-fuel companies would be charged where the fossil fuel is extracted or imported (at the well, mine, or port of entry). Then 100 percent of the revenue collected would be distributed monthly as a dividend to every legal resident on an equal basis (Miller and Hansen 2019:5). To protect the domestic businesses and encourage foreign governments to implement carbon pricing policies, a border carbon adjustment duty is placed on imports coming from countries without their own price on carbon while the compensation is also required to pay for exports by those countries.

The reason why this carbon pricing policy is highly praised is that, first of all, it is charged at the source of carbon generation instead of at the end of emissions, which makes this policy easier to implement and can cover the entire economy. unlike the "cap and trade" system, only involves certain major point sources emitters, such as power plants, cement plants, steel mills, etc.

Moreover, the composition of the "fee" is a pre-determined starting amount and a yearly increment, which means it does not contain a volatility problem and can be known by the public in advance.

The advantage of this is that all parties involved in economic activities, including producers, investors and consumers, can better weigh the pros and cons and make long-term plans for the future. More importantly, Fee and Dividend is progressive and therefore it will lead to more private consumption and investment towards clean energy solutions, thus bringing greater emissions reductions. By contrast, under the "cap and trade" system, the carbon price as another form of "fee" is determined by a large trading market as well as a series of complex macro- and micro-economic indicators. It may even be undermined by hedge bets by speculators and weakened by offsets, which is full of uncertainties. Even worse, while a cap theoretically places a ceiling on emissions, it also places a floor on emissions. For example, if a recession causes a slowdown in economic activities, then results in lower emissions, carbon trading prices will decline, and the emissions will go up relatively. Same for technological innovations such as low-cost solar and wind power, they can also cause a drop in fossil fuel demand and thus a drop in the carbon market price.

Furthermore, the most crucial part of the policy is to return the collected money back to the public. Although the carbon levy will be passed on to consumers by fossil-fuel companies in a way that raises the prices of production and living materials. However, due to the low energy consumption density of the general public, the portion of returned dividend is sufficient to compensate for the losses caused by price increases, and may even result in a surplus, which at the same time also plays a positive role in income redistribution. This means that the policy will be more easily understood and supported by the general public. Instead, carbon markets appear to be a "game of thrones" between governments, large corporations, and financial institutions alone. Yet, it should be noted that the natural environment is closely related to the survival and life of the 8 billion human beings on the earth. And preventing Climate change is the common proposition of people all over the world. Only by mobilizing the participation of the general public, actively guiding the creation of a good governance atmosphere, and establishing a correct environmental awareness, can we accomplish the target of 2° and 1.5° temperature control, and save the homelands on which all human beings and other living things depend. Also, the previous Yellow Vest protests that erupted in France proved that policies that lack a mass base cannot be implemented.

In addition, Fee and Dividend policy is simple, fair and transparent. It does not accept the "offsets", thus eliminating as much as possible the existence of middlemen who take advantage of this policy to engage in speculative activities. It equally encourages every clean energy technological innovation, does not pick winners and losers. All of these contribute to an increase in the quantity and speed of emissions reduction.

5. Conclusion

Climate change is moving faster than anyone expected, and the threats posed by it is harder to measure and bear. Faced with this crisis common to all mankind, western economists believe that it is the biggest market failure in history, and therefore solve the problem by internalizing the externalities through the "put a price on carbon" approach. At present, many countries and regions around the world have introduced the "cap and trade" system, and supplemented it with offset mechanisms, including CDM, to carry out emission control and achieve the purpose of reducing pollution. However, there are many shortcomings in the implementation process of this method. It is difficult to account for carbon emissions; The total amount of quotas is loosely regulated; And the distribution is unfair; The carbon trading behavior itself hinders innovation in emission reduction technologies; Also, the supply and demand of the carbon market are greatly influenced by government actions, thus it is contrary to its design concept.

The project-based trading market has also been criticized. In the case of the CDM, the irrationality lies in that it offsets real emissions today with uncertain commitments to reduce emissions in the future. Meanwhile, excessive financialization increases market instability. Also, the game of interests among the participating forces further makes the emission reduction target watered down.

Foreign Marxists have pointed out that the main culprit of climate change is the endless expansion of production and accumulation of capital, driven by capitalism's intrinsic motive for profit, at the cost of exploiting natural resources and destroying ecosystems. Only by transforming the capitalist system and the mode of production can the process of climate change be fundamentally curbed. However, a comprehensive consideration of the reality shows that market-based climate governance solutions can serve as a way to alleviate the pressing problems at this stage, but the pricing method must be chosen carefully. The "Fee and Dividend" system covers the entire economy by charging from the extraction and import of fossil fuel containing carbon. At the same time, it has the advantages of easy collection, stable amount, regulation of income distribution and public support, so as to achieve the most efficient emission reduction target.

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PART IV

IMPERIALISM, NATIONALISM AND INTERNATIONAL CONFLICTS

THE COMPATIBILITY OF HINDUTVA NATIONALISM IN INDIA AND THE PUBLIC POLICY OF NEOLIBERALIZATION: A CASE STUDY

Anoushka Sinha[60]

Abstract

Three decades since the demolition of the Babri Masjid in Ayodhya, the era of Nehruvian socialism has long passed. Neoliberal reforms have ravaged the country, aided by an authoritarian state. Despite the success of the Indian nationalist movement in achieving independence from British rule, post-independence India failed to address economic inequality, leading to disillusionment with socialist ideals. The subsequent liberalisation of the economy exacerbated existing inequalities and eroded the welfare state.

The RSS- The Rashtriya SwayamSevak Sangh, the parent organisation of BJP, the ruling party, is a patriarchal organisation dominated by upper-caste men. It wields significant influence through various fronts targeting different societal sectors. On the margins are the urban lumpen, who are also organised by the fronts of the RSS in the face of unemployment and illiteracy. It thus becomes important to describe Hindutva nationalism, which can be viewed as a unifying force under Hinduism, promoting a pan-Indian culture centred around the worship of Ram. While neoliberalism feigns some kind of modernity of thought through an emphasis on technocratic solutions, thereby ostensibly requiring a culturally advanced society to flourish, it is perfectly compatible with a society that has been indoctrinated with religious nationalism.

Under neoliberalism, there is an acute unemployment crisis, the working class thus fails to develop any sort of class consciousness with many within the proletariat being lumpenised. Being a part of the mob gives them a sense of community and belonging in the absence of being organised based on class solidarities. Communalism is not merely a superficial force but is deeply rooted in the structural dynamics of predatory capitalism and, within the Indian context, goes hand in hand with neoliberalism. This paper examines the rise of the RSS and Hindutva nationalism in India as a byproduct of neoliberalisation.

1. The communalisation of Indian polity

Immediately after independence in 1947, the era of Nehruvian socialism and communist interventions consumed the entirety of Indian politics, leaving little to no space for far-right communalism. Those in power in the government and the opposition aimed to directly confront communalism. For instance, the Congress election manifesto, drafted by Nehru in July 1951, stated: "As India is a secular state, every citizen has the same duties, rights, privileges, and obligations as any other. He has full freedom to profess and practise his religion" (Rajasekhariah 1987: 218). This sort of rhetoric was part of the popular discourse in a moment of left hegemony within the political arena. The formulation of the constitution and the values it imbibed further sought to safeguard and

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protect the rights of various religious minorities. The Constitution did not explicitly declare India as a secular state until the 42nd Amendment, but secular principles were enshrined in the Constitution through different acts.

However, modern virtues like secularism adapt to local contexts when introduced globally. In India, secularism shifted from separating the church and the state to respecting all religions equally. This approach favours the majority religion, as such "equal respect" is not practically possible. For a truly devout person, their own religion holds a unique significance, making it impossible to regard other religions with "equal respect." Thus, according to Perry Anderson, secularism serves as a legitimising ideology for a Hindu-dominant state.

On the economic front, this period has been called the Licence Raj by neoliberal theorists due to the restrictions imposed on the unregulated greed of the bourgeoisie. While India's bourgeoisie benefited from protectionism and public sector support, they faced regulation through the 1951 Industries Act, which mandated industrial licensing for major manufacturing activities. This era, part of Nehru's mixed economy, saw significant regulation of private industries and widespread public ownership of major sectors.

Further, this post-independence period was when the Indian state consistently aimed to promote modern, secular, and progressive values within the outdated social order, and attempts were made to mend India's social fabric that had been torn apart due to the partition in 1947. The majority of mainstream politicians publicly professed their allegiance to secular values, such as Dr. B.R. Ambedkar, who said that democracy would be unreal and meaningless in the wake of rampant communalism. While the Congress had far-right elements that often resorted to Hindutva rhetoric, they were overshadowed by voices such as Nehru's. As a result, the nationalism of the Nehruvian period was staunchly secular and anti-colonial in nature. The Indian post-colonial nation state emerged through anti-colonial nationalist struggles, thus the initial binding sentiment amongst all Indians was a shared hatred for the British Raj and national unity was generated through various anti-colonial struggles and symbols.

While global anti-colonial nationalist movements successfully ended colonial rule, the systems of exploitation and oppression they fought against persist in modern society. Thus, while the post-independence Indian state routinely adopted relatively nationalistic economic policies (such as import substitution, nationalised banks, a strong public sector, etc.), in the absence of a strongly anti-imperialist nationalism, they were glad to become assimilated quite quickly into the neo-colonial designs of imperialist capital. This signalled a new era in Indian politics, a time of great confusion as there was a tussle of forces after the erstwhile Congress hegemony ended.

Since this postcolonial Indian nationalism lacked a class basis, it slowly decayed and the pace of its decay soon accelerated as the struggle against the British Raj became a distant memory in the minds of people. Newer generations had not lived through the independence movement and received only second-hand accounts of glorious freedom fighters and a country united against the colonisers. Even the initial hopes of building a better country had died as it became quite clear that the post-independence reforms had failed and economic growth was at an all-time low. The Indian economy was going through a crisis with the Indian people facing enormous economic hardships and unemployment. This was accompanied by a crisis of faith as there appeared a massive vacuum within Indian nationalism - once the common enemy (the coloniser) had been removed, there was very little binding the diverse populations of the country. It is here that the extreme right wing found their entry into Indian politics. They offered to give the Indian people what they most desired - a common sense of belonging and national unity as well as a sense of security in extremely uncertain conditions. "Nationalism per se has no class content, nor a well-defined political agenda. This content is given to any nationalism by the power bloc that takes hold of it and incorporates it in its own class project" (Ahmad 2013: 10). From the mid 1980s onwards by whipping up frenzy around the Ram Temple in Ayodhya, the RSS intensified its efforts to redefine Indian nationalism, making it inseparable from the Hindu religion. That has been the aim of the Hindutva project for the last few decades.

Finally, these efforts culminated in the demolition of the Babri Masjid on 6 December, 1992, as a crowd of approximately 150,000 people assembled to hear speeches from BJP and Vishwa Hindu Parishad (VHP) leaders, including LK Advani and Murli Manohar Joshi, at the Babri Masjid in Ayodhya. The demolition of the Babri Masjid is much more than a communal act; it is what Aijaz Ahmad calls a "fascist spectacle" in the classic sense. While appearing sudden, the spectacle was carefully planned and its basis laid as early as 1984 with the Ram Janmabhoomi movement gaining popularity with BJP's L.K. Advani as its de facto leader. This was followed by a number of court battles as well as communal clashes that led to larger feelings of animosity between Hindus and Muslims. However, the demolition of the mosque itself was astounding even for individuals who were aware of the growing communal tensions within Indian society. This is due to the following reasons. Firstly, the popularly elected and legitimate government of Uttar Pradesh which had sworn to uphold the constitution, gave a binding undertaking to the Supreme Court to protect the Ayodhya mosque. They blatantly disregarded this duty and played a large role in inciting riots and were both unable and unwilling to protect the 15th century mosque. Secondly, the union government which had also sworn to protect and uphold the constitution, had been duly made aware by Indian intelligence of the plans to destroy the mosque, in defiance of the supreme court order. Despite this the central government led by the so-called secular Congress took a soft Saffron line and turned a blind eye to all the rampage and violence. Finally, despite incriminating video evidence that showed the involvement of the culprits, their accomplices, and their leaders, the government or the courts made no significant efforts to punish them. The demolition of the mosque marked a point of no return for Indian politics, ushering in the next era dominated by far-right and communal forces.

This brings us to the current scenario. Entering the second decade of BJP rule, communal currents have become stronger as the state not only overlooks communal violence but encourages it. For instance, Anurag Thakur (who was a Union cabinet minister at the time), at a rally on 27 January, 2020, instigated the crowd by raising an incendiary slogan- "*desh ke gaddaro ko goli maro…*(shoot the traitors)"- after lashing out at overwhelmingly Muslim anti-CAA protesters. Further, during a speech in 2021, Yogi Adityanath, the elected Chief Minister of the state of Uttar Pradesh said "This word "secularism" is the biggest threat to develop India's prosperous traditions and give it a spot on the global stage." While giving a speech for an election rally this year, Modi said that Congress Prime Minister Manmohan Singh had stated in 2006 that Muslims had the first claim on the country's resources. "That means the property will be distributed among those who have a large number of children… and among the intruders. Is it acceptable to you?" he asked (Hindu 2024).

Mob lynchings are a phenomenon that have substantially increased since 2014. Muslims were the target of violence centred on bovine issues over nearly eight years (2010 to 2018) which killed 37 people in 96 incidents, according to an IndiaSpend content analysis of the English media. As many as 97 percent of these attacks were reported after Prime Minister Narendra Modi's government came to power in May 2014, and about half the cow-related violence – 55 of 96 cases – were from states governed by the Bharatiya Janata Party (BJP) when the attacks were reported. Further, the Modi government has brought in a series of legislations that aim to target minorities. One such act is the Uttar Pradesh Prohibition of Unlawful Conversion of Religion Act (2021), which has been blatantly misused by far right groups such as the Bajrang Dal and VHP to isolate and harass interfaith couples. Other similar attempts include the BJP's focus on the Uniform Civil Code as a means to impose the dominant ideology on all citizens. Furthermore, the CAA and NRC laws together create a lethal combination by attempting to base Indian citizenship on religion, thereby excluding Muslims.

The Role of the RSS

In India, at the heart of the fascist movement has been the RSS - The Rashtriya Swayam Sevak Sangh. The Sangh family is a patriarchal setup, consisting strictly of men, led by upper caste men. It has about 50 or more fronts, and the Sangh's public face is the BJP - the leading party in India which has been in power for the last 10 years. Historically, the RSS has devoted less time and money towards the peasant and worker fronts and has concentrated more on fronts for students, intellectuals, religious organisations, and a very vital parliamentary front. These fronts have led them to have huge influence over the power blocs like mercantile capital or the bourgeois. On the margins are the urban lumpen which are also organised by the fronts of the RSS in the face of unemployment and illiteracy. RSS even publishes a significant amount of literature and widely circulates periodicals such as *The Organizer*, *Panchjanya*, and *Rashtra Dharma*, along with pamphlets on specific issues. Centralization of authority is inherent in this organisational setup since its inception in 1925. The National Herald on 9 June, 1949, observed that the then leadership, Golwalkar and his immediate circle, would almost inevitably retain control for some time to come.

They seek to link the concept of citizenship with religion using Golwakar's ideas that attempt to establish the cultural superiority of the Hindus. In the book *We Our Nationhood Defined* (1945), he asserts that the concept of a nation encompasses five distinct, inseparable elements combined into a unified whole. These five elements, often referred to as the "Five Unities," are Geographic (country), Racial (race), Religious (religion), Cultural (culture), and Linguistic (language). Hindustan is the land of the Hindus, serving as the foundation for the Hindu nation alone to prosper. It is crucial to recognize that regarding the notion of "nation," anyone who does not conform to these five components has no place in the national life unless they abandon their differences and fully integrate into the National Race. In other words, the essence of India is predominantly found in religions that originated within its borders, particularly in Hinduism.

Consequently, it becomes necessary to define Hindutva nationalism. The unique brand of nationalism which is able to bring a multitude of belief systems, traditions under Hinduism, into the folds of one single pan-Indian culture and tradition. The Ram agitation has given rise to a new, popularised and militant version of Hinduism. The Sangh

Parivar's project aims to homogenise Hinduism and overcome internal divisions of caste and region, favouring a generalised, "massified", and emblematic Hinduness. This is pursued through the creation of the "angry Hindu"—an overtly political, agitating, and "attacking" figure. It might also be seen as a popularisation of Hinduism through cultural populism, synthesising various popular subjectivities into an earthy, straightforward idiom appealing to the lowest common, and communal, denominator: (Our) Ram versus the Muslim (other). In the process of assimilating diverse versions of Hinduism, including various reform movements such as the Bhakti movement and nationalist articulations throughout the history of modern India, the RSS has successfully created a fictive pan-Hindu identity intrinsically linked to Indian nationhood. I call this a "fictive" identity because no such uniformity actually exists among the diverse versions of Hinduism practised by the varied peoples residing in different parts of India. This fictive identity has been imposed on real society by the extreme right wing and now through the state organs in its control.

2. The Indian neoliberal regime

The onset of the neoliberal regime in its full scale began in 1991 under the government of Narasimha Rao. The economy was liberalised, as foreign goods flowed into the country, Indian manufacturing stagnated, and public sector industries were privatised. Following a balance of payments crisis in 1991, India implemented sweeping economic reforms at the behest of the IMF to encourage the growth of private and foreign investments. The government introduced significant policy changes, including removing the so-called Licence Raj, reducing import tariffs, deregulating markets, lowering taxes, and enhancing foreign investment in modern technology. These changes facilitated the entry of private-sector enterprises and relaxed the rules for foreign companies entering the Indian market. Despite the much-touted growth-enhancing measures, the real average GDP growth rate increased only marginally from 5.6 percent in the 80s to 6.1 percent in the 90s, with manufacturing growth rates actually dropping from 7.1 percent in the 80s to 6.4 percent in the 90s.

The neoliberal reforms that were made to appear inevitable and desirable created huge winners and huge losers. Inequality in India skyrocketed, with both wealth and income of the top 1percent rising astronomically to pre-independence levels. According to the latest Oxfam report, the wealth disparity in India is stark: the top 1percent of the population holds 40 percent of the country's total wealth, while the bottom half of the population together share only 3 percent of the wealth. The income share of the top 1 percent was 6.1 percent in 1982, having consistently fallen since independence. However, from the early 1990s, the share of the top 1 percent began to rise steadily to reach today's 22.6 percent. The number of billionaires in India has dramatically increased from 1 in 1992 to over 200 today, the 3rd highest in the world. This number has doubled in the last 10 years under the Modi-led BJP government. Furthermore, the net worth of India's billionaires has massively increased in the last ten years, reaching close to $1 trillion, enough to fund the Union Budget expenditure for almost two years.

Agrarian Sector

A crucial sector of the Indian economy that neoliberal reforms have torn apart is the agricultural sector. The extended agrarian crisis has led to a struggle for survival in rural areas; it has displaced a class of cultivators and agricultural labourers who have subsequently joined the informal economy either as self-employed individuals or wage earners. An especially alarming phenomenon is the rising number of farmer suicides within the country. This trend began in the 1990s and has progressively accelerated. According to official NCRB, between 1995 and 2022, around 3,96,912 farmers committed suicide. Additionally, according to the United Nations Commission on Sustainable Development (UNCSD), between 1997 and 2005, a farmer in India took their own life every 32 minutes. Most of these cases have been reported in Maharashtra, Madhya Pradesh, Chhattisgarh, Karnataka, and Andhra Pradesh. The leading cause of these suicides is attributed to bankruptcy or indebtedness, accounting for 38.7 percent of the cases (NCRB 2015).

The condition of Indian farmers and agricultural workers is directly symptomatic of the state's inability to provide them with security and relief. There has been a reversal of land reforms implemented after independence; National Sample Survey (NSS) data reveals that the concentration of operational and ownership land holdings has slightly increased over the past four decades. This indicates backtracking in the government's efforts to curb landlordism. Regarding the actual distribution of land, the Annual Report of the Ministry of Rural Development for 2006-07 reveals that only 4.89 million acres were distributed in the first 60 years of independence (Mishra 2007).

Also, public investments in agriculture and rural infrastructure, especially irrigation and roads, have significantly slowed with fiscal contraction at the heart of current policy. NSS data indicates that the decline in public agricultural investment began in the 1980s and accelerated in the 1990s. By the end of the 1990s, public investment in agriculture and allied activities had dropped to approximately 1.6 percent of agricultural GDP and about 6.6 per cent of total gross capital formation in the public sector. Coming to the current situation, the Ministry of Agriculture & Farmers' Welfare was allocated Rs 1,25,036 crore in 2023-24, which accounts for only 2.8 percent of the total Union Budget. Financial liberalisation also decimated the rural banking system; the informal sector overwhelmingly dominates the credit market in rural areas. Poor farmers take loans from money lenders and other informal sources at exorbitantly high interest rates, leading them to debt trap cycles.

The reduction in public investment in agriculture, the cutback in direct agricultural extension and information dissemination, and the resulting decline in agricultural productivity have resulted in rural stagnation. This stagnation directly impacts the number of employment days available to hired workers in rural India, causing an unemployment crisis and forcing many workers to migrate to urban areas.

Migration, the Unorganised Sector and Unemployment

The economic liberalisation that India embarked upon in the early 1990s brought about significant changes that increased casual and self-employment and expanded the services sector. The processes of globalisation and liberalisation also gave way to an expanding unorganised sector that paid workers less and cut costs. Disinvestment in public sector entities further facilitated informal employment in the organised sector. Nearly half of our labour force works in agriculture, yet many people migrate to urban areas for work due to the seasonal and unstable nature of occupations in rural areas. The last 30 years have seen increasing rural-to-urban migration, and temporary migrant workers have come to form a significant share of the urban working population.

According to the Ministry of Labour and Employment, workers in the unorganised sector constitute 93 percent of the working population, but they are robbed of basic social, occupational and economic security. Working in the unorganised sector entails harsh and often inhumane work conditions, such as long hours, irregular pay, and the erratic nature of work subject to the whims of the employer. The Indian government has passed a number of rules outlining the guidelines and practices businesses must adhere to while hiring employees in order to guarantee minimum working conditions. However, only employees in the organised sector are covered by the majority of these laws. Due to the precarious and casual nature of work, the unorganised sector seldom adheres to these laws and employees are not given basic benefits such as medical benefits, annual leave and provident fund.

Since neoliberalism prevents the emergence of a proletarian culture, workers have little bargaining power due to low unionisation rates and the absence of formal employer-employee relationships. In 2018-19, only 26 percent of informal workers had access to social security benefits. Similarly, there has been negligible change in the share of workers eligible for paid leave or having a written job contract (Premji Azim 2021: 3). The vulnerability and poverty of these workers thus, worsens due to their lack of social security and other benefits.

Unemployment and underemployment are central features of jobless growth. India's economy has long experienced "jobless growth," characterised by a rising GDP without the generation of jobs in the economy. According to the Center for Monitoring Indian Economy, the unemployment rate has increased from 2 percent in 2010 to 6.1 percent in 2018, reaching an alarming 8 percent in 2022, the highest ever. Youth unemployment is particularly severe at 40 percent, with educated youths struggling the most. According to UNFPA projections, India will continue to have one of the youngest populations in the world till 2030. India is experiencing a demographic window of opportunity, a "youth bulge" that will last till 2025. Despite having the youngest population in the world, the government is unable to capitalise on this demographic window or provide the youth with employment opportunities. Without productive employment, the large masses sustain their livelihoods through casual work and other activities that often fall outside the law; thus, crime increases due to job scarcity.

Dismantling and Privatization of Public Health and Education

Neoliberal policies specially targeted two crucial sectors - Healthcare and Education for privatisation. Government investment here was short-lived post-independence. Total public expenditure on health in India currently hovers around 1.23 percent of GDP. The recommended resource requirements for providing basic health facilities would, however, require raising public health spending to 3 percent of GDP. The government health sector has not received the kind of investment it needs. (Hooda, Shailender Kumar 2020: 511).

The disinvestment in healthcare was coupled with large-scale privatisation incentivising private corporate capital. For instance, in order to promote foreign players, the Government of India raised the FDI cap in the hospital sector to 100 per cent under automatic route in January 2000 (Hooda, Shailender Kumar 2017: 248). The 2000s saw significant support for the private sector through subsidies, credits, public-private partnerships (PPPs), and insurance. Through the 1990s and 2000s, liberalisation and privatisation policies offered tax benefits and incentives for private hospitals and clinics. This led to a substantial increase in private healthcare providers in India. However, this not only resulted in healthcare becoming unaffordable for the large masses but a growing differentiation between urban and rural areas. Estimates from the NSS indicate that in 2010–2011, approximately 82 percent of health enterprises with one or more hired employees were in urban areas, while only 18 percent were in rural areas. In 2015, the National Hospital Directory from the Ministry of Health and Family Welfare listed 1,048 large public and private hospitals across India. Of these, 175 were public hospitals, while 873 were large private hospitals, including medical institutions.

Access to healthcare is one of the most significant problems that plague the Indian masses, with issues such as unaffordability and lack of healthcare structures in rural areas becoming endemic. A similar trend can be observed in the education sector. In the 1990s, India's higher education system commenced towards privatisation, turning education into a commodity to be bought and sold in the marketplace. Private institutions charged high fees, worsening the gap between rich and poor students and halting upward economic mobility for a large section of the population. Private educational institutions often had common industry tie-ups, aligning courses with job market demands but, in the process, sacrificed academic rigour. Additionally, faculty salaries were frequently performance-based, focusing on student enrollment and revenue generation over academic excellence. The annual report as on 01.02.2020 of the University Grant Commission suggests there are 409 state universities and 349 private universities in India whereas almost all private universities were set up after the year 2000 except Sikkim Manipal University, Gangtok, (established 1995) and LNCT University, Madhya Pradesh (estd.1995) (UGC 2020). This has led to a system where students from middle-class and poor households are unable to afford the exorbitantly high fees. Over the past decade, the expenses for both general and professional education have risen substantially across the country.

Hunger and Starvation

Thus, wages and employment continue to fall in the current scenario, whereas basic facilities such as healthcare and education continue to become more expensive. This implies that a large portion of the Indian masses struggle to access basic facilities. Further, India is plagued by severe starvation and malnutrition problems. According to the latest Global Hunger Index report, India has the highest child-wasting rate in the world at 18.7 percent. Child wasting refers to the proportion of children under age five who have low weight for their height. In this metric, India fares worse than war-ridden Yemen and Sudan. India's child stunting rate, which reflects low height for children in that age bracket, is 35.5 percent, ranking it as the 15th highest in the world. The prevalence of undernourishment is 16.6 percent, and the under-five mortality rate is 3.1 percent. These statistics indicate extreme poverty and starvation. What this means is that the conditions in India are such that more than one in three children do not have access to minimum food requirements and hence would never achieve their full physical or mental potential.

Thus, the earlier era of Nehruvian socialism, while flawed, appears diametrically opposed to the current unmitigated greed of the Indian bourgeois that is aided by the ruling parties. This is evidenced in the substantial growth in wealth of the Adanis and Ambanis, even during the COVID-19 pandemic when the economy was mostly stagnant and millions of Indians faced financial hardships. According to Forbes, Ambani is currently the wealthiest person in Asia, with Adani close behind, and both are listed among the top 15 richest individuals globally. In contrast, the broader Indian economy has been troubled by historically low household savings, declining real wages, and significant unemployment. This transfer of wealth to the super-rich and the upper middle classes has secured their allegiance and support to right-wing parties, especially the current Modi-led BJP government, which is seen as decisive in moving the country further along this path.

3. The lumpenisation of masses

After the demolition of the Babri Masjid, organised violence against the Muslim community has risen to alarming levels, with state agencies and institutions on the ground becoming complicit in the violence. This differential treatment of Muslims by the state and the brutalisation they face from lumpenised masses has led to a growing sense of fear and the feeling of being under permanent siege amongst Muslim masses. This coupled with the growing gap between Muslims and caste Hindus in terms of incomes, educational standards and recruitment in state agencies, further exacerbates their subjugation.

The efforts of the Sangh Parivar are most notable when we study how they have captured the popular consciousness of the Indian masses, creating an army of stormtroopers who carry out the Sangh's agenda through organised acts of communal violence. The question that needs to be asked is what truly motivates these violent crowds that are overwhelmingly drawn from the poor and lower middle class youth. The answer lies in the fact that stormtroopers are drawn exclusively from the lumpenproletariat and the lumpenised petty bourgeoisie. Under neoliberalism, economic inequality increases both within and between countries. This occurs because the mobility of capital across borders depresses real wages globally due to the vast labour reserves in the Global South. Despite the relocation of manufacturing from the Global North to the Global South, these labour reserves do not diminish. While free trade and intensified competition (hallmarks of neoliberalism) accelerate technological changes and enhance labour productivity, they slow employment growth, leading to higher unemployment and suppressed real wages. The crisis of neoliberalism is linked to this growing inequality and the unemployment crisis. This is evidenced by the utter decimation of the public sector in India followed by policies of liberalisation and privatisation as illustrated in the previous section.

Therefore, a situation is created where the number of unemployed individuals is much greater than those engaged in regular, paid work. This results in wages getting depressed to such an extent that building a proletarian culture becomes impossible. Workers sustain themselves by engaging in labour within the capitalist system while supplementing their income with other activities, often outside the law. This phenomenon can be described as the lumpenization of the proletariat. Moreover, the sheer number of unemployed means that a significant portion of this population stops engaging in productive labour and falls out of the capitalist system altogether. This lumpenproletariat does not contribute surplus value to the economy, occasionally engaging in casual work but lacking the rules and discipline typically associated with regular employment, which otherwise provide a sense of stability and grounding to the worker.

Workers often derive a sense of identity and pride from the work that they do, but the lumpenproletariat is robbed of any such pride and strives to regain this pride through crime or through the supposed non-crime of communalism itself, with all its associated violence. Additionally, the lumpenized masses are not only robbed of a sense of pride but also are no longer able to identify with or rely on class solidarities due to the lack of a proletarian culture. They strongly crave for a place to belong and a sense of community. Thus, communitarian ties come to replace class solidarity as class consciousness loses the ideological battle to the forces of Hindutva fascism.

Workers engaged in regular and permanent work share the same living conditions and work environment. This allows them to unionise and collectively fight for their rights while sharing their hardships and woes. The lumpenproletariat, however, is not bound by any such ties and instead relies on community identities such as caste and religion to feel a sense of security. Joining communal politics often offers a much-needed, albeit fictitious, sense of community. Consequently, the aggressive survival tactics developed in lumpen life can easily be channelled into communal or fascist organised violence as a means to regain pride and assert superiority. Such violent orientations are clearly visible in the training undergone by the RSS cadre, even down to their uniform—the khaki shorts and white shirts inspired directly by the Nazi stormtroopers.

4. Conclusions

Through the Indian case, the relationship between neoliberalism and fascist far-right forces becomes abundantly clear. It is not a given that neoliberalism will necessarily be accompanied by modern values such as secularism. This is because capitalism has the unique ability to adapt itself to new environments, quickly incorporating even feudal values. The main motive of the capitalist remains surplus extraction and profit creation, whether he dons the saffron robes of Hindutva or the Westernised suit and tie. Such sky-high profits are made at the expense of the proletariat or the working class. Neoliberalism strips the worker of all dignity and pride, forcing them to work in inhuman conditions at extremely low wages.

In the Indian context, the majority of workers are engaged in casual labour, meaning their rights within such a system are negligible. Since the 1990s, the government has dismantled everything that provided the working class with faith in the system. From public healthcare to education and agriculture, government investment in each sector falls as corporate capital is invited into the space in the name of growth and development. Basic facilities thus become unaffordable for the large masses who remain illiterate, malnourished, and impoverished.

It is here that the extreme right wing finds its entry into Indian politics. They offer to give the Indian people what they most desire—a common sense of belonging and national unity, as well as a sense of security in extremely uncertain conditions. The casual worker or the unemployed youth, who has been robbed of all dignity and hope, seeks to regain it through belonging to a particular religion. The lumpenproletariat thus lacks any sort of class consciousness and indulges in acts of communal violence to regain their pride. Consequently, the RSS and its allies train their cadre to commit organised acts of communal violence as the state and its compromised institutions protect the rioters.

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CONTEXT AND PERSPECTIVE ON THE WAR IN UKRAINE

Mustafa Türkeş[61]

Abstract

The ongoing war in Ukraine has been the subject of numerous studies. Contradictory interpretations have emerged regarding the causes of the war, the successes and defeats of the warring parties, and the positions of the contenders. There has also been an increase in publications on the war in relation to the international order. This paper aims to provide a coherent historical context to help readers understand the current situation. It demonstrates that the military conflict is a consequence of failed diplomatic negotiations between the governments of the United States, the EU, and Russia in December 2021. The background to these negotiations dates back to 1954 and 1990, when the Soviet Union was not accommodated in European security and bold but unwritten promises resulted in disputes that have now come to light. The war in Ukraine began when negotiations between the Russian Federation, the USA and NATO broke down in December 2021. This paper explores the perspectives of all parties involved. It argues that this war, which should never have happened, could have been avoided through diplomacy; however, the United States and major European powers disregarded this option. It suggests that major actors, whether directly or indirectly involved in the conflict, miscalculated because the conflict unfolded differently to how belligerents and non-belligerents expected. This implies that the international order may change regardless of how the war ends. Overall, I emphasise that the emerging international order is polycentric in nature, reflecting the negotiation and struggle processes within capitalism.

1. Introduction

The ongoing war in Ukraine is the largest military conflict in Eastern Europe since the Yugoslav Wars (1991–1995) and NATO's intervention in Kosovo in 1999. The war involves not only the combatants (i.e., the Russian and Ukrainian armed forces), but also non-combatant powers (i.e., United States, United Kingdom and other European countries). These powers have diplomatically provoked the Russian administration and encouraged the Ukrainian government to fight against Russian forces. It quickly became apparent that the Ukrainian leadership was acting on behalf of the US and major European powers. Consequently, the war in Ukraine has been labelled a proxy war between the United States and major European powers on the one hand, and Russia on the other. At the same time, the concept of 'multipolarity' has become more widely recognised, forcing large, medium and small powers to engage in the current process of realignment. The war in Ukraine is such a significant topic that it requires in depth study. This paper aims to provide a coherent historical context in which to understand the current conflict.

2. Literature about the war in Ukraine

A growing body of literature on the war in Ukraine can be divided into four categories (Türkeş 2022: 29-46). The first category attributes sole responsibility for the invasion to Russia. This approach begins with “the Russian full-scale invasion of Ukraine in February

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2022", treating the invasion as an ahistorical event. It treats the invasion as an inevitable historical fact. It reflects the essentialist view that the Russians would inevitably invade Ukraine. This category of literature argues that the United States and European powers should support the Zelensky faction in Ukraine by any means necessary, except by deploying American or European soldiers. Some within this category frame the issue as a question of civilisation, arguing that it is a war between "good and evil". G. John Ikenberry (2024: 121–138) is one of several international relations scholars who define it as a simple struggle between the Global West - representing democratic societies based on rules - and the Global East, which exemplifies authoritarian regimes.

Almost all of the literature in the second category are propaganda vehicles which either advocate Putin's "anti-imperialist" stance, as in the case of publications such as Russia in Global Affairs and Russia Today International, or view it as clear "Russian imperialism", as in the case of the American Enterprise Institute, the Atlantic Council, the Brookings Institution, the Carnegie Endowment for International Peace, the Centre for Strategic and International Studies, the Council on Foreign Relations, the Hoover Institution and the RAND Corporation.

The third category of literature, largely the product of retired generals, highlights a conspiracy theory suggesting that the Russian government fell into a trap set by the US administration when it intervened militarily in Ukraine. They claim that the US diplomacy deliberately misled the Russian government into keeping Russian troops in Ukraine, where they would be exhausted and weakened, thus undermining emerging cooperation with China in the long term. These studies emphasise that the United States' long-term goal is to weaken Russia so that it can more easily confront China, its main competitor.

A fourth category goes beyond simple geostrategic and identity-based reasoning, attempting to explain rising military tensions in terms of political economy and historical materialism. Within this school of thought, Radhika Desai's (2013) "geopolitical economy" approach draws attention to the fact that the emergence of contenders is the result of a long process that can be better explained by the theoretical insights of uneven and combined development. Desai (2013) considers the "materiality of nations" to be one of the most important aspects of combined development that has led contenders to challenge the post-World War II international order. Desai (2015: 11) further clarifies her argument as follows:

The twenty-first century contrast between the growth in China and other emerging economies and stagnation in the advanced industrial world is incidental, but deeply rooted in UCD. While all-too-many developing and transition countries were unable to resist the neoliberal assault during the Long Downturn, a new cohort of emerging economies were able to engage in successful combined development either because they remained largely outside western dictation, such as China, or were able to retain a certain autonomy from the international neoliberal agenda, such as India, or regain it after experiencing the disasters of neoliberalism, such as Russia and Latin America in the 2000s. Growth in the emerging economies is spreading material welfare more widely than hitherto and remains robust, for the most part, because these economies are considerably less financialized and more focused on productive growth. The challenge of these countries to the west is apparent in the major forums of international economic governance: in demands for reform of the IMF and the World Bank, deadlocks at the WTO and at Climate Summits and in the construction of the parallel financial institutions already mentioned. It is also apparent in rising military tensions, particularly over the Middle East, Ukraine and in the South China Sea.

By providing a broader theoretical framework through which to understand the escalation of military tensions in the Middle East, Ukraine and the South China Sea, Desai has successfully demonstrated that the fundamental issue is "multipolarity". Gürcan and Otero (2024: 32–62) also contributed to this line of analysis.

While it is correct to explain the rise of military tensions as the West's failure to accept the nature of combined development, this does not obviate the need to closely examine the causes and evolution of the conflict within a coherent historical context. This is precisely what I attempt to do in this paper.

3. The causes and evolution of the conflicts that turned into war in Ukraine

The root cause of the conflict lies in the process of forming a multipolar international order. The old hegemons (the United States and European powers) want to maintain their superiority and therefore do not want to cede power to the contenders, Russia and China, who want to be treated equally. Russia has inherited Soviet assets, particularly military technology, power and energy resources, and wishes to enjoy the same freedom of action as the old hegemons. In other words, while the old hegemons want to maintain their superior international status, the contenders are challenging it. However, so far, they have not reached a compromise on either the form or the essence of "multipolarity". While China has emerged as an economic contender over the last 40 years, particularly through rapid production growth, Russia wishes to be recognised as one of the great powers due to its high-tech military, space and nuclear technologies, and aims to regain superpower status. While China has emerged as an economic contender, Russia is asserting itself as a strategic power with substantial security and defence capabilities. The root cause of the increasing tension could be argued to lie in the lack of compromise over the form and essence of the emerging international order. Thus, the crux of the matter is the nature of multipolarity.

It is also a legitimate question to address why the disputes turned into an actual war, especially in Ukraine. At the core of the conflict are, of course, material reasons. Ukraine has many valuable resources: It has large areas of arable land, earning it the nickname "the breadbasket of Europe", as well as a rich Soviet-inherited technological infrastructure. It also has many hydroelectric and nuclear power plants, a huge network of pipelines for transporting Russian gas to European countries, large food production plants, wood and metal processing plants, a chemical industry and shipyards in the Sea of Azov. Not to mention its large Soviet-inherited defence and space industries, along with a large, accumulated knowledge base and skilled labour force. Ukraine's geostrategic value is also promising, as it has access to the Black Sea and large areas of land on its western, northwestern and eastern borders. This attracts the attention of all interested powers. The material potential is an asset, but it can also be a burden because all these powers, the United States, the United Kingdom and the EU members, including the Russian Federation, are interested in it.

As of June 2024, the war in Ukraine has been ongoing for over two and a half years. Extensive military and civilian destruction occurred, and there is no ceasefire, let alone peace, in sight. Furthermore, diplomatic relations between the United States and the EU, on the one hand, and the Russian Federation, on the other, have deteriorated, and tensions between major NATO members and the Russian Federation are rising. There has also been a clear realignment of countries forming contentious subgroups. Neither side has achieved anything so far. How did things get to this stage? Who is to blame for these failures? These are legitimate questions that need to be addressed.

4. Controversial narratives about the origins of the war

There are several competing narratives about how the war began. Each is closely related to a party's foreign policy strategy. It is therefore appropriate to examine these narratives. Let's start with the Ukrainian and American narratives.

The Ukrainian and US narratives

Both the Ukrainian government and the US administration date the start of the crisis back to 2014 (Türkeş 2022: 29-41). They emphasised that Russia invaded Crimea that year in violation of international law and are now invading the Donbass region and the rest of Ukraine. However, they avoided mentioning the Minsk agreements. They portrayed Russia's military buildup and exercises, even within its own borders, as preparations for an impending invasion of Ukraine. Yet they did not view their own military exercises in the Baltic Sea, the Black Sea and the eastern Mediterranean as threatening Russian security. They presented the Ukrainian crisis as an indicator of, and continuation of, Russia's expansionist policy. In this vein, the US administration repeatedly claimed that Russia would invade Ukraine at any time during the two months leading up to the invasion on 24 February 2022 (Türkeş 2022: 29-30).

The Russian narrative

Russia claims that the crisis began in 1990. Russians argue that, when the two Germanies unified, the Western powers (the United States, the United Kingdom and Germany) promised Gorbachev that they would address Russia's security concerns, and that NATO would not deploy offensive or nuclear weapons east of the Elbe River or expand further east. They claim that the West disregarded Russia's legitimate security concerns in Eastern Europe and are doing so again in Ukraine (Russia Today International 2022).

While Ukraine and the US emphasised Russia's illegal annexation of Crimea in 2014, the Russian government ignored any mention of the issue, treating it as a settled matter.

Russia claims that the United States intended to weaken Russia by using Ukraine as a pawn in a wider geopolitical game. According to Russia, the Maidan uprising in Ukraine in 2013–14 was the first step in this plan. Russia also accuses the West of failing to implement the Minsk Protocol II, which was signed in 2015 but never enacted by Ukraine. Russia also accused the protocol's guarantors, Germany and France, of turning a blind eye to this failure. Russia demanded that the US recognise its great power status and take its security concerns into account. In 2008, Germany and France recognised Russia's red line of no NATO membership for Ukraine and Georgia, and now Russia wants a similar outcome. To this end, Russia is demanding written guarantees.

The Russian reading of Ukraine's relations with the West was alarming. The West had indulged in regime change in Kyiv, particularly in 2014, and Russians read that the leaders in Kyiv have been serving US interests. Russian policymakers began to argue that Ukraine was becoming a U.S. colony and, more importantly, creating a legitimate security concern for Russia that the U.S. and Europeans should address. Russia made it clear that it would not back down from its position of making Ukraine at least a neutral state, thereby keeping Western penetration away from Ukraine. The way Russia formulated its policy and put it into practice was a military show of force by stationing Russian troops on the border with Ukraine. In other words, Russia wanted to realize its legitimate security concerns by showing off its coercive power. Ukraine was on the spot. As noted by Hazal Yalın (2021) Russia sent the message with Vladimir Putin's speech dated 12 July 2021 that it would punish its "Ukrainian brothers", if necessary, to keep the United States and NATO out of Ukraine.

While the US viewed Ukraine as a means of testing Russia's military strength and weakening or dismantling its military power, Russia saw Ukraine as a way of countering Western influence and addressing its legitimate security concerns. The justifications of both the US and Ukraine reveal an essentialist view that "Russia is bound to attack Ukraine". Russian military bravado was intended to persuade the United States and Ukraine to give way to diplomacy on Russia's terms.

Historical background to the protracted competition

Now, let's take a closer look at what caused the war. Firstly, the problem can be traced back to the 1990s. Some indeed associate it with the Budapest Agreement of 1994. In this agreement (Memorandum 1994), the Russian Federation, the United States and the United Kingdom promised to protect Ukraine's territorial integrity in exchange for the transfer and destruction of nuclear warheads located in Ukraine. Ukraine is now reminding the Western powers of these promises and arguing that they should take a clearer and tougher stance against Russia in response to its annexation of Crimea.

Conversely, Russia claims that, during the unification of the two Germanys in 1990, the Western powers - the United States, the United Kingdom, and Germany - promised Gorbachev that they would not deploy offensive or nuclear weapons in East Germany, nor would they allow NATO to expand further east, in exchange for East Germany joining NATO. On 17 December 2021, Russia reminded the United States and NATO members of these commitments in two draft agreements (Text on Agreement 2021 and Text on Treaty 2021). In other words, Russia wants to highlight the broken promises of 1990 and expects them to be honoured; however, the US is ignoring them.

In the 1990s, Russia's status was defined by Western powers as such that Russia was a third world power with first-class nuclear and conventional weapons. Although the West attributed this status to Russia, it was never accepted by the Russian government, which did not openly challenge it until Putin raised the issue in Munich Security conference in 2007. To a limited extent, the West acknowledged Russia's influence in Eastern Europe's arms market when the NATO-Russia Founding Act was signed in May 1997. A clause was inserted stating that NATO enlargement did not envisage standardisation in the arms trade, and that familiarity and compatibility with Western arms would suffice. A month later, in the same year, NATO signed a similar agreement with Ukraine, making Russia feel equated with Ukraine. Russia was given the message that it was not a great power. In 1997, Russia was granted the opportunity to join IFOR and SFOR in Bosnia-Herzegovina alongside the US forces. In 1999, the Russian leadership recognised its weakness when NATO intervened militarily to secede Kosovo from the Federal Republic of Yugoslavia. In the same year, Russia was given the role of mediator between Serbia and the United

States in the June 1999 technical ceasefire agreement. Russia was unable to undertake any further diplomatic action. Perhaps the highest status it achieved was appeasing the Russian leadership by giving Russia control of the Pristina airport sector when Kosovo was divided into military administrative districts following NATO's 1999 attack (Türkeş and Akşit 2007: 79-114). While the Yeltsin administration was not happy, it was content with this.

About a year and a half after coming to power, Putin saw the US military campaign against al-Qaeda in Afghanistan as an opportunity for rapprochement with the US. He opened Russia's airspace to US operations, presumably in exchange for a commitment not to support the Chechen uprisings. For a long time, Putin pursued his give-and-take policy with US administrations quietly, without directly confronting them.

The year 2008 marked a turning point. At the NATO meeting in Bucharest in April 2008, the US administration advocated offering Ukraine and Georgia a "Membership Action Plan" for NATO membership, while Germany and France emphasised that there should be no rush. The consensus was that Ukraine and Georgia could potentially join NATO in the future, but that the "Membership Action Plan" should not be initiated for the time being. In August 2008, the Saakashvili government, which came to power in Georgia in the 2003 "Rose Revolution", openly provoked Russia by using military force against Russian troops in South Ossetia and Abkhazia. The Putin administration saw this as an opportunity to act and took steps to undermine Saakashvili's ability to govern Georgia. At the same time, the debate on NATO's expansion into Georgia was postponed for a long time.

In the context of NATO enlargement, it can be seen as a precursor to the current Ukrainian crisis. The "Orange Revolution" in Kyiv in 2004 exacerbated the rivalry between Viktor Yanukovych and Viktor Yushchenko, which continued in different forms until 2014. The election results from 2004 to 2014 clearly showed that Ukraine was politically divided between supporters of the EU and Russia. This reflected the tension between the EU and Russian hegemonic projects (Türkeş 2006: 33-38). In an attempt to bring Ukraine closer to the "Integrated European Economic Space" defined by EU policymakers, the EU encouraged Ukraine to sign a deepened free trade agreement, albeit without promising EU membership. In response, Russia sought to incorporate Ukraine into the "Single Economic Space", also known as the "Eurasian Economic Union", which comprises the Russian Federation, Belarus and Kazakhstan. The results of all elections held between 2004 and 2014 clearly demonstrate the country's division. The 2014 "Maidan intervention", which ousted Yanukovych from power with the encouragement of certain European and US think tanks, did not prompt the Putin administration to attempt to reinstate him. Instead, Putin chose to focus on the Sea of Azov, Crimea, and later Donbass, where the Russian population is concentrated, and the Black Sea Fleet is deployed.

In 2014, Putin offered political and military support to the Russian population of Crimea, enabling them to secede from Ukraine via a referendum. They subsequently joined the Russian Federation through a parliamentary decision. He cited the precedent of Kosovo to justify his actions. The Putin government also backed calls for independence in the Donetsk and Luhansk autonomous regions of the Donbass, where a significant number of Russians lived. When the Ukrainian government attempted to intervene militarily in response, armed conflict broke out in these regions. With Russia's explicit support, the Ukrainian government signed the Minsk agreements: the first in September 2014, and the second in February 2015. However, neither agreement brought an end to the conflict, so quadrilateral talks were adopted alongside an additional protocol. These talks, known as the Normandy format, were proposed by the German foreign minister and involved Ukraine, Russia, France and Germany. Germany and France became the guarantors of this protocol. While the 2014 and 2015 Minsk agreements, along with the attached Normandy format protocol, formed the basis of negotiations under Ukrainian President Petro Poroshenko, his successor Volodymyr Zelensky in 2019 did not accept them and delayed progress as much as possible. Since then, until 21 February 2022, Russia has argued that Ukraine did not implement the Minsk agreements and that Germany and France, as guarantor states, should address this. In response, the Ukrainian leadership declared that the Minsk agreements and their annexed protocol violated the Ukrainian constitution. Therefore, they demanded, the agreements should be renegotiated. They added that they could negotiate face-to-face with Putin if he wished to do so. However, instead of addressing the Ukrainian president directly, Putin continued to remind Germany and France of their responsibilities as guarantors of the Minsk protocols. For Russia, the Ukrainian issue was not limited to economic and geopolitical aspects. As expressed in Putin's speech (Yalın 2021), Russian leaders define Ukrainian society as an indispensable brother or sister. Leadership of Ukraine, however, rejects the idea of a brother-sister relationship.

For ideological, material and geopolitical reasons, the Putin administration has been trying to make up for the 'injustices' committed against the Russian Federation in the 1990s by relying on the military, economic and political power capabilities it has acquired by now, thus putting the West to a serious test. Interpreting the US policy of arming Eastern European countries with offensive weapons as an existential threat, the Putin government does not hesitate to express its readiness to confront the West if necessary.

Putin had been quite happy that Donald Trump did not have a policy that prioritized Ukraine's NATO membership. When Joe Biden came to power in January 2021, he changed the course by saying "America is back". Europe, on the other hand, has begun to indicate that it would not behave like the Biden administration on NATO enlargement. Russia provided the security of energy supply that Germany needed through former German Chancellor Gerhard Schröder's membership on the advisory board of the Russian state company Gazprom, sending a message to the German capital that the flow of gas would continue smoothly. This showed that there was an overlap of interests between Germany's industrialists and Russia's rulers. Angela Merkel was also quite satisfied with Putin's gas supply policy.

In line with the situation in Germany, the French leadership avoided a policy of direct confrontation with Russia, so that Ukraine's NATO membership did not become a priority from Obama to Trump. French President Emmanuel Macron, who claimed that NATO was brain-dead, thought that there was an opportunity for Europe to have "strategic autonomy" in the field of security and defence and loudly voiced it, based on the thesis that under Donald Trump, NATO would be of secondary importance, just like many other international and regional organizations. However, the Biden administration seems to have discouraged Macron's enthusiasm by aiming to make NATO operational again while saying "America is back". Can the Biden administration recapture the opportunity the United States had to shape Europe after World War II? Doubtful. On the other hand, Putin, closely following the issue of European security that Macron wants to open for discussion and Biden's policy on NATO, presented a draft agreement on security guarantees to NATO and the United States on 17 December 2021. It can be said that Putin calculated that it would be concluded before the NATO summit in Madrid in June 2022. The United States, on the other hand, was pursuing a policy of denying Putin this opportunity.

5. Competing strategic objectives before the war started

The Ukrainian strategic objectives

Ukraine had three objectives:

1) The Ukrainian leadership under Zelensky wanted military support, including air defence and a no-fly zone patrolled by Western powers in the event of a Russian attack. If not, the Ukrainian leadership wanted to ensure that the West could supply heavy artillery weapons.

2) Ukraine pursued a strategy to gain time to get more weapons from the West, especially from the USA, as the Biden administration renewed the US-Ukraine Charter on Strategic Partnership on 10 November 2021, in which the USA promised everything in financial and military support except American soldiers (US-Ukraine Charter on Strategic Partnership 2021).

3) The Ukrainian leadership wanted to sit on the negotiating table without any preconditions, i.e., Crimea should be on the agenda.

The Russian strategic objectives

Russia had three objectives: i) In the early 2000s Russia under Putin reasserted itself as one of significant military and political powers that acted within the framework defined by the Western powers but began to assert that the power it possessed was not commensurate with the status it was accorded by the Western powers, particularly the United States. Russia made its status issue clear at the 2007 Munich Security Conference, where Putin openly questioned the existing power relations between the great powers. Putin wanted to regain Russia's prestigious international status. ii) In 2008, Putin made it clear that NATO enlargement should not be extended to Ukraine and Georgia. iii) In 2014, Russia annexed Crimea using a loophole in international law, citing the Kosovo issue as a precedent and further claiming that Crimea had been unjustly rewarded to Ukraine in 1954 and that this mistake had now been rectified. Crimea was strategically important for the Russian Black Sea Fleet, and no other place could provide a safe haven for the Russian Fleet than Sevastopol.

While transatlantic forces encouraged anti-Russian forces in Ukraine and thus pro-Western political groups overthrew Yanukovych from power, Ukraine lost a balancing political figure in domestic political space. Yanukovych was a political figure who was a Ukrainian nationalist and could balance pro-EU and pro-Russian forces as he had done for a while, however as he was forcibly ousted from presidency, political power changed hands, pro-Western political actors, including pro-Fascists, totally turned themselves against Russia during and aftermath of 2014 Maidan events. After the Crimean issue, Russia claimed that there was a Russian-speaking population in the Donbass region that wanted constitutional recognition as autonomous republics, Luhansk and Donetsk. In 2015, the Minsk II Protocol was signed, sanctioned by the UN Security Council and was to be implemented by the Ukrainian government; however, Zelensky, who came to power in 2019, did not implement the Minsk II Protocol and wanted to renegotiate it in 2021.

Against this background, Russia wanted to ensure that the Crimean issue was not negotiable and argued that Minsk Protocol II should be implemented to resolve the problems in the Donbass region. If not, Russia wanted to demonstrate its coercive power by flexing its military muscles. It may be said that the defined strategic objectives put Zelensky and Putin in a situation where they could not sit at the negotiating table.

The USA's strategic objectives

In January 2021, the Biden administration, with the motto "America is back", gave the message that instead of the semi-isolationist policies of the Trump era, he preferred to act together with European powers, since the long-term economic competition would be with economic contender, China, and NATO would play a central role in security against Russia. To ensure that liberals in general would side with the U.S., Biden argued that there would be a struggle between democracy and autocracy, represented by the U.S. and the EU on the one hand, and the autocratic regimes of Russia and China on the other.

Undoubtedly, the Biden administration expressed its support for Ukraine's membership in NATO, that Russia has no right to prevent this, and that they have adopted the "open door" policy through the U.S. officials and NATO Secretary General. In doing so, Biden advocated norms such as the principle of sovereignty and emphasized respect for Ukraine's independence. If necessary, Biden repeatedly announced that the US would help Ukraine defend herself, but without committing American soldiers. Such support encouraged the Ukrainian leadership not to give in to Russian demands for a NATO-free Ukraine. This might be a leverage point to kick off a diplomatic demarche. In addition, Zelensky may have considered using American support to counter and, if possible, dismantle Russia's demand for full implementation of the Minsk II Protocols and even hoped to challenge Russia's annexation of Crimea, which the Russian administration would firmly reject it.

Before the Russia's military operation started, the foreign policy strategy advocated by the United States in the face of this crisis was based on a dual approach of pressure and diplomacy, including international financial and economic sanctions against Russia. For this to be realized, it is necessary to ensure that the European powers act in concert with the United States.

The Russian leadership sees Crimea as a legitimate historical right for Russia and tries not to open it up for discussion. According to Russia's foreign policy strategy, if Ukraine implemented the Minsk agreements in the Donbass region, Russia would not need to build up its military. Therefore, Russia argued that the problem could be solved if the Western powers, especially the guarantor states Germany and France, would ensure Ukraine's implementation of the Minsk agreements.

The position of other European powers would evolve over time. The German and French governments, which supported joint statements against Russia in the framework of NATO membership solidarity, took a position that would lead to a softening of US calls to drag Ukraine into the war. In January 2022, the U.S. administration was forced to drop the high-pitched war of words it had opened in November 2021 but continued its anti-Russian rhetoric.

As the U.S. administration escalated tensions in November and December, some European powers, especially Germany, argued that Russia had not violated the security of energy supplies and, moreover, that the Ukraine crisis should be prevented from escalating into armed conflict on the grounds that the gas flowing to Europe and had completed the Nord Stream 2 project without any problems, but that it would support the economic sanctions the United States was preparing if Russia invaded Ukraine. Germany also sent a message to Russia not to escalate tensions. Germany would not sell arms to Ukraine and instead sent 5,000 military helmets, sending the message that it was not in the same position as the United States on military conflict.

The U.S. administration tried to impose its dual policy of pressure and diplomacy primarily on its European allies, with whom it wants to coordinate against Russia.

Diplomacy unleashed but failed

Lavrov, the Russian Foreign Minister, has repeatedly stated that Russia gives priority to diplomacy and that if Russia had to make the decision, it would prefer peace and diplomacy to war. In this direction, on 17 December 2021, the Russian leadership published on the website of the Russian Foreign Ministry, in English and as an open document, two drafts of agreements, one to be presented to the United States and the other to NATO members (Text on Treaty 2021 and Text on Agreement 2021). At the same time, Russia announced that it expected the U.S. and NATO to respond to these documents in written. The Biden administration first held quick bilateral talks with its allies, NATO discussed the issue in coordination with the United States and would provide Russia with written responses on 25 January 2022. It seems that while the Russian leadership played its cards, open negotiating strategy, the U.S. and NATO wanted to conduct the negotiations in secret.

Let us now look at the Russian proposals. "Treaty between the United States of America and the Russian Federation on security guarantees, 17 December 2021" (Text on Treaty 2021) and "Agreement on measures to ensure the security of the Russian Federation and member States of the North Atlantic Treaty Organization, 17 December 2021" (Text on Agreement 2021) were sent to USA and NATO and at the same time were put on the Russia's official website.

It can be said that the form of these two letters was designed to start negotiation with mainly the US administration. It seems that the style of the letters gives the impression that they were written by an actor with the status of a great equal power status, thereby equating the Russian Federation with the USA. Another observation about the style, especially the one presented to NATO, is that Russia's demands to NATO were presented as an ultimatum. Russians may have deliberately preferred such a style because they may have genuinely considered entering negotiation primarily with the United States or they naively did not consider any rejection.

Lavrov, Russian Minster of Foreign Affairs, almost daily appeared on media outlets explaining and clarifying position of the Russian Federation (Reuters 2022). He detailed Russian demands as one binding guarantee that NATO would not absorb Ukraine or any other ex-Soviet states or deploy its troops and weapons there as essential for progress in diplomatic efforts to defuse rising tensions over Ukraine. It seems that Russia opted for an open diplomacy, while the US preferred back door diplomacy. Lavrov urged the US and NATO on 14 January 2022 that Moscow would not wait indefinitely for the West's response, saying he expected a written response from the U.S. and NATO following week (Sputniknews 2022).

When Western media asked Lavrov if Russia was ready to cooperate about arms control and confidence building measures, he said that those issues were secondary in respect to Russia's main demand for the no expansion of NATO and the non-deployment of its weapons near the Russian territory, furthermore he emphasized that the Russian proposals represent a "package, not a menu." "They must understand that the key to everything is the guarantee that NATO will not expand eastward," Lavrov repeatedly said. He often countered the U.S. and NATO's argument that Russia would not have veto power to prevent other nations from joining the alliance by pointing to international agreements emphasizing that the security of some states must not be achieved at the expense of others (Sputniknews 2022. Lavrov 2022).

Finally, NATO and the US responded to Russia with two confidential letters on 29 January 2022, but the contents of confidential documents leaked as El Pais Newspaper published them on 2 February 2022 (El Pais 2022). According to El Pais, the United States and NATO coordinated their responses, rejecting the Russian demands for a variety of reasons, such as that NATO could not impose an embargo on Ukraine's sovereignty and that, in principle, NATO maintained its "open door" policy. Instead, NATO and the U.S. offered "Putin negotiations on disarmament agreements and trust-building measures in different forums – such as the Organization for Security and Co-operation in Europe (OSCE), the US-Russia Strategic Stability Dialogue, and the NATO-Russia Council - the success of which are conditioned on the start of a de-escalation of the Russian military threat to Ukraine" (El Pais 2022).

The West could have kept Russians in a negotiation table if the US and NATO had not rejected Russia's diplomatic demarche. It was the US that coordinated consultations with the EU and NATO members. Here it is possible to say that both the US, including major European powers and NATO members are responsible for rejecting the Russian proposals. It seems that the United States rejected the Russian demands because it did not want to grant "great power status" to the Russian Federation. With the rejection of Russia's diplomatic demarche, the U.S. might have calculated that the US could reinvigorate its relationship with the EU, which had been undermined by the Trump administration. It is possible to argue that the US rejected Russia's diplomatic proposal to frustrate the diplomatic move proposed by Russia based on the assumption that Russia would intervene militarily in Ukraine. One would have expected European actors to see this and should open space for diplomacy, but they did not do so. They all blocked diplomacy and paved the way for military intervention.

I therefore argue that the war in Ukraine should never have been fought. It could have been avoided by a meaningful pressure to be applied by major European powers, as had been done in 2008 by Germany and France, against the United States. Surely the Russian administration is also responsible for this war as it energetically decided to go for an armed conflict, which Russians called it as "special military operation" as if it were not a full-fledged actual war. Russia did not exhaust all possibilities of diplomacy but swiftly turned to military option. Russia could skilfully manoeuvre the diplomatic difficulty by relaunching a revised version of the proposals that had been sent to United States and NATO.

It appears that all sides headed for a war that would cost too much in the first place Ukrainians who suffered the most and the Russian speaking population in Ukraine who became displaced people and so many people fled abroad, and thus Ukraine lost its human resources. All in all, there is a collective responsibility.

6. Some steps to realign powers

While the United States set about renewing its relationship with the EU, Putin went to China to strengthen its ties. The United States administration feels compelled to bring European powers on board to counter the possibility of Russia acting in concert with China, because without European support, the United States could not confront them alone. Antony Blinken told Congress during his testimony at the ceremony for the appointment of the Secretary of State that although China has come a long way in terms of innovation, the United States was competitive with China in terms of technology and could reproduce its technological superiority, while in the case of Russia, nuclear military technology seems to be problematic. In the first months of 2021, the Biden administration started to define the parameters of a policy of confrontation with Russia and China. Indeed, Ukraine was a test case both to see Russia's military and political strength and to see how the European powers would behave. So far, no European power challenged the US, although France was not so happy with the AUKUS formulation of the United States and United Kingdom governments that they excluded France from the submarine construction agreement in a not-so-polite way. It is therefore doubtful whether the US could maintain the power bloc it created with the European powers in the long term. Germany did not challenge the US policy of coercive diplomacy to convince the German government that Germany must break its long-term energy supply policy of buying cheap Russian gas. How German industrialists read and react to this development in the long run might determine Germany's stance in the coming years. For the time being, it is the British governments that have vigorously supported the United States position, and this trend may continue. It can be said that the US has successfully revived its hegemonic position in Western Europe, but it still seems fragile.

Russia has also sought to improve its relations with China. Russia's policy of resolving border issues with China, which it accelerated in the 1990s and early 2000s, has yielded positive results. The major Sino-Russian tensions were resolved. It then developed regional cooperation through the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO). Faced with the January 2022 uprising in Kazakhstan, the Putin government demonstrated its ability to intervene quickly through the CSTO to protect and stabilize the Kazakh leadership. A continuation of this policy was expressed in the Sino-Russian joint statement at the opening of the Chinese Olympic Games in February 2022. Putin's visit to Beijing resulted in a joint statement on 4 February 2022 (Joint Statement 2022). For the first time, China declared its support for Russia on the Crimea issue, while Russia declared its continued support for the "One China" policy. Although Russia and China did not propose a new world order, they did issue a joint statement that put the United Nations at the centre, emphasized the criterion of equal actors, rejected the hierarchical superiority of the United States, and emphasized Russia-China cooperation on many issues. While Russia wants to present an image of full cooperation with China, the Chinese leadership did not go too far but was satisfied with slow but steady solidarity between the two powers. In addition to large areas of material cooperation, such as energy and transportation, an important diplomatic initiative, Xi's peace proposal was also supported by the Putin administration. Whether this bilateral relationship between China and Russia can be extended to other powers is an open question if they want to expand and consolidate the rebalance.

However, Putin's recent high-level visit to Pyongyang seems to have cast doubt on the transformation of the bilateral strategic relationship into a multilateral power bloc, as China indicated its displeasure with Putin's signing of the Russia-North Korea military cooperation agreement. It can also be assumed that Xi's recent visit to Serbia and Hungary may have been apathetic towards Russia, as the Russians consider these countries as their natural allies.

This does not mean that the ongoing bilateral cooperation between China and Russia will soon be undermined, but it does give the impression that such cooperation also has some limits.

7. Conclusion

The war in Ukraine is the result of multiple failures, for which all parties are responsible. It will take many years to repair the damage caused. There is still no formula that could end the war. Conversely, it is fair to say that the possibility of the war growing in scale cannot be ignored.

Over the past 20-30 years, China, Russia and other countries, including India and Brazil, have emerged as contenders to American and European capitalism, particularly in terms of production growth. The "geopolitical economy" framework provides a valuable means of examining how such a change has occurred. However, major imperialist actors have considerable leverage to derail the trajectory indicated by analysis of the "geopolitical economy" framework. One powerful lever is war, as demonstrated in the case of Ukraine.

Although the "geopolitical economy" framework offers a strong explanation of how a country can change its place in the international hierarchy, it does not provide a formula for eradicating inequality at domestic and international levels within a capitalist-imperialist order. "Multipolarity" is an outcome, not a means, of ending the existing capitalist-imperialist hierarchical international order. For example, it does not explain how to control the European core powers, who benefit from the EU system in which smaller powers support core EU countries.

Overall, it can be concluded that the "geopolitical economy" approach helps to explain the transformation of problems associated with the capitalist-imperialist order, rather than offering a coherent alternative to the capitalist system.

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'MASTER OF YOUR COUNTRY' VS 'MASTER OF YOUR OWN DESTINY': CHALLENGING THE SHADOWS OF WESTERN DOCTRINES

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Abstract

This paper investigates into the ideals of Chinese revolution derived from the constitution of CCP that enables the people of PRC to become the Master of their country which resides in stark opposition to the western ideals of 'Master of your own Destiny' propagated by the first self-help book writer, Napoleon Hill whose majorly popular book, , "Think and Grow Rich," births a series of sensationalized thought-school promoting vague ideals of thoughts materializing in realities. The capitalistic approach of Napoleon Hill in the book "Think and Grow Rich," is not just shallow but reduces human life to a rudimentary goal of getting rich and limits the humongous potentiality of the human struggles to its immediate pleasure seeking, distracting from the greater goals of individual and collective emancipation of people and above all people from all strata coming together in taking control over their governance, enjoying an equitable society that enables each and everyone equal rights, in real terms making them the master of their own country, not leaving anything to fate.

1. Introduction

In a capitalist mode of production, people are exploited for the extraction of surpluses and in communist mode of production, the means of production is controlled by the workers, the people themselves, hence they get to enjoy the surplus of their own labour. When understanding history, it is important to keep in mind that the focus should not be to love the past, neither to emancipate from the past. The only task at hand is to understand the past to decipher the present. While looking into the phrase of "Master of your country" and comparing it with the western, capitalist, individualist ideology first professed by Napoleon Hill, "The Master of your own Fate," one has to compare the two opposing drives professed in these two different ideologies, the former about how people can have power over their own country and thus command their own lives while the latter inciting the idea of how an individual should leave the control of their lives to their destiny.

2. Background

History is a process that observes the evolution of human civilization. Historical materialism, posited by philosopher Karl Marx and his colleague Friedrich Engels, determines that history of human society which is based on division of economic classes is reflected through the interrelation of these classes. The class distinctions are inherently related to the mode of production. And social and political changes occur in history when the various institutions and establishments controlling the classes lose their connection to the mode of production and increasingly detach themselves from the core understanding

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of how the economy functions, which is based on the mode of production. People, the masses, the working class are the basis upon which the production process depends.

Napoleon Hill's idea, "The Master of your own Fate," is found in the first self-help book ever written, "Think and Grow Rich," originally published in 1937, that birthed the series of sensationalized books promoting the idea that thoughts govern futures. And the sole drive for every individual is to grow rich. The socialist idea of "Master of your country" refuses to chase treasure troves, on the contrary it professes people, everyone, each and every citizen of the country, individually and collectively, chase a golden future marked by equality, mutual assistance, solidarity and harmony.

3. Statement of the problem

What is to be understood by the term Master of your country and how did the term come into being? How does it differ from the western notions of Master of your own destiny?

Advent of the term "Master of your own country"

If we look at the word "Democracy" now paraded over the world and thrown around by leaders across the globe, is derived from two key components originated Greek, demos which means people and kratos which translates to rule, thus conjugally forming "rule of the people".

To ascertain such a rule, Western societies hold elections to decide which party or individual should lead a country. More often than not, it fails to reflect the will of all the people inhabiting the country. Class plays a major role in creating discrimination and introducing differences in power of each individual upon determining their own future. While the original idea of democracy was to represent the majority consensus, due to the various loopholes observed in the so-called democracy of the west majorly driven by financial controlling factors, which is understood from a leftist lens as a "bourgeoisie democracy," the rule only reflects the control of one class over all the others. Elections are a key component of Western Democracy. Campaigns driven towards state leadership and much coveted seats in the parliament dominated by one class with most of the economic power dominate the politics determining the futures of all people. But the history of Chinese democracy refuses to conform to this idea.

The beginning of the twentieth century saw democracy being translated in Chinese as "people-master". This was the main idea behind "people are the masters of the country" in Chinese society that came into being after a century long series of revolutions fought by people sparing their blood and sweat for their own emancipation so that they can indeed become masters of their own country, controlling their own futures and not depending upon destiny neither chasing the false dream of becoming rich. The central idea of Chinese politics thus focused "to serve the people".

History

For Chinese democracy, this idea correlated directly with the sayings of Mencius, back in 4th century BCE which declared that "the most valuable are the people" and after that "comes the state," but last comes "the ruler".

Contradictions in History

Interestingly the usage of the term "master" had its own privilege which became especially inviting to people, in a land that has survived the brutal clenches of colonialism wherein the majority suffered unimaginable oppression and exploitation. The phrase introduced a new social order that spoke of equal rights of everyone. This idea appealed to the collective psyche of the times and helped mobilize people towards a collective goal of taking the power of their own country, collectively.

4. Analysis

How the Chinese Revolution made way for the people to become Masters of their Country?

Since its foundation in 1921, the Communist Party of China took up the grand task of developing a “New China” built upon the ideals of people emerging to be the master of the country. The Chinese history is one of the oldest, ancient ones, residing alongside the longest histories in the world. Declared in the constitution of PRC, the same morals take precedence proclaiming that the Chinese people of all ethnic background together developed the ‘magnificent culture’ driven by their proud revolutionary tradition.

The feudal roots of China gradually lost its grip after 1840 and China became a semi-colonial, semi-feudal nation. This extended period of time saw the Chinese people waging formidable struggles, wave upon wave, towards their collective goal of not only national independence but also liberation of people towards the goals of a more well-rounded people-centric democracy—as opposed to the false-hoods of bourgeoisie democracy formed in the interest of the ruling class—that ensures the collective freedom of people of all statures.

The ideal that people become the master of their own country have been sought after by the Chinese revolutionaries, since long, towards the collective goal of all things belonging equally to the people. The tireless fight of the Communist Party of China sought after the formation of a new society that would allow its people, all the people, to become masters of their country. Post the foundation of the party in 1921 it took 28 years of struggle and sacrifice of the CPC to finally build the People's Republic of China (PRC).

Twentieth century saw tumultuous historical advances taking place starting from the revolution of 1911, led by Dr. Sun Yat-sen, which was able to abolish the feudal monarchy and founded the Republic of China. However, the revolution in 1911 failed to accomplish the historic mission of the people of China to come out of the clutches of imperialism and feudalism altogether.

To understand the nature of the Chinese revolution from a historical materialist perspective and decipher how it enabled its people to emancipate into the stature of masters of their own country we have to probe into it through the lens of the ten theses that has been presented noting the particular characteristics of Chinese Revolution (Joseph W. Esherick 2009).

The Ten Theses on the Chinese Revolution

I. The rule of Guomindang was as much the precursor as the political enemy of the Chinese Revolution.

Looking at the journalistic publications around 1930s and 1940s, focused on China, one woulf conceive the revolution as an aftermath of a life and death struggle between the fascist Guomindang and the socialist Chinese Communist Party (CCP). It's often noticed that both of these contenders painted each other in light of such dialectically opposing perspective of rivalry. We have to understand history through its correlations between the two opposing forces. And to understand that we have to decipher the analysis of the unity of these opposites. While painting the Guomindang era through the lens of its critique of the leftist or progressive ideas, one cannot ignore the spilling over of the drives of Guomindang into the movements led by CCP. The problem in such an approach is that it doesn't take into account the continuities between the rule of Guomindang and its successor the CCP. What makes the people and their zeal for the revolution doesn't solely depend on the ideals of CCP, it does indeed have its seeds of the state building under the directives of Guomindang. Which means that the revolutionary zeal of the people is shaped by both of these factors and their interrelations, hence while understanding the emotion that associates with being the master of one's own country, we cannot ignore how Guomindang served both as a precursor as well as an adversary to Chinese Revolution.

II. The revolution was not an idealistic 'liberation' but it was replacing one form of domination (of the few) by another form of domination (by all, or at least by the majority)

The western way of looking at revolution comes as a historical metaphor mostly owing to the history of French revolution, which associates narrowly with the idea of liberty and sees revolution as a process to bring liberation from the oppression of an old regime. But what it fails to take into account is that the process of revolution eliminates the oppressive regime of the imperialist domination to give rise to another power, marked by the unity of majority of the people. The Chinese revolution gave rise to the peasants and workers against the exploitation they suffered at the hands of their landlords while also emancipating women against the shackles of patriarchy. The idealistic liberation from the ruling hegemony will liberate the dominated but it will also leave a power void which will eventually be captured by another group of elites excercising similar oppression on the majority of the people, if the people do not organize themselves to take the power in their own hands and become the master of their own country.

III. Mao's creative adaptation and critique of Marxism has little to do with the so-called 'Sinification' propaganda and despite it all it is indeed important for us to note the influence of Lenin and Stalin's Soviet model on the Chinese Revolution.

A revolution is an assertion of the agency of people of a particular geography. When anti-communist theories and propaganda reduce the Chinese Revolution to a mere product of Moscow-directed conspiracy, it becomes the revolutionary duty of the people to reclaim their agency and secure their positions as masters of their own country, not just puppets of soviet or Chinese communist parties. Mao Zedong's creative adaptations of Marxism and influences of Soviet revolution is no doubt one of the formidable factors in realizing the Chinese revolution but that would never have been possible had it not been support by the people who later on got the results of their hard-earned victory becoming the masters of their own country and not leaving their future to their fates ruled by the feudal powers.

IV. *The historical triumph of the CCP resulted out of a series of subjective events*.

Initially the Communist strength was indeed fragile and during the 1936 the Red Army could only gather around 20,000 and was able to control a handful of county seats. Surrounded by more than 300,000 Guomindang and Northeast Army forces, it is reasonable to imagine that the red army could have been easily eliminated had it not been for the Communists' spring 1936 truce made with the Northeast Army followed by the army's December kidnapping of Chiang Kai-shek. The Guomindang could have easily tightened their grip and obliterated the Red Army. In light of that we have to understand the triumph of people with the leadership of CCP was a product of a series of contingent occurring in history which made way for the PRC, making people wield real power over their own country and becoming the master of their future.

V. The Chinese revolution was a product of an assortment of domestic as well as global affairs that accelerated the historical processes – The global depression alongside the Japanese imperialism became major factors.

The Japanese challenge to Chiang Kai-shek and the Manchurian Incident showcasing Chiang Kai-shek's ineffective measures to defend the Republic of China and its people from the grasping aggression of Japan was a major instigation against the Nanjing government leaving it wide open to crude and constant criticisms from the people across all strata, everywhere, and despite the censorship of the Guomindang these criticisms resulted in the collaboration between the Northeast and Northwest Army troops and the Communists in favour of peoples' cause which in reality laid the strategic groundwork for the kidnapping of Chiang Kai-shek and the subsequent formation of a United Front of people against Japan. This made way for everyone to have more control over their future and not leave it to the weak ruler nor to the Japanese Imperialists, especially when the world was facing such a grave economic depression, stemmed solely out of capitalist failures.

VI. The revolution was not made inevitable by the larger structures of China's state and society rather they forced significant constraints over the factors of revolution and counterrevolution.

Comparative analysis of China's largely agrarian yet massively commercialized economy in conjunction with Chinese Society's rather weak bourgeoisie, and the failing centralized bureaucracy indeed play in the hands of the country's modem revolutionary experience. But one has to take into account that the apparent strength of the imperial state relied on the absence of a powerful rival, both domestic and foreign. The landed elites of China lacked both judicial and military functions and they were further weakened by the tradition of partible inheritance hence proving to be a much smaller threat to the central authority compared to their European aristocratic counterparts or even the daimyo of Japan.

VII. The subjective factors to the revolution's success were the zeal of the communists and their noble ethics

The grave sacrifices, deadly determinations, and soul-driven commitments of each and every Communist revolutionary played a major role in materializing the Chinese revolution and forming a country that was mastered by their people not by the elites or the imperialists. These revolutionaries were the subjective factors of the revolutionary dialectic and they were both essential elements for the success of the revolution as well as the critical variants in shaping of the nature of Chinese revolution that culminated into a society being ruled by people.

VIII. CCP became a social construct reflecting many internal complexities

Opposing the popular western beliefs, CCP was never an organizational weapon serving the interest of the party core being obedient of the commands given by the Party Center.

IX. The Chinese Revolution is a process

To find a middle ground between two extremes of deterministic view of the Chinese revolution being an inevitable product of Chinese political-economic structures and the analytically defeatist standpoint of revolutions being merely a historical accident, such a marked phenomenon of history needs to be conceived as a process, as an evolution, evolution guided by historical materialism and the proponents of its materialization being the people.

X. The holistic history of modern China cannot be reduced to just a teleology of revolution.

When investigating into the origins as well as the nature of Chinese Revolution, one has to avoid the allures of drawing simple conclusions focusing the historiography of modern China solely on its hegemony of the Chinese revolution. More often than not, Modern Chinese history becomes dominated solely through the lens of revolution and becomes distorted by a teleology of the revolution. History gets written leading up to 1949. One has to remember that the task at hand is to explain the historical foundations of such a legendary social and political transformation, mainly possible with the struggle of people.

5. Founding of PRC Making People the "Master of their own country"

After a prolonged period of arduous struggle engaging in armed and other formal tactics, finally in 1949, PRC was formed by Chinese people of all ethnic backgrounds and groups led by the Communist Party of China with the leadership of Chairman Mao Zedong. This nailed the final screw in the coffin of imperialism overthrowing its rule alongside all other forms of oppression exercised by feudalism and bureaucrat-capitalism. This victory was won by the New Democratic Revolution, which was especially relevant to the Chinese Material Conditions and which enabled the people to claim their power and ownership over their country making them the masters of their country. But this only marked the beginning of their journey. The question remained how to build a nation that is ruled by the people that is indeed, in true sense of the term, a people's republic? There were questions galore, in terms of institutional frameworks, the leadership of CPC, the guarantee of their rule and above all the assurance of the sustainability of the position of the people as the masters of their country.

The vanguard of Chinese communists has played a major role here which has been able to live up to the expectation of people in way of uniting and leading them towards a collective future instrumented with systems that ensures the role of the people as the masters of their country. It was accomplished by establishing democratic organizations working towards creating socialism as well as consolidating a set of socialist systems, in spheres of economy, society and politics that is developed with distinctive Chinese characteristics. This particular socialist structure and ethos of the PRC created a particular state system working in the interest of people's democratic power which was strongly led and controlled by the working class who are the main productive forces of the country and who run the mode of production which is essential to ensure the economic stability of a country. The socialist system practiced by PRC was mainly based on two key components of the working class, and their alliance, namely, the workers and the farmers. The alliances of people formed a system of people's congresses that consolidated the system of state power which is structured on the basis of a multi-party cooperation as well as political consultation system strongly controlled by the leadership of the Communist Party of China. This very unique system with distinct Chinese characteristics ensured regional ethnic autonomy, as well as seamless community-level self-governance.

6. Learning: The foundation behind the formation of people's role as the masters of the country

During the 1940, Mao Zedong penned an article titled "On New Democracy," in which he gave an in-depth analysis of the possible state system of a conceived new China of the future. The article portrays his belief that "the proletariat, the peasantry," alongside "the intelligentsia" as well as all the other fringes of the petty bourgeoisie will be able to constitute a formidable force basing upon which, the fate of China will be determined. These sections will essentially emerge as the "basic components" of the future state as well as the governmental structures that will shape the democracy of the future republic of China "with the proletariat," in plain terms the people, "as the leading force."

Mao Zedong's thoughts about the future formation of the state system were indeed a reflection of the will of the people across the whole country. These thoughts were indeed acknowledged in the Common Program of the CPPCC that served the function of an interim constitution: "The People's Republic of China" he claimed in the interim constitution, to be "a new-democratic" state or more accurately "a people's democratic state." According to Mao, "it carries out the people's democratic dictatorship" which he concluded to be "led by the working class," and which will be basing upon "the alliance of workers and farmers," such an alliance will be able to unite "all democratic classes" as well as "all ethnic groups in China." Thus, the proclamation of the overwhelming majority of the Chinese people becoming the masters of their new found People's Republic while taking control of their own destiny was established for the very first time in the history of China that dates back to thousands of years.

7. Findings: Introducing a formal reform through which people becoming the masters of their country is realized

Here is a case study of Medal of the Republic recipient Shen Jilan. She came from a small village called Xigou, in Taihang Mountains. Her wall depicts the development course of the people's congress system. The earliest among those showcase her as a 25-year-old girl with braids wrapped in bows while the latest one showcases her as a wrinkled yet healthy-looking 90-year-old deputy in 13th NPC held in 2018. Her tenure of service is so long that she is called a "living relic". She is a success story that exemplifies how people indeed became the masters of their own country.

8. Conclusions

In conclusion, looking into the various forms in play ensuring that the people remain the masters of their country:

- The multi-party cooperation system and political consultation with the supervision of CPC.
- The regional ethnic autonomy system
- Community-level self-governance system

Using such dynamic institutional tools guided by the noble ideals and formidable leadership of the Communist Party of China, the ideals of Chinese revolutions not only remain coveted but also their tangibility rests ensured.

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WILL VIDEO GAME CULTURE BECOME CHINA'S NEW SOFT POWER CHANNEL?

Anton Hu[63] and Zhongxin Sun[64]

Abstract

The video game industry is one that is large in influence, especially towards younger audiences. Such an industry can be a powerful soft power tool for countries, due to its ability to unite people from around the world around one topic in the online world. For an often misperceived country like China, spreading soft power through video games is growing into a more apparent reality, especially with the rise of video game development companies like miHoYo, which has already won positive public reception by being the second-largest game publisher as of 2024. One of miHoYo's creations, Genshin Impact, is popular and praised for demonstrating Chinese culture through famous landmarks, traditions, architecture, music, and clothing. Through a survey featured in this paper, it has been found that there is an increasingly positive perception of Chinese culture by players of Genshin Impact after they played the game, compared to their perception prior to the experience.

1. Introduction

China's projection of soft power through physical means, such as providing low-interest loans to other countries, funding infrastructure projects, and offering free educational programmes around the globe, has been rigorously studied by many scholars. While these methods have often been criticised for having ulterior motives, such as coercing countries into debt traps or spreading domestic propaganda internationally, it remains too early, and there is a lack of evidence, to make baseless conclusions about the motives of the Chinese Communist Party (CCP) or the efficacy of their soft power (Blanchard and Lu 2012). However, one aspect that has been consistently overlooked is China's projection of soft power towards younger audiences, typically through video game culture.

The 2023 Essential Facts report found that 65 percent of Americans play video games, totalling around 216 million weekly players. Furthermore, there is near-unanimous agreement on the significance of video games in people's lives, with 96 percent of respondents claiming that video games are beneficial (Entertainment Software Association, 2023). As such, video games can prove to be an extremely critical factor in shaping a country's likeability and perception. Moreover, because soft power through video game culture targets younger audiences, there are intuitive benefits for the long-term of Chinese soft power. Those exposed to a different culture or lifestyle at a young

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age may develop a stronger affinity for it, whereas it can be difficult to change the opinions of adults who have already lived much of their lives without interactions outside of their own culture. In the long run, those faithful to a culture can pass it on to their children and future generations. For a recently developed country like China, which does not yet have a widespread popular presence on the world stage, this is critical to its aspirations of becoming a future hegemon. Therefore, studying soft power through the lens of video game culture offers a valuable new perspective in the field of Chinese soft power research.

This article will unfold in the following manner: it will begin with a brief introduction to video game culture, then explore China's role within it, followed by a specific case study of Genshin Impact. The article will also include personal observations of Genshin Impact and an analysis of how its characteristics contribute to making Chinese culture more appealing. Furthermore, in order to assess whether games featuring Chinese culture and identity can influence young audiences' perceptions of China, this article presents a research survey investigating how respondents' views of China change before and after playing Genshin Impact, alongside interviews with experienced players.

2. What is soft power?

Joseph Nye's definition of soft power is widely accepted as the standard of what soft power politics resembles, which is a country's aim to achieve outcomes through positive image and attraction. To quote Joseph Nye himself: "What is soft power? It is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals, and policies" (Nye 2024).

Soft power contrasts with hard power, which is the use of coercion and payment. Nye originally introduced the concept in the late 1980s and later expanded upon it in his 1990 book Bound to Lead: The Changing Nature of American Power. In more detailed terms, soft power is the ability to shape the preferences of others through appeal and attraction. A defining feature of soft power is that it is non-coercive; the currency of soft power includes culture, political values, and foreign policies. Countries frequently use soft power to promote their values and increase their influence internationally by investing in cultural diplomacy, international broadcasting, and exchanges that enhance their reputation abroad. This is to say, video game culture falls under the category of soft power, as it does not involve coercion or any form of forcing, but rather includes many aspects of a country's culture and values (Nye 1990).

3. Defining video game culture and links to soft power

Video game culture refers to video games developed by a specific country that have many players and buyers worldwide. These video games tend to be multiplayer, where people are able to communicate and cooperate with each other online, and as such, they require an internet connection in order to play. Globally released games are usually developed by private game developers in their respective countries, and joint collaborations are also possible.

Video game culture is also shaped by internet discussions about a game, whether through forums or social media platforms. These discussions and forums are usually crucial to soft power, as users from different parts of the world can engage with each other about the video game and its parent country. It is also the best way for users to access data and sources from the country of development, as curious users may explore domestic forums and websites, such as Bilibili in China's case. The fact that video game culture can bring users from around the world together to discuss one topic proves that it can be a potent source of soft power.

4. China's influence in the video game industry

Lately, there have been many games that were successfully launched by private Chinese companies, such as Genshin Impact, Arena of Valor, and PUBG Mobile, all of which have achieved immense global outreach. In particular, Genshin Impact grossed nearly 3.8 billion USD by the end of 2022, making it the highest first-year launch revenue of any video game, which demonstrates the significant reach of Chinese video game culture (Guangming Daily, 2023).

In addition to the many games developed in China, there are also holding companies that exert a huge influence on the gaming world. One such company is Tencent, which is the world's highest-grossing multimedia company. Tencent Games, a subdivision of Tencent, fully or partially owns many video game development companies, making it the largest video game vendor globally.

5. Genshin Impact and Chinese Cultural Identity

Genshin Impact is a role-playing game developed by HoYoverse (a subsidiary of miHoYo). miHoYo is a Chinese video game development and publishing company based in Shanghai, China. The company operates globally in many different countries, with bases of operations in Montreal, Los Angeles, Tokyo, and Seoul (HoYoverse 2024). As miHoYo's most popular creation, Genshin Impact features an anime-style open-world environment and an action-based battle system using elemental magic and character-switching. It is a free-to-play game monetised through gacha game mechanics and is regularly expanded through patches, using the games-as-a-service model.

Genshin Impact takes place in the fantasy world of Teyvat, home to seven nations, each of which is tied to a different element and ruled by a different god. The story follows The Traveller, an interstellar adventurer who, at the start of the game, is separated from their twin sibling after the two land in Teyvat. Thereafter, the Traveller journeys across the nations of Teyvat in search of the lost sibling, accompanied by their guide, Paimon. Along the way, the two befriend myriad individuals, become involved in the affairs of its nations, and begin to unravel the mysteries of the land.

In the game, the true shining point of Chinese cultural identity is the Liyue region, which is based on China itself. The region has received many positive comments for perfectly representing the idealised traditional Chinese nation. As a result, Genshin Impact has already been recognised by the Chinese Ministry of Culture and Tourism for "promoting the inheritance and development of excellent traditional Chinese culture, carrying out the protection of intangible cultural heritage, supporting the creative transformation of existing cultural resources, and promoting the revitalisation of trad" (Osha 2024).

6. General perception of Genshin Impact

Upon release, the public reception of Genshin Impact was relatively positive. Despite many critics pointing out that the concept of anime games is not always well-received publicly, Genshin Impact still managed to reach a wide range of audiences. Thanks to the game’s constant updates, collaborations with popular franchises, and large advertising campaigns, miHoYo eventually became the second-largest game publisher on the global stage, according to Sensor Tower data. As of 2023, miHoYo has a monthly revenue of around 1.85 billion USD (South China Morning Post 2023).

What also made this game unique was its clear Chinese cultural identity. Online communities are divided on the game’s cultural authenticity. Some members of the fan communities view the hybrid cultural elements as a positive reflection of modern, global cultural exchanges. They appreciate the blending of different cultural aesthetics and narratives, seeing it as a form of cultural innovation and exchange that broadens the appeal and understanding of Chinese culture. However, others express concern that the game dilutes traditional Chinese cultural elements, arguing that its global success comes at the cost of a true and deep representation of Chinese culture. They worry that the elements of Chinese culture in the game are superficial or secondary to its more prominent Japanese anime influences (Li and Li 2023). Regardless of these debates, it is clear that Genshin Impact has increased media attention and general knowledge about Chinese culture overall.

7. Research method: Survey

In order to better understand the extent of the impact that Genshin Impact has had on youth outside of China, a survey was created and distributed through social media and forums related to the game. The survey asked participants about their perceptions of Chinese culture before and after playing the game. It began by collecting demographic data, such as age, race, ethnicity, and the current country of residence. It then moved on to general information about the game, such as how participants first became interested in it, how often they play, and what aspects of the game they find enjoyable.

Afterwards, the survey included two key questions related to the likeability of Chinese culture: one asked participants to rate their likeability on a scale of 1 to 10 before playing the game, and the other asked for a rating after playing Genshin Impact. These two questions are critical to the research, as they serve as the determining factor in whether the game has had a measurable impact on the lives of youth around the world.

To conclude the survey, participants were asked whether they would like to learn more about the Chinese language and culture, and if they would like to visit China in the future. This is another important aspect of soft power, as a willingness to visit a foreign country is also an indicator of its likeability.

8. Results of the survey

From the 47 responses to the survey, 53.2 percent of respondents identified as male and 42.6 percent as female. Furthermore, 89.4 percent of respondents live outside of China, whereas 10.6 percent live in mainland China. Of the respondents, 6.4 percent are under the age of 13, 27.7 percent are aged 13–15, 23.4 percent are aged 16–18, 23.4 percent are aged 22–25, and 10.6 percent are older than 25.

In terms of how respondents discovered Genshin Impact, 51.1 percent came across the game through friends, 38.3 percent through social media, and the remaining through other means, such as internet browsers. Regarding how often they play, 14.9 percent of respondents reported playing many times a day, 21.3 percent play daily, 14.9 percent play a couple of times a week, 4.3 percent play weekly, and the remaining 44.7 percent have not played in a while.

Figure 1. How was your perception of Chinese culture before playing Genshin Impact? (knowledge, likeability)

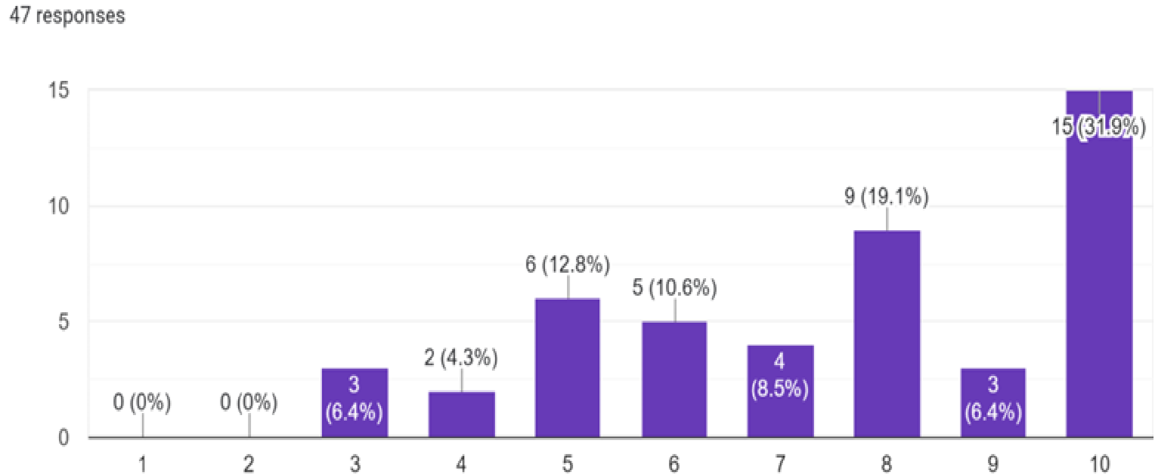
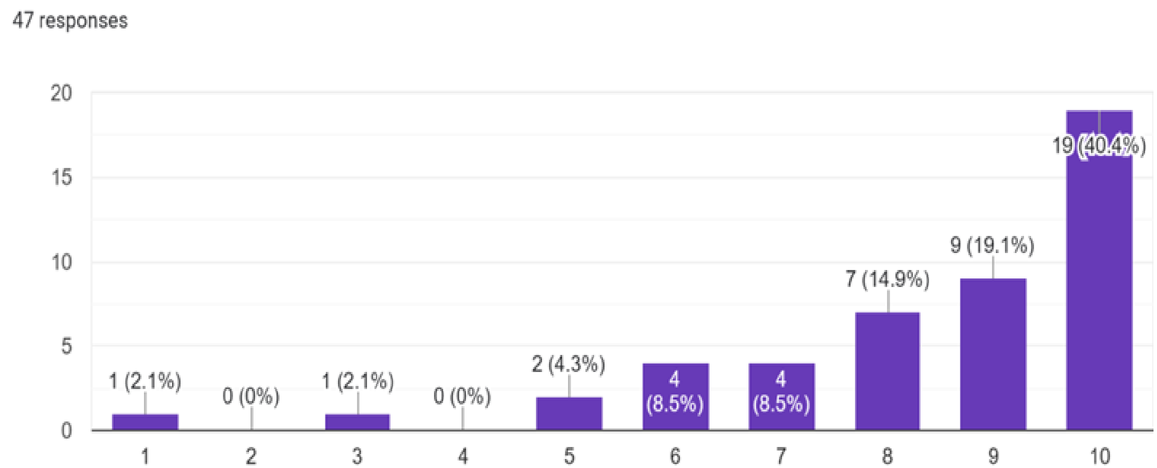


Figure 2. How was your perception of Chinese culture after playing Genshin Impact?



Based on the observations in Figures 1 and 2, it can be seen that after playing Genshin Impact, more respondents distributed themselves towards the higher end of the spectrum regarding the likeability of Chinese culture. The difference is quite significant, indicating that the game has created a substantial impact on its players. To make things even more promising, 89.4 percent of users said they are willing to learn more about the Chinese language and culture, and an impressive 93.6 percent of users said they are willing to visit China if they have the opportunity in the future.

Figure 3. If you had the opportunity, would you like to visit China in the future?

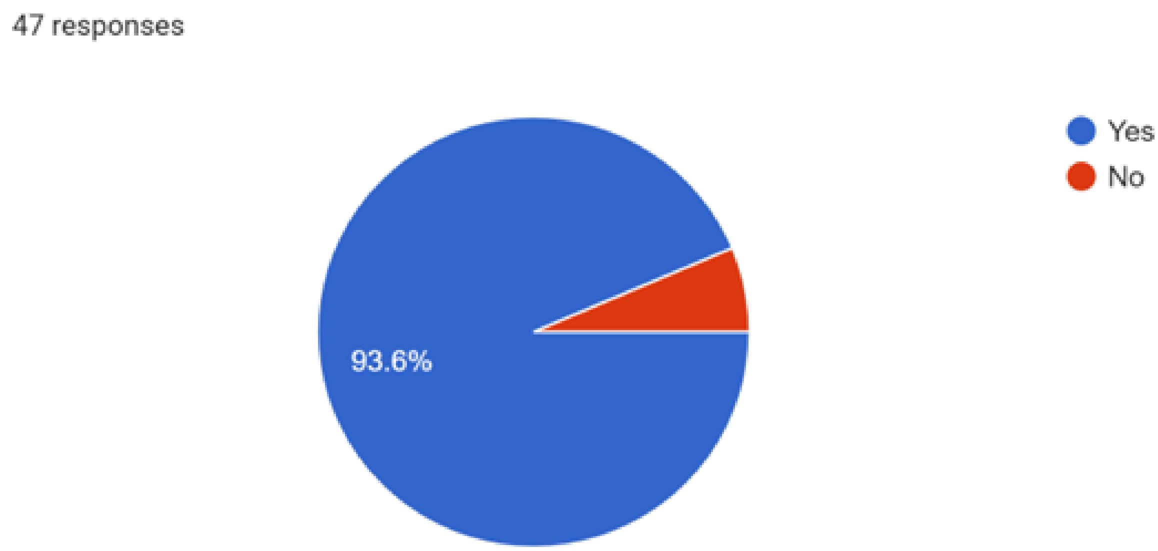
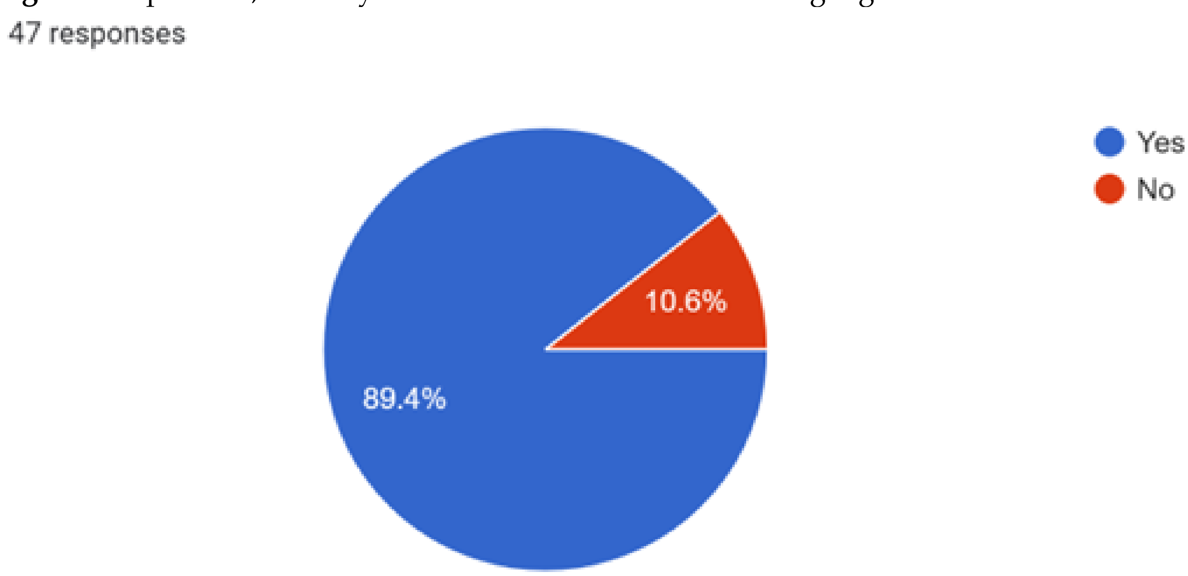


Figure 4. If possible, would you like to learn about Chinese language and culture?



9. Landscaping and game design

Tourism and landscaping can enhance a country's global influence by making its culture, political values, and foreign policies more appealing to international audiences. Features such as tourist destinations, landmarks, and national architecture can foster empathy and understanding towards the destination country. This empathy, in turn, can increase the likeability of a country. However, the issue with tourism is that not everyone has the opportunity to experience what many countries offer, due to distance, cost, and the need to take flights. Therefore, promoting landscaping and tourism through virtual games can have a similar effect.

Genshin Impact features scenery that has received widespread praise. It is well-designed to fit the setting based on where the player is in the game, creating an incredible sense of immersion. For example, in the region of Mondstadt, which is inspired by Germanic culture, the landscape is filled with lush greenery and fields (Figure 5).

More pertinent to Chinese soft power is the way in which the landscape of Liyue, the region based on ancient Chinese culture, is designed. Liyue is filled with geological features that closely resemble those of China, such as a combination of hills, plains, and mountains. Furthermore, many locations in the game are inspired by natural landmarks in China. Examples of these include Huaguang Stone Forest and the Tianzi Mountains, Qingce Village and the Honghe Hani Terraces, Luhua Pool and the Huanglong River, Yaoguang Shoal and Elephant Trunk Hill, and Mt. Tianheng Gate and Tianmen Mountain.

Figure 5. Mondstadt Cityscape [Image]

Source: *Genshin Impact Wiki. Retrieved May 30, 2025, from https://genshin-impact.fandom.com/wiki/Mondstadt*

Figure 6 shows the Huaguang Stone Forest region in the game; however, this location is based on the real-life Zhangjiajie National Park. miHoYo established a strategic partnership with the national park in hopes of promoting tourism there (Osha, 2024). miHoYo also has a partnership with Huanglong, another scenic attraction, for the same purpose of promoting tourism. In the game, this location is known as Luhua Pool, which is shown below in figure 7.

Figure 6. Huaguang Stone Forest [Image]

Source: *Genshin Impact Wiki. Retrieved May 30, 2025, from* *https://genshin-impact.fandom.com/wiki/Huaguang_Stone_Forest*

Figure 7. Luhua Pool [Image]

Source: *Genshin Impact Wiki. Retrieved May 30, 2025, from* *https://genshin-impact.fandom.com/wiki/Luhua_Pool*

All of these geographical landmarks have a notably positive impact on the ways in which players perceive Chinese culture. For instance, Interviewee 1, a 15-year-old boy from Toronto, Canada, said the following when asked what he would do if he had the chance to visit China: "... I would definitely want to visit the various landmarks that there are, like the Great Wall, and whatnot."

In addition to the stunning resemblances that the game offers, there are also many visible values that reflect China's national priorities. For instance, Liyue Harbour, the main city of the region, is the economic trade centre of the entire world of Teyvat. This mirrors China's long-term ambition of becoming a prominent economy and global trade partner.

There are many reasons why good landscaping is important for soft power and cultural projection. Firstly, due to the resemblance to real-world counterparts, many foreign players are drawn to the country and develop a more positive perception of it. On the Google Play Store, there are numerous praises that support this: *"The landscapes and styles of the game are breathtaking and the music is sensational" (2024-04-17), and "The world is so big, and the best part is they add on to the world every so often. The music is so breathtaking, and it makes the cutscenes so beautiful" (2024-04-18).*

10. Music

Music is another element that enhances immersion in the game. Genshin Impact's background music has become so popular that there is an official YouTube channel, called Hoyomix, dedicated to the release of in-game soundtracks. As of January 2024, Hoyomix has 344,000 subscribers. In terms of soft power, the audience of Hoyomix consists entirely of people abroad, as YouTube is banned in China. Furthermore, miHoYo has held a large concert in Los Angeles, USA, with a maximum capacity of 7,100 people.

The in-game soundtracks are also extremely well made, especially the ambient music of the different areas in the Liyue region. Many of these soundtracks feature the use of traditional Chinese instruments, as well as incorporating a strong influence from Chinese music genres. As a result, the music in Genshin Impact has received widespread praise from its player base. For example, the song "Rex Incognito", which is part of the game's soundtrack, has over 5.4 million views as of February 2024 and 105,000 likes on YouTube.

Music plays a major role in increasing a country's likeability. If more people are able to engage with and appreciate traditional Chinese music, it is a clear indication of successful soft power attraction. At present, Genshin Impact's music and ambient soundtracks have been widely praised.

11. Character design

In Genshin Impact, one of the most sought-after aspects of the game is the characters themselves. There is often a lot of anticipation for upcoming characters due to their skills and gameplay, but one thing that many players also expect from characters is their design. Many Liyue-based characters (the region based on China) have outfits that reflect traditional Chinese culture. For example, the female character Yun Jin is an opera performer who wears a Chinese opera headpiece as well as a long, puffy purple dress. The opera that she performs is also based on traditional Chinese opera, which is featured in the game. Yun Jin's in-game opera performance has received much praise from the player base. In the comments section of the official video, examples include: "*Props to them for hiring a professional opera singer and sticking with their culture, hope to see more like this*" (2024-04-19) - User @ciel_vanitas, and "*This song is so beautiful. Even after all these months, coming to listen again brings tears to my eyes*" (2024-04-19) - @ankujo8924 *[From youtube comment section]*

Figure 8. Yun Jin, in traditional Chinese opera attire [Image*]*

Source:https://www.youtube.com/watch?v=EiAhMr6IJTQ&ab_channel=GenshinImpact *(The opera performed by Yun Jin. A professional opera singer was hired)*

12. Lantern rite

Around the time of every Chinese New Year, there is an in-game event called the Lantern Rite, which is essentially a version of Chinese New Year for the game world. During this event, players are rewarded with a large amount of in-game currency, making it one of the most sought-after events in the game. The game's aesthetics also change to match the festival; the Liyue region becomes even more reminiscent of China, with elements like lanterns being added to enhance the atmosphere.

Figure 9. Genshin impact - Lantern Rite

Due to the architecture, players intuitively recognise the region as Chinese. Furthermore, there are many references to Chinese New Year, including various culture-related mini-games that occur during the event. For instance, there was a story quest centred around a new character named Gaming (pronounced gah-ming), a young male character who specialises in dragon dancing. Dragon dancing is an activity commonly performed during Chinese New Year, making Gaming and many other characters more closely intertwined with Chinese culture.

The lantern rite, being a reference to the largest and most important annual celebration for China, has an incredible impact on how people perceive Chinese culture. The comment section of the promotional video for the 2024 lantern rite shows how much of an impact it has on people: *"As an Asian, the scene about Gaming and his father made me think about my family. I haven't seen them for years but I think I'll give them a call. Happy Lantern Rite everyone."- User @shirase8244, (2024-04-19) "Alot of the community expects free gifts and rewards for enjoying the game enough to spend money, but it's scenes and stories like this that keep me playing. They are the greatest gifts because even though so many of these stories are fantastical and wondrous; they hit home and warm our hearts." -User @wabbledonkey (2024-04-18) - From youtube comment section*

To further demonstrate the admiration about Chinese culture that is sparked by the game, the following is the response from interviewee 1 when asked about how Genshin impact has made the game more likeable for him: " …although I don't think about China when I play, however things like the lantern rite event is really nice as growing up from a household who doesn't celebrate Chinese new year, it is a really good experience and makes me want to experience it in real life."

12. Conclusions

Though traditional methods of soft power, such as cultural education, low-interest loans, and foreign aid, have been extensively studied in the academic world, modern methods such as video game culture have not received the same level of attention. These modern methods are becoming increasingly relevant in the day-to-day lives of ordinary citizens, and they are potent tools for spreading soft power if used correctly.

This paper examines a dimension of soft power that has rarely been mentioned in scholarly literature: soft power through video game culture. It defines what video game culture is, offers various examples, and provides a case study of Genshin Impact, an extremely popular Chinese-made game that has reached a global audience. This paper also demonstrates the importance of cultural landmarks and tourism in soft power, and how even virtual tourist destinations in games can increase a country's likeability. Throughout this paper, various observations of the in-game characteristics of Genshin Impact, such as the landscape, architecture, music, and character designs are discussed, showing how they contribute to boosting China's soft power popularity. These claims are supported by survey results and an interview.

However, there are many questions that still need to be answered, such as how other games developed in China may affect Chinese soft power, and whether the change in perception caused by games like Genshin Impact is significant enough to be considered true progress. Likewise, a change in perception among younger audiences is usually harder to measure, and over time, more tangible shifts in opinion may become visible.

In the meantime, more analysis can be conducted on the various other modern avenues through which soft power is spread. For instance, the rise of Chinese YouTubers and vloggers who present a positive image of Chinese culture, such as Li Ziqi, may have also contributed to the popularity of Chinese soft power. Furthermore, films produced in China, such as The Wandering Earth 2, have also gained significant popularity in Western countries and media. All of these modern forms of soft power have been scarcely examined in academic research.

What is certain, however, is that video game culture is becoming increasingly important, and further study of it can help to develop a deeper understanding of the concept of soft power as a whole.

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PART V

READING CAPITAL VISUALLY

MARX'S CAPITAL, VISUALLY EXPLAINED

Wolfgang Homola[65]

Abstract

First-time readers of Capital can find it sometimes difficult to grasp all the concepts that Marx lays our in chapter 1 of Capital Vol.1. The following information graphics, designed for a Marx reading group in Vienna, might be useful to understand these concepts better.

1. Introduction

Is it possible to visualise Marx's main concepts in *Capital* with the help of infographics, illustrations, etc. in order to make it more accessible to first-time readers? Having worked as a graphic designer (and typeface designer) based in Vienna, I think that it is; and I will show approaches that I have developed for a Marx reading group. It is not always easy to understand the concepts that Marx develops in *Capital*—not so much because the concepts are so complicated, but rather because they are unfamiliar, given the omnipresent concepts of neoclassical economics that have penetrated into the last corners of everyday thinking. Graphic aids can help to better grasp and memorise concepts and terms.[66]

Marx built on Adam Smith's and David Ricardo's labour theory of value, but changed it significantly by analysing value in dialectical way. The basic idea of the labour theory of value is that the value of a commodity is determined by the time it takes to produce that commodity. So if it takes a baker 1 hour to make a bread roll and a shoemaker 8 hours to make a shoe, then a shoe is worth eight times as much as a bread roll and is therefore exchanged for 8 bread rolls.

Marx's main criticism of the economists of his time was that they considered the bourgeois concepts of economics to be eternal and rushed far too quickly into a quantitative analysis of value (even before they had properly analysed value qualitatively)[67]. Marx devoted many pages to this last point—the qualitative analysis of

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[66] This is, of course, not the first attempt to explain economic theories visually. For those interested in theoretical considerations of visual representation and in historic examples of some of the previous efforts, see: Neurath and Kinross (2009), Neurath (2024), Tufte (2001), Tufte (1997), Battle-Baptist et al. (2018)

[67] "It is one of the chief failings of classical economy that it has never succeeded, by means of its analysis of commodities, and in particular of their value, in discovering the form of value which in fact turns value into exchange value. Even its best representatives, Adam Smith and Ricardo treat the form of value as something of indifference, something external to the nature of the commodity itself. The explanation for this is not simply that their attention is entirely absorbed by the analysis of the magnitude of value. It lies deeper. The value-form of the product of labour is the most abstract, but also the most universal form of the bourgeois mode of production; by that fact it stamps the bourgeois mode of production as a particular kind of social production of a historical and transitory character. If then we make the mistake of treating it as the eternal natural form of social production, we necessarily overlook the specificity of the value-form, and consequently of the commodity-form together with its further developments, the money form, the capital form, etc." (Marx 1990: 174)

value and exchange value (and the relationship between value, exchange value and use value)—in the first chapter of *Capital* (in which the analysis of the form of value occupies an important place). He repeatedly emphasised the importance of this analysis[68] (and indeed many misunderstandings can be traced back to a lack of understanding of these relationships). A clear concept of *use value, value* and *exchange value*—and how these are related to each other—is needed. And in order to understand and grasp these concepts properly, we must also introduce the concepts of *concrete labour* and *abstract labour*.

Humans have always depended on their metabolism with nature to produce useful objects. In a subsistence economy, *they produced what they needed:* It is production for consumption and production of use value.[69] Commodity production is different: now people *produce what they don't need in order to exchange it for what they actually need* (a crazy, *upside-down* way[70] of doing things, if you think about it—but it also allows for a higher degree of productivity due to specialisation). Commodity production is a production for exchange (or sale) and a production of exchange value (or more correctly: it is a production of value that can only be expressed as exchange value; and the way this is expressed is what Marx called the *value-form* [71] or the *form of value,* as we will see later); and, commodity production is not only the production of value, but the production of both value and use value, because "a use-value of some kind has to act as its [i.e. the value's] bearer" (Marx 1990: 295). (Capitalist production, finally, is production for profit, and thus the production of value and surplus value. Marx's analysis of the capitalist mode of production only begins in chapter 4 of *Capital Vol.1*.)

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[68] Marx conceded that these passages might be difficult to grasp: "The understanding of the first chapter, especially the section that contains the analysis of commodities, will therefore present the greatest difficulty" (Marx 1990: 89). He said that their importance might be overlooked: "To the superficial observer, the analysis of these forms seems to turn upon minutiae" (Marx 1990: 90); and that regardless of this, most of them rush ahead quantitatively even before they have correctly carried out the qualitative analysis, and thus the development of the correct terms and concepts: "The usual mode of procedure is the precise opposite of this: nothing is seen in the value-relation but the proportion in which definite quantities of two sorts of commodity count as equal to each other." (Marx 1990: 140)

[69] "Labour, then, as the creator of use-values, as useful labour, is a condition of human existence which is independent of all forms of society; it is an eternal natural necessity which mediates the metabolism between man and nature, and therefore human life itself." (Marx 1990: 133)

[70] This strange way of fulfilling the need for use values only indirectly—i.e. via the diversions of the production of value—leads (further down the road) to strange phenomena for which Marx finds various, often very expressive terms. He speaks of an "upside-down" (Marx 1991: 969) or "topsy-turvy world" (Marx 1998: 682), and of the "the absurdity" of his correct (!) "statement" (Marx 1990: 169) that "use-value becomes the form of appearance of its opposite, value" (Marx 1990: 148); he coins the term "fetishism" for these phenomena (Marx 1990: 163–177); and he points out the "naive astonishment" of the bourgeois economists "when the phenomenon that they have just ponderously described as a thing reappears as a social relation and, a moment later, having been defined as a social relation, teases them once more as a thing" (Marx 1987a: 276).

[71] In the third section of chapter 1 of *Capital Vol.1,* Marx subjects "the form of value, or exchange value" (Marx 1996: 57–81) to a qualitative analysis (in the Penguin edition, the same section is called "the value-form, or exchange-value"; see Marx 1990: 138–163); that is, he works out the appropriate terms to describe what exactly happens when value is realised as exchange value.

2. Value, productivity and exchange value

As soon as the production of value appears, products become commodities; and the labour process that produces commodities takes the form of a *dual character* [72]. As *concrete labour* it produces *use value,* as *abstract labour* [73] it produces (at the same time, in the same process) *value* (fig.1a). In fig.1 we take a look at "the dual character of the labour embodied in commodities" (Marx 1990: 131–137), which results in the production of both *use value* and *value.* These two aspects or attributes of the commodity are mutually exclusive: I can realise the use value of a commodity, say of a bread roll (by eating it), or I can realise the commodity's value[74] by selling it; but I cannot realise both at the same time. They are the exact, polar opposite: there is an "opposition between use-value and value which is latent in the nature of the commodity" (Marx 1990: 181). We know that value is congealed labour time[75], and that value is the time of (abstract) labour it takes the producer to produce the commodity. But how much of it? Only the labour time that is socially necessary.[76]

[72] In a letter to Frederick Engels (Marx 1987b: 407), Marx called his concept of "the two-fold character" of (value-producing) labour one of "the best points" in *Capital;* and he wrote that the "dual character" of both the commodity, "possessing both use-value and exchange-value", and of labour, too, "is crucial to an understanding of political economy." (Marx 1990: 131f).

[73] Marx defines abstract labour as the expenditure of human labour "without regard to the form of its expenditure" (Marx 1990: 128), and he writes: "On the one hand, all labour is, speaking physiologically, an expenditure of human labour power, and in its character of identical abstract human labour, it creates and forms the value of commodities. On the other hand, all labour is the expenditure of human labour power in a special form and with a definite aim, and in this, its character of concrete useful labour, it produces use values." (Marx 1996: 56) (Some readings of Marx tend to confound *abstract labour,* a qualitative concept, with *socially necessary labour,* or to conflate the two into a single concept; however, as I understand it, these are quite different concepts, developed for different analytical purposes).

[74] Or, more correctly, I can realise the commodity's value as its exchange value, because "exchange-value cannot be any thing other than the mode of expression, the 'form of appearance', of a content distinguishable from it", writes Marx (Marx 1990: 127). And this content is value. "Exchange-value" is "the necessary mode of expression, or form of appearance, of value." (Marx 1990: 128)

[75] Marx writes that value is "congealed labour-time" (Marx 1990: 130), and that "a use-value, or useful article, therefore, has value only because abstract human labour is objectified [vergegenständlicht] or materialized in it" (Marx 1990: 129). "Labour is the substance, and the immanent measure of value." (Marx 1990: 677)

[76] So, it is not possible for an individual producer to raise the value of his or her commodity just by being more idle and unskilful (Marx 1990: 129) and thus less productive.—But how does the mechanism that determines what is socially necessary work? A more detailed description would go beyond the scope of this article, but here are a few hints. What is socially necessary is determined on the one hand by the actual (solvent) demand for a commodity, and on the other hand by the average productivity of the producers producing this commodity. So we would have to analyse the quantity of commodities that "the market can stomach" (Marx 1990: 202), and also how the *market value* works (Marx 1991: 279–286). (For the distinction between the *individual value* and the *social value* of a commodity, see Marx 1990: 434f and Marx 1990: 530; and Marx 1991: 279–286.) And we would have to look at the average productivity of the producers, and analyse the difference between the *production* of value and surplus value and the *appropriation* of value and surplus value through the price mechanism. Marx writes that "the capitalists, no matter how little love is lost among them in their mutual competition, are nevertheless united … vis-à-vis the whole working class as a whole" (Marx 1991: 300), because they know or suspect that the average rate of profit,

What happens if the producer doubles his or her productivity? In fig.1b we examine the relationship between value and *productivity*. The amount of use values produced in a given time is called productivity. The value of the single commodity is inversely proportional to the productivity of its producer: If a producer doubles his or her production of use values, the value of the single commodity is halved (fig.1b). Why is this the case? Because the same amount of total value is simply distributed over a larger number of commodities.[77]

Let's now have a closer look at the value and the exchange value, and how these two are related to each other (fig.2). Value is the (abstract) labour time it takes the producer to produce the commodity, and exchange value is what the producer gets in exchange for his or her commodity. And Marx also tells us that exchange does not produce value (Marx 1990: 256f). We assume that we have two producers, each one working 8 h a day, who exchange their products: a baker who produces 8 bread rolls per day, and a shoe maker who produces one shoe per day. The value of the bread roll is 1 h, that of the shoe is 8 h. Therefore the exchange value of the bread roll is $^1/_8$ of a shoe, and the shoe's exchange value is 8 bread rolls (fig.2a).

Now we assume that the baker doubles his productivity, i.e. he produces 16 bread rolls per day (fig.2b). As we already saw above, in fig.1b, the value of the bread roll halves, so that the exchange value of a bread roll falls to $^1/_{16}$ of a shoe, parallel to its value. So far there is nothing surprising. However, if we look at the changes from the shoemaker's point of view, we see that *the exchange value* of her shoe *has doubled without* her productivity (and thus *the value* of her shoe) *having changed.* And we see the same effect, only this time working in the other direction (fig.2c), if the shoemaker doubles her productivity (compared to the initial situation in fig.2a). It is now the baker who benefits from the increased productivity of his exchange partner, as the exchange value of his products doubles without their value changing.

And finally, what are the effects if both double their productivity (fig.2d)? The value of their commodities halve, whereas the exchange value stays the same as before, as in fig.2a. We see: The value of a commodity is dependent of its producer's productivity, but the exchange value of a commodity is dependent on the productivity of both exchange partners involved.[78] It might now seem that the value is absolute, clear and certain, whereas the exchange value is uncertain. However, this applies only to the individual

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which forms the overall pool from which the individual capitalists draw—just "share-holders in a joint-stock company"—their respective individual profits, "depends on the level of exploitation of labour as a whole by capital as a whole" (Marx 1991: 258, 299); for the transformation of values into prices, see also Freeman and Carchedi: 1995 (especially chapters 1, 7 and 8).

[77] "The same labour, therefore, performed for the same length of time, always yields the same amount of value, independently of any variations in productivity," writes Marx (Marx 1990: 137).—How crazy is that! The more one produces, the less is its value! Why would anyone then try to push his or her own productivity? Because in reality there is not only one degree of productivity, but there are different degrees of it, due to competition between the producers within the same sector (from which Marx abstracts in *Capital Vol.1*). The goal is now: to produce as many commodities as possible (even if they have therefore individually less value) in order to sell them at the (higher) average price.—In this inverse relation between productivity and value we can already detect the reason why capitalism is inherently prone to crisis.

[78] Fig.2 follows Marx' explanations in the sub-section titled "The quantitative determinacy of the relative form of value". (Marx 1990: 144–146)

producer: He or she knows how much labour time is involved in his or her individual product, whereas the exchange value his or her commodities will be able to achieve is less clear. He or she has competitors whose productivity is unknown and constantly changing. The individual producer therefore only knows the *individual value* of his or her commodity, but not its *social value.* This social value of the commodity can only be determined practically, that is through exchange. In exchange and thus also in exchange value, only values that have already been produced can be realised. Exchange value is a consequence of value. Value, in turn, is a consequence of productivity.

3. The form of value, or exchange value

However, this is by no means the end of the qualitative analysis of exchange value. Marx devotes the entire third section of chapter 1 to it under the heading "the form of value, or exchange value".[79] In his analysis of the *form of value,* Marx examines what exactly happens—qualitatively speaking—in the exchange between two commodities (fig.3). The exchange is less banal than we are inclined to assume, when the owner of commodity A, the shoemaker, exchanges her commodity with the owner of commodity B, the baker. Since commodity production is no longer—as in the subsistence economy—the production of use value, but of value that still has to be realised in exchange, we experience a peculiar *inversion* (of the commodities' two polar opposite attributes use value and value).

The commodity producer A is only interested in the value of the commodity she wants to get rid of; and in the commodity she wants to acquire, she is only interested in its use value (fig.3a and fig.3b). The situation is exactly the same for her exchange partner B (fig.3c), and yet the two complement each other.

The importance of this is often overlooked (which inevitably leads to misunderstandings further down the line), but Marx never tires of emphasising the importance of this peculiar inversion, as we can see from these quotations: "[I]n the value expression of the commodity the question is stood on its head." (Marx 1990: 150) And he points out these peculiarities: "use-value becomes the form of appearance of its opposite, value" (Marx 1990: 148); and: "concrete labour becomes the form of manifestation of its opposite, abstract human labour." (Marx 1990: 150)

What does it look like when money intervenes in the exchange process and mediates it (fig.4)? The direct exchange of commodities is now replaced by a two-stage process: First, the commodity is sold to obtain money; then this money is used to buy another commodity. In both steps we see again the same basic principle (i.e. how the value of the commodity in the relative form of value relates to the use value of the commodity in the equivalent form) at work again. When selling the commodity, the seller is only interested in the use value of the money commodity (gold) acquired for it. The use value of the money commodity is that it can be sold immediately, i.e. it is in the enviable position of being in the form of direct exchangeability (everyone accepts money). In the act of sale, therefore, the use value of the money commodity is of interest (fig.4a). However, when it comes to getting rid of the money commodity, it is its value that is of interest: How much use value can I acquire with it (fig. 4b)? This leads us to the next question: What is money? How can we understand the money form? In order to do that, writes Marx, we have "to show the origin of this money-form, we have to trace the development of the expression

[79] See also footnote 71.

of value contained in the value-relation of commodities from its simplest, almost imperceptiable outline to the dazzling money-form." (Marx 1990: 139)

4. The genesis of the money form

Under the term "value form" (or the "form of value")[80] Marx conceptualises the—somewhat strange, or even "absurd" (Marx 1990: 169)—way in which exchange value is realised. Marx introduced the following four subheadings under the heading "the value-form or exchange-value") (Marx 1990: 138 ff):[81] (a) The Simple, Isolated or Accidental Form of Value (Marx 1990: 139); (b) The Total or Expanded Form of Value (Marx 1990: 154); (c) The General Form of Value (Marx 1990: 157); (d) The Money Form (Marx 1990: 162). Under these four subheadings he explains to us in several stages how the "origin" (Marx 1990: 139) or "genesis" (Marx 1996: 58) of the "money form" came about. Marx presents a series of commodities whose production requires the same number of quanta of (abstract) labour time. Let us assume that each of the following commodities can be produced in 8 hours: 1 shoe = 8 bread rolls = 2 hammers = 1 gold bar (fig.5a). This equating by labour-time quanta is a practical but unconscious act: "They do this without being aware of it." (Marx 1990: 166f)

If we now want to determine the (exchange) value of a commodity, e.g. that of a shoe, and if we apply the knowledge we have acquired about how the relative form of value relates to the equivalent form of value (see fig.3b), the following situation emerges: In order to determine the (exchange) value of the shoe (and thus consider the shoe in the relative form of value), we look at how many pieces of use value the shoe exchanges for. We therefore form a series of quantities of use values that correspond (in terms of value) to the shoe (fig.5b).

What happens if we now look at the same series, but swap the relative form of value and the equivalent form? In order to determine the (exchange) value of all the commodities for which a shoe is exchanged (i.e. to determine the value of 8 bread rolls or 2 hammers or 1 gold bar), all these commodities must be in the relative form of value in order to be able to measure themselves in the quantity of use values of the shoe (fig.5c). We thus form a series of commodities in the relative value form, which correspond to the shoe (in terms of value) and to which these commodities refer as their equivalent. (The shoe is therefore in the equivalent form of value).

We still need three more steps: In a first step, we now let the respective commodities in the relative value form refer separately to the shoe as the equivalent form (fig.5d). In the next step, we replace the gold bar with the shoe (and vice versa, as both have the same value) (fig.5e).[82] Now the shoe is in the relative form of value and the gold bar is in the

[80] In *Capital Vol.1,* Marx uses the two terms "value form" and "exchange value" synonymously in the heading of section 3 of chapter 1 (with title "the value-form or exchange-value" in the Penguin edition (Marx 1990: 138); and in the International Publishers edition (Marx 1996: 57), the title is called "the form of value or exchange value".

[81] In the International Publishers edition of *Capital Vol.1* (Marx 1996: 57ff), the four four subheadings are titled: A. Elementary or Accidental Form of Value (Marx 1996: 58); B. Total or Expanded form of value (Marx 1996: 73); C. The General form of value (Marx 1996: 75); D. The Money form (Marx 1996: 80).

[82] This leads us to an interesting question: Should we show one or three gold bars in fig.5e? (Strictly speaking, the same question could already be asked for the number of shoes in fig.5d: Should we show one shoe of three shoes?) Well, as long the value (of the commodities in the relative form of

equivalent form. In the last step, we let the commodities in the relative value form relate in the other direction to the equivalent form (a purely graphical, representational change with no substantive meaning); and we reduce the commodities in the relative value form to one copy each, which reduces the amount of gold on the equivalent form side accordingly (fig.5f). Marx has thus explained to us how money (as the money commodity gold) came into being.[83] "The simple commodity form is ... the germ of the money-form." (Marx 1990: 163)

The commodity in the equivalent form is in the enviable position of being in the form of direct exchangeability (because all other commodities refer to it). And the commodity in the equivalent form, to which all other commodities refer, thus becomes the general equivalent, that is money (in our case: gold). All other commodities must first find their buyers, it requires the successful sale, the "salto mortale" (Marx 1990: 200), of these commodities. Money, on the other hand, is immediately accepted by anyone.

Because the commodity in the equivalent form expresses in its "bodily form" (Marx 1996: 66)—or in its "natural form" (Marx 1990: 148)—the value of all those commodities that relate to it (i.e. of all the other commodities in the equivalent form), it seems as if this commodity in the equivalent form has value *because of its physical properties.* (I then mistakenly believe the table has value because it is made of solid wood; or I believe the gold has value because it shines so beautifully). Marx calls this "the fetishism which attaches itself to the products of labour as soon as they are produced as commodities, and is therefore inseparable from the production of commodities" (Marx 1990: 165).[84] While it is true that value is *expressed* by use value (but note that it is the value of the commodity in the relative form of value that is expressed by—and in—the use value of the commodity in the equivalent form of value; see fig.3b), it is *not caused* by it.

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value) is only expressed in a price that still has to be realised, "the price … is … a purely ideal or notional form" (Marx 1990: 189). It is only when these exchanges (or sales) are actually realised that the amount of gold (or money) becomes important. (For the relation between the prices of the commodities and the necessary amount of gold or money in order to circulate these commodities, see Marx 1990: 214–220.)

[83] But this is by no means sufficient to understand what money actually is. Marx devotes a whole chapter (Marx 1990: 188–244) to money, and he returns to money in Volume 3 of *Capital.* The money form develops out of the exchange of commodities. Later, the state takes over the minting of coins, and the nominal and real weight begin to move apart. (Marx 1990: 221f) The state's active monetary policy (whose measures often only affect parts of the three functions of money mentioned by Marx in chapter 3) brings new aspects to bear that Marx does not cover in the third chapter of the first volume of *Capital.*

[84] See also footnote 70.

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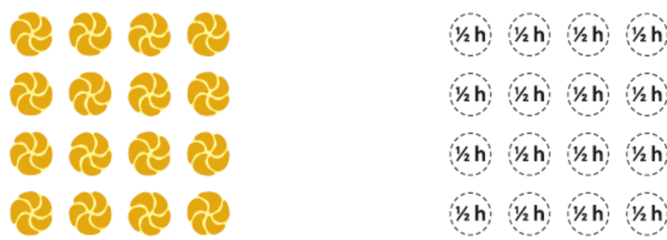
Fig. 1 a

Use value
(= the result of *concrete labour*)

Value
(= the result of *abstract labour*)

Fig. 1 b



Value ~ 1 / productivity
When a producer doubles his or her productivity,
the value of the individual commodity is halved.

Fig. 2 a **What is the value and exchange value of each commodity?**

Baker (working day: 8 h)
Daily production: 8 bread rolls
Value: 1 h per roll
Exchange value: 1 roll = 1/8 shoe

Shoemaker (working day: 8 h)
Daily production: 1 shoe
Value: 8 h per shoe
Exchange value: 1 shoe = 8 bread rolls

Fig. 2 b **What happens if the baker doubles his productivity?**

Daily production: 16 bread rolls
Value: 1/2 h per bread roll
Exchange value: 1 roll = 1/16 shoe

Daily production: 1 shoe
Value: 8 h per shoe
Exchange value: 1 shoe = 16 bread rolls

Effect for the baker: With the change in value, the exchange value also changes

Fig. 2 c **What happens if the shoemaker doubles her productivity?** (compared to 2 a)

Daily production: 8 bread rolls
Value: 1 h per roll
Exchange value: 1 roll = 1/4 shoe

Daily production: 2 shoes
Value: 4 h per shoe
Exchange value: 1 shoe = 4 bread rolls

Effect for the baker: Although the value of his commodities remains the same, their exchange value changes

Fig. 2 d **What happens if both the baker and the shoemaker double their productivity?** (compared to 2 a)

Daily production: 16 bread rolls
Value: 1/2 h per bread roll
Exchange value: 1 roll = 1/8 shoe

Daily production: 2 shoes
Value: 4 h per shoe
Exchange value: 1 shoe = 8 bread rolls

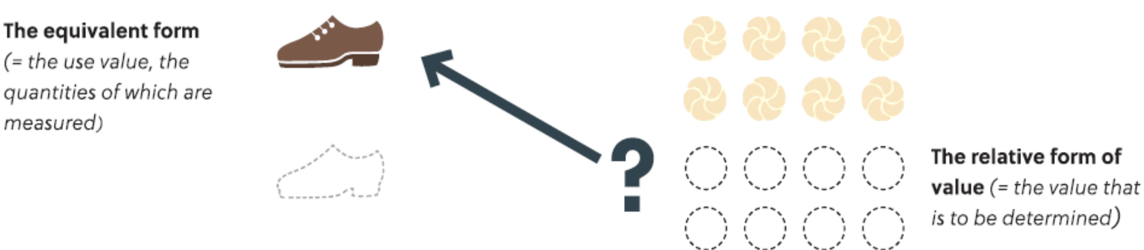
Effect for both: Although the value of his commodities changes, their exchange value remains the same

Fig. 3 a

Fig. 3 b

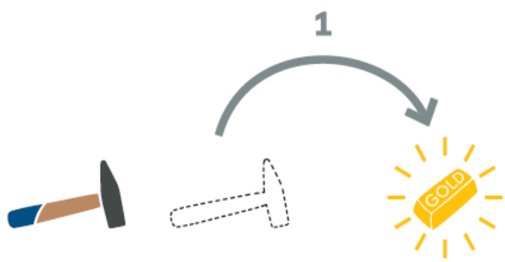
The shoe maker determines the (exchange) value of her commoditiy (here: the shoe),
by measuring it in the quantity of use values of the commodity she acquires (here: the bread rolls).

Fig. 3 c



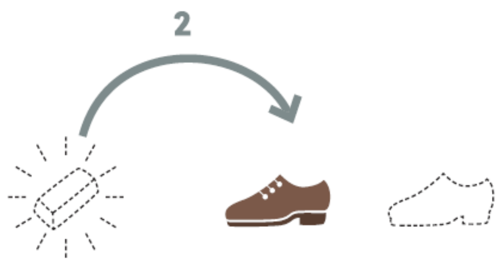
The baker determines the (exchange) value of his commodity (here: the bread rolls),
by measuring it in the quantity of use values of the commodity he acquires (here: the shoe).

Fig. 4 a



Step 1: The seller of the commodity (hammer) realises its value, but is only interested in the use value of the (money) commodity he or she acquires.

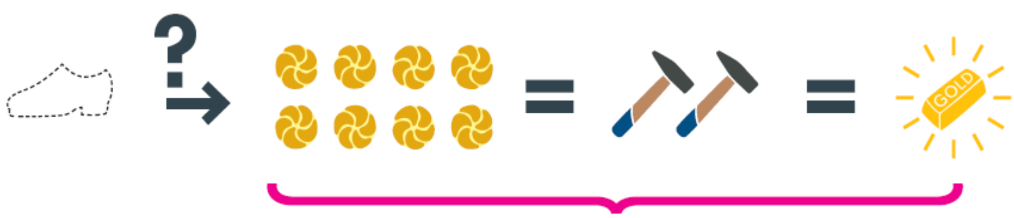
Fig. 4 b



Step 2: When getting rid of the (money) commodity and realising its value, the buyer is only interested in quantity of use values he or she can acquire (depending on the value of both the money commodity and the commodity that is being bought.).

Fig. 5 a

Fig. 5 b



The relative form of value **The equivalent form of value**

Fig. 5 c

The equivalent form of value **The relative form of value**

Fig. 5 d

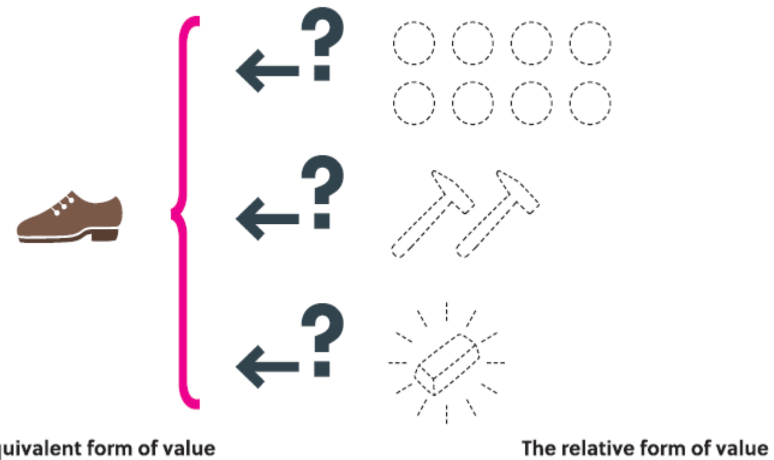


Fig. 5 e

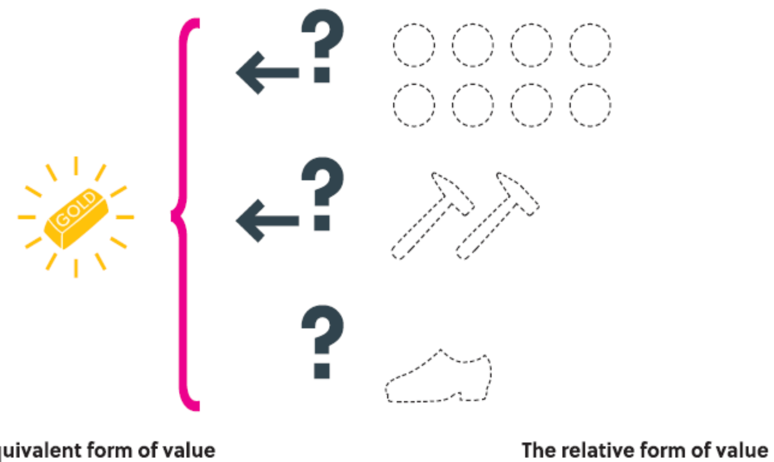
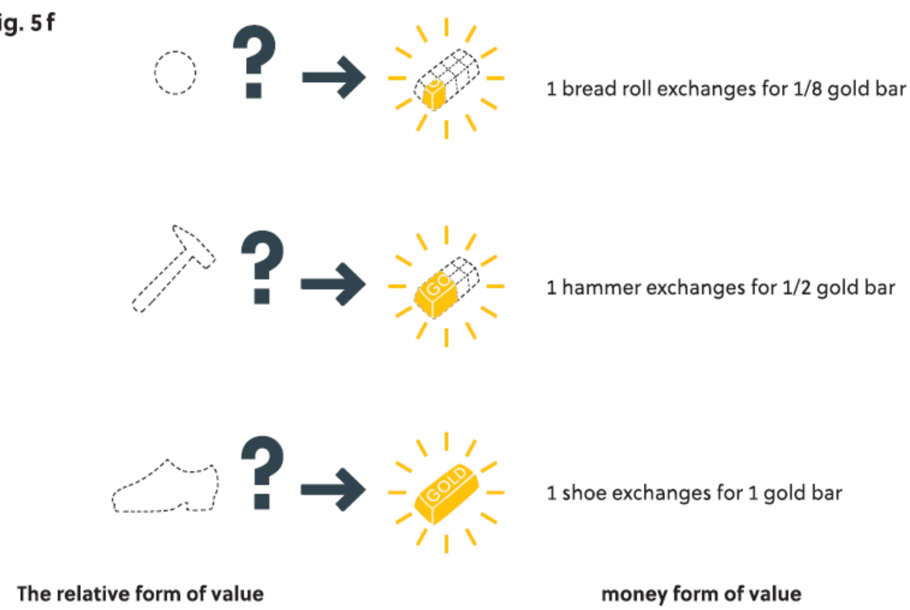


Fig. 5 f



PART VI

17TH WAPE FORUM KEYNOTE INTERVENTIONS

BEYOND ECONOMICS

Alan Freeman[85]

This article makes a controversial proposal: that the Institution of Economics is harmful and unreformable and should be abolished. This will pave the way for a Noönomic framework for policy making.

As a first step, I propose two measures. The first is that WAPE and its partners should set out a Code of Conduct for economists: criteria specifying the responsibilities of practitioners which would become requirements for hire, promotion, publication and funding. At the centre of this Code should be the ethical duties of economists. The second step, which constitutes the topic of my second presentation at this conference, is that we need to completely reconstruct the theory of how markets work, freed from the shackles of the subject known as economics.

These three proposals may seem contradictory, so I will elaborate.

First, what should be abolished? My answer is the *institution* of Economics: the system made up of Banks, government Treasury departments, Financial Institutions and Regulatory institutions, Think Tanks and Universities which exercises a monopoly over deciding which the policies can be imposed by governments on their peoples. It is a revolving door between these bodies, through which professional economists regularly pass. In consequence it has fallen prey to Regulatory Capture (Stigler 1971, see also Freeman 2020) : in the place of scientifically or socially useful theories, it produces doctrines: theories and proposals that incarnate the prejudices and interests of the colonial and financial classes of the global North.

This monopoly should be broken, in order that the people its policies affect can control it democratically. To paraphrase Eisenhower, Economics is too important to leave to the Economists. Therefore, it needs a code of conduct, just like all other professions notably Health, Accountancy, Law and so on. Governments, banks, and public agencies should then be required to cease funding, approving, or entering into contracts with any non-compliant agencies engaged in teaching, research, publication or lobbying. Universities should dismember non-compliant Economics Departments and reallocate their teaching and research to other schools such as Business, Marxism, Noönomy, Geopolitical Economy, Accountancy, Law, Health, Ecology, or Public Policy. Moreover a code of conduct is required before this point is reached. As long as the Institution of economics exists, it should be regulated, just as are Law, Accountancy, Health, and Engineering. Moreover, I even when the Institution has gone, economic theory will be needed. It should be regulated.

You may find these ideas excessive. Consider then the following: the American economist George DeMartino (2011) has meticulously demonstrated that Economists are responsible for the death, in recent times, of at least three million people through Shock Therapy in Russia alone. Structural Adjustment has killed several times this number in the global South, and neoliberalism has created poverty levels in the heartlands not seen since the 1930s.

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DeMartino calls this 'Econogenetic harm', by analogy with 'Iatrogenetic harm' – harm caused by Doctors. Hippocrates' famous injunction 'First do no harm' is a governing principle for Health Practitioners. In contrast, the American Economic Association did not even adopt a Code of Conduct (AEA 2018) until its 103rd anniversary. If we contrast the scrutiny to which economists are subjected with the legislative powers of the Public Health Authorities, we are entitled to ask why the release of economic policies are not subject to at least the same level of public scrutiny.

You may see my proposals as utopian. Let me remind you that Economics has only been taught as a formal subject since the 1870s. In short the hallmark achievements of capitalism, being the Industrial Revolution itself and the 'Second Industrial Revolution' of the Nineteenth Century, took place entirely without recourse to any formal academic institutions. The earliest professional association we know of, the Free Economic Society founded in 1765 with the support of Catherine the Great, was actually called Free Economic Society for the Encouragement of Agriculture and Husbandry. The American Economic Association was founded in 1885. The UK's Royal Economic Society was founded in 1890.

Moreover, economics emerged from its Chrysalis in Law and Philosophy in a Weberian reconstruction of the Social Sciences about which Radhika Desai (2016) has written, whose purpose was to elevate Economics to 'the subject to rule them all', place it beyond public scrutiny. This paved the way for the triumph of marginalism, which as Böhm-Bawerk (1949[1896]) makes clear, was expressly adopted as the antidote to the growing influence of Karl Marx.

In a growing number of countries, Liberal economics is treated with polite scepticism or impolite disdain, and its practitioners are increasingly bypassed in favour of advice from a wide range of experts from bankers to technologists, as governments begin at last to question all the favoured doctrines of the economists and decided to keep their own counsel.

That said, however, I may surprise you by saying the exact opposite of Economic *Theory*, which I sharply distinguish from Economic Institutions. The issue is not whether economic theory is needed, but who controls it. As long as our societies produce and distribute commodities by means of exchange between private owners, they will need to understand how markets work. Thus, if economic theory is done properly, it will not be an alternative either to Noönomy or Geopolitical Economy, but one leg of a tripod on which sound, ethical, democratic policies will stand.

The problem is how to ensure that economic theory serves the entire community of humankind. We therefore have to create the social and political conditions for this same community to control it. This in turn means that economic knowledge should be placed at the disposition of the whole popoulation, and provided in such a form that the whole population can make informed judgments about how it is used.

There is a historical precedent: writing and arithmetic in early and even late medieval times which until Hindu-Arabic numbers reached the West in 1349 (Swetz 1987), and printing a century later. They were the monopoly of aristocratic and commercial elites, delegated when necessary to monks, scribes and bookkeepers. But once capitalism got under way it recognized that it needed a modern workforce that could write and count for itself. This was a huge step forward for humanity, despite the limited way it was done. It established a universal right to think, communicate and make judgements.

Is it so unrealistic to suggest that Noönomy requires similar steps forward in human capability? Among these, I argue elsewhere, must be included the right to create; now, I add another: this is a general public right to understand how markets work. This has a sound technological foundation: just as printing and arithmetic put literacy and numeracy at the disposal of all humanity, general access to computers and connectivity, can put an understanding of how markets work at the disposal of every educated eleven-year-old.

In my second presentation, I put the case for a reformulation of economics or of economic theory in terms that make this possible and indeed, suggest how to do it. But let me now return to the institution of Economics. Why, as it currently functions, can it not achieve such a transformation?

Because, as many have long argued, not a science but a religion (Freeman 2006 Nelson 2014). It functions in the same manner as the medieval Catholic Church in Europe in Western Europe. Its job is neither to inform nor to discover but to translate the prejudices and interests of its propertied classes into an organised and arcane system of doctrines inaccessible to the lay public. It makes edicts, pronouncements and proscriptions which cannot be challenged and to which only a professional priesthood has access. Its Cardinals are Central Bankers; its Bishops are Chief Economists, its Priests are Professors, and its wayward and sinful flock are the people, whose only role is to obey and submit to chastisement by coups, sanctions and starvation when they stray from the straight and narrow.

This suggests four alternative reactions The first is reform from above, exemplified by Catholic Humanism. This is what 'kindly' insiders like Stiglitz do. The next is Protestantism. This is what heterodox economics does. A third is atheism, which is to do without economic theory altogether. I suggest a fourth, revolutionary alternative, which is neither consent, dissent, nor Atheism, but the rule of Reason. The task is hence not, as too many of my heterodox colleagues seem to think, to find or promote alternative and superior economic doctrines. Substituting one dogma for another does not solve the problem of dogmatism. We have to remove all dogma and all doctrine by changing the way that all economists behave, regardless of their theories.

This calls for a draconian revision not of what economists think, but *how their actitivities are governed*: that is to say, their *methods of investigation, standards of judgement,* and *conduct of activities*. The primary aim should be a simple human one: to prevent them doing harm. I therefore hope that WAPE and its partners can help put together an agreed code of practice to recommend internationally and I have proposed this to the WAPE council. I think this would have a significant impact. So, I want to make a few suggestions, drawn from wide experience and the work of many able critical thinkers and organizations.

At the top of my list is the *ethical responsibility* of economists. Economics, as deMartino and McCloskey (2016), together with fifty economists including myself, have rightly contested the standard positivist claim that economists only produce positive knowledge, and any harm that arises is the responsibility of those who apply it. They show conclusively that to the contrary, the harm comes from the advice given by the economists themselves.

The issue is not just the advice as such: it is the failure to take due precautions to test if it could be false advice. Economics being a doctrine, it simply pronounces *ex cathedra* the conclusions of its doctrine without taking any proper precautions to test their validity. Time and again it asserts blatant untruths that fly in the face of all evidence – the 2008 crash is but one example. When challenged, it doubles down on its claims.

A requirement to take proper precautions against giving harmful advice should therefore be a second major requirement.

This gives rise to what I term a *forensic* principle: economists should put in place procedures which efficiently detect error before harm can result;, when experience contradicts any prediction, these procedures should identify the assumptions that have given rise to the conflict and should guard against any continued use of these assumptions without proper warnings.

The third requirement follows from the first two: this is *Assertive Pluralism* (Fullbrook 2001, Denis 2008, Freeman 2020), a central demand of the heterodox movement since 1992, when a declaration was published in the American Economic Review (Hodgson *et al*. 1992), signed by 44 leading economists, lamenting the trend towards monotheoreticism and calling for a 'Pluralistic and Rigorous Economics.'

The demand has been echoed and re-echoed by heterodox economics ever since and endorsed by over a third of the profession, as can be seen from the 13,000-strong membership of the World Economics Association. Its relevance assumes renewed importance with the growing recognition that the world is, and must be, not only multipolar but in Hugo Chavez's words, pluripolar. It is inevitable that a world containing many and diverse economic systems must generate many and diverse economic theories. The task of the next generation of economic theorists is to treat this diversity as a treasure trove of empirical data, and facilitate the widest possible dialogue between these different theories in order to properly evaluate them by judging them against experience.

Pluralism means simply that to identify whether an economic theory is likely to cause unpredicted harm, its predictions should be checked against alternative hypotheses.

It is first and foremost a basic requirement of democracy. It insists that those on whom economic policies are going to be inflicted, have the basic right to informed choice. Instead of confronting a bald statement that 'My Way is the Highway', the public has the right to know what other options are available, regardless if whether the economist in question agrees with them.

It is also an unquestionably scientific requirement: the successful sciences have never simply tested an idea against a 'null' alternative, as generations of econometricians are taught, but test two more more ideas against each other, to judge which best explains observation.

Pluralism differs in no way from standard practice in all other bodies of knowledge. The Association for Heterodox Economics in the UK, of which I am the surviving Honorary Life Vice President, responded at the energetic prompting of Professor Fred Lee, who is sadly no longer with us, and in consultation with its membership, to two benchmarking enquiries of the UK government into the way curriculums should be devised (Freeman 2007b, 2008). Finding that Economics was unique in its approach, it concluded:

> *"Faced with a benchmark less critical of its prescriptions than theology and which attaches less importance to diversity than accountancy, it is hard to accept that iterative reform is a practical procedure. This is why we consider a complete rethink to be necessary. Such a complete rethink should review the QAA statements of the whole of the peer disciplines with which, it is recognised in the statement, economists should be able to interact."*

It is, I believe, the right time and the right place to start correcting this longstanding defect.

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LENIN, SOCIAL DEMOCRACY AND THE THIRD MORAL CRISIS OF LIBERALISM

Alan Freeman

I begin with by reframing an old idea in a new way: capitalism, I submit, is going through its 'third moral crisis', which is a crisis of democracy. This, like its previous two moral crises, is a product of Liberalism (Losurdo 2011), which we can define as the political idea that freedom, and private property, are inseparable. It is expressed in two ways that boil down to the same thing: that private property is the only true guarantee of freedom, and that freedom does not exist without private property.

The first moral crisis was slavery. After three hundred years of the utmost brutality, Liberalism conceded that private property was incompatible with owning human beings. The second, which has not ended, was a crisis of national freedom which, Liberalism confidently asserted, would be brought to the world by free trade in products created by private owners. This mutated into the murderous imperialist conquest of the earth.

The third, present moral crisis opened with the Russian revolution, was deferred by Pax Americana, and has now erupted in a generalised assault on liberty undertaken in the name of the institutions of Western parliamentary democracy. We will define this latter, for simplicity, as the subordination of the elected representatives of the citzenry to the will of an unelected state. The Liberal thesis is that freedom is achieved when and only when this state is in turn subject to the will of the nation's property-owners. These same property-owners, in the colonial countries of the world, are turning the dream of freedom that this once constituted into a nightmare. We see the farce of the US elections, the dictatorial practices of the most rightwing UK labour government ever, the steady suppression of civil and journalistic rights in the name of the 'war on terror, and the conversion of the EU parliament into an annex of NATO.

This third crisis, like the second, is strongly connected—as Lenin recognised—to the two burning questions of today's world. The first is 'why don't the imperialist countries have a stop button?' Why do they double down on every military failure, every bungled coup, every ruinous package of sanctions, and every battle in the futile trade war waged by the globalising preachers of 'free trade' against enemies they themselves created? Why do we now stand on the brink of a nuclear conflagration entirely provoked by the USA and its European and East Asian allies?

The second question is 'why doesn't the left resist?' In particular why are Social Democratic and left-leaning Liberal parties like the US Democrats, who present themselves as defenders of freedom and human rights, at the forefront of NATO's reckless military adventurism in Ukraine, while nearly all of them not only support militarily, financially and diplomatically, the Israeli state's genocide, even persecuting, assaulting and witch-hunting their own members and voters for supporting the basic rights of the Palestinian people?

Before turning to Lenin's views, I want to deal with an important historical point by debunking the idea, fostered by Tony Blair but accepted uncritically by his opponents, that today's Social Democratic parties result from a 'split' in the Second International. This implies two wrong things: first, that there is continuity between these parties and the first two internationals; second, that the Communists are responsible for the split. In fact, as Lenin notes, the Second International did not split, but collapsed.

True, it was divided internally, but it dissolved itself in 1916. Today's Socialist International was a loose alliance created in 1923 which, after a shadowy and ineffective interlude, was formally established in 1951. The dates are significant: these were responses to the revolutionary upsurges that followed each of the great Wars.

The Communist International was, thus, not a divisive breakaway from the cuddly socialists, but the only international working class organisation to emerge from the First World War. Moreover, the cuddly socialists were never socialist. They were the product of a Faustian Pact: they would be allowed to battle for limited working class gains within their countries, on condition they unstintingly supported the military-colonial activities of their own government against working people outside these countries.

This is not all. They not only rejected revolution, and explicitly aimed to stop it happening and roll it back; they were not merely pro-imperialist but anti-Communist, anti-Soviet, and anti-China. To see why, we have to ask what it means to reject revolution. As Lenin states in 'The Renegade Kautsky' it means renouncing any risk of changing the state. The 'Socialist' parties of the West are sworn to defend their states. But these states are imperialist. They cannot be defended without attacking the people of the world with great violence, to secure the massive exploitation of foreign labour, from which the capitalists of these states can extract five or ten times as much surplus value than from their domestic workforce.

A better name for the Socialist International would be the 'Social-Colonialist International'. The 'Left' parties of Europe—in reality, not Socialist, but Liberal under another name—have simply done what they were created to do. They have kept their side of the deal.

The only cause for surprise is that anybody is surprised. Why did anybody ever expect them to do anything different? The answer is the natural sympathy of working people, in any country, for the working people of other countries, which is first channelled, then organised, and now policed by the socialists, as we see in the UK Labour Party's merciless purge of all opposition, from the Corbynites expelled for standing up for Palestine to the MPs just expelled for standing up for working class children.

In the US the place of Social Democracy is occupied by the Democrats, who stop at nothing to suppress their own supporters. To ward off the threat from the left-wing candidate Jill Stein, the New York State Democrats raised the threshold for even being on the ballot to 45,000 signatures. Electoral suppression on this scale has not been seen in the 'lands of the free' since the days of the Peterloo Massacre. The Social Democrats long ago abandoned Socialism; now, they cannot even stomach democracy.

A new phase also opened with the five-year imprisonment, without charge and in barbarous and cruel conditions, of the courageous journalist Julian Assange. This was but a beginning. Only days after the conference at which this paper was presented, the US Federal Bureau of Investigation raided the home of former Military Intelligence officer Scott Ritter, seized his passport and prevented him travelling to the St Petersburg Economic Forum. Shortly after the British journalist Richard Medhurst was greeted by a police squad who marched him away from the plane he had just arrived in, jailed him in appalling conditions for 24 hours, again without grounds or charges. The newly-invented charge of 'disinformation terrorism' has been coined to mean, bluntly, telling inconvenient truths. In short order, Liberal governments throughout the world are turning to the tactics which they once characterised as the hallmark of 'authoritarianism'. Liberal 'freedoms' are vanishing before our eyes—at the hands of 'Liberal' governments.

How is the working class of the imperialist countries won over to such activities? It is highly relevant to ask how, in the first place, they were won over to the project of Social Democracy. Lenin's struggles shed light on this question, even as Social-Colonialism disintegrates in tandem with the long internal decline of the imperialist economies, and the dissolution of their economic grip on the World Majority countries.

The left currents in the Second International used several terms for their opponents. They first called them Reformist. As war loomed, they started speaking of Social-Patriots or Social-Chauvinists. The two names were bridged by the term 'Opportunist'. But though these names may describe the same entity, they don't mean the same thing. Lenin helps us understand their connection. How did Reformists become Social-chauvinists? I start with Luxemburg's (1900) critique of Bernstein, intending no criticism but seeking to highlight key differences between European and Russian socialists. "According to Bernstein", she notes,

"a general decline of capitalism seems to be increasingly improbable… From this theoretic stand is derived the following general conclusion about the practical work of the Social-Democracy.

The latter must not direct its daily activity toward the conquest of political power, but toward the betterment of the condition of the working class, within the existing order. It must not expect to institute socialism as a result of a political and social crisis, but should build socialism by means of the progressive extension of social control and the gradual application of the principle of co-operation.

Bernstein pulls away from the first of the three fundamental supports of scientific socialism. He says that capitalist development does not lead to a general economic collapse.

He does not merely reject a certain form of the collapse. He rejects the very possibility of collapse."

The issue is the condition of 'mature capitalism'. Must it inevitably fail, and is it ripe for the socialism? Reformism believed that although economically ripe for socialism, capitalism can sustain itself politically for an indefinite length of time, and therefore, workers should restrain their demands to those compatible with its existence.

However, Russia was not a mature capitalist country. Yet it was already on the brink of political collapse, which indeed happened in the February revolution and its aftermath. The central question facing the Bolsheviks was, therefore, not their attitude to socialism but their attitude to power. Lenin did not believe that the Russian socialists should construct socialism and this was not his difference with the Mensheviks. Indeed, this was his main difference, until April 1914, with Trotsky. He favoured the 'Democratic Dictatorship of the Proletariat and Peasantry' and argued (as did Marx) that on coming to power, the masses should preside over a period of capitalist development which, however, they would direct and control. This leads to a quite different focus as regards the critique of Opportunism, in which the central question is collaboration with the bourgeoisie.

In his 1916 pamphlet *Opportunism and the collapse of the Second International*, Lenin argues as follows

"It is instructive to compare the attitudes of the various classes and parties towards the collapse of the International, which has been revealed by the 1914-15 war. Unity with opportunism means unity between the proletariat and its national bourgeoisie, i.e., submission to the latter.

The issue is not whether capitalism can or cannot cope with an unrestrained struggle for workers' rights. It is whether the workers should collaborate with their bourgeoisie. In *Marxism and Reformism* (Lenin 1913) he writes:

Unlike the anarchists, the Marxists recognise struggle for reforms, i.e., for measures that improve the conditions of the working people without destroying the power of the ruling class. At the same time, however, the Marxists wage a most resolute struggle against the reformists, who, directly or indirectly, restrict the aims and activities of the working class to the winning of reforms. Reformism is bourgeois deception of the workers, who, despite individual improvements, will always remain wage-slaves, as long as there is the domination of capital.

Again, the issue is not whether workers should struggle for socialism but whether they should limit their demands to what the bourgeoisie can cope with. Lenin's answer is 'No', neither because the workers need socialism, and least of all because Russia is a stable and secure capitalist power, but because restricted reform will perpetuate the 'domination of capital'.

This in turn means, as he spells out at length (Lenin 1918) in *The Proletarian Revolution and the Renegade Kautsky*, realising the demand of the Communist Manifesto that the first duty of the working class is to win 'the battle for democracy': to establish a different state that the capitalists cannot use against the workers: the dictatorship of the proletariat.

This classic reasoning is highly pertinent: parliamentary democracy is a disguised dictatorship. It is the state that rules, not parliament and not the electors. Therefore, the workers and peasants need a new state, free from the control of capital. This is why, for Lenin, the passage from reformism to social-chauvinism was completely comprehensible. Social Chauvinism was simply another form of class collaboration. "Social-chauvinism is opportunism in its finished form," he writes.

It is quite ripe for an open, frequently vulgar, alliance with the bourgeoisie and the general staffs. It is this alliance that gives it great power and a monopoly of the legal press and of deceiving the masses. It is absurd to go on regarding opportunism as an inner-party phenomenon. It is ridiculous to think of carrying out the Basle resolution together with David, Legien, Hyndman, Plekhanov and Webb. Unity with the social-chauvinists means unity with one's "own" national bourgeoisie, which exploits other nations; it means splitting the international proletariat. This does not mean that an immediate break with the opportunists is possible everywhere; it means only that historically this break is imminent; that it is necessary and inevitable for the revolutionary struggle of the proletariat; that history, which has led us from "peaceful" capitalism to imperialist capitalism, has paved the way for this break.

The last phrase is pertinent: it is not theory that has changed, but history itself.

This strategic insight is as relevant a hundred years later as it was then. History is again changing. The Faustian pact of the imperialist left is nearing its end and the devil has come for his due. As Lenin noted, revolutionary crises occur when the ruling class can no longer go on ruling in the old way, the masses can no longer go on living in the old way, and the middle classes are moving to the side of the masses.

Today the first two conditions are maturing, though the decay is still in its first stages. The third condition is missing: we see this in the unwavering attachment, in the imperialist heartlands, of the intellectual and political elites, to the dying carcasses of the political system they fervently defend. The time has come for a socialist, democratic left that truly represents, without compromise, the interest of the great mass of working people of the world, and intends to rebuild the international unity that died in 1914, was reborn in the Communist International, and has been missing from the world since that International was dissolved in 1943.

We, like Lenin, are not merely passive observers. With Marx, we note that the point of philosophy is not to stand back from the world—but to change it.

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