

# Explaining Immiserizing Growth

**Paul Shaffer**

**Trent University, Canada**

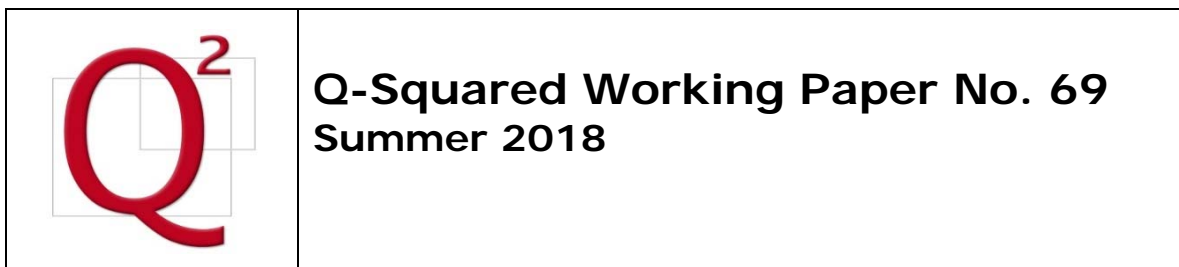
**Email: [paulshaffer@trentu.ca](mailto:paulshaffer@trentu.ca)**

## **Abstract**

This paper presents two sets of explanatory frameworks to explain the phenomenon of Immiserizing Growth, or situations where economic growth fails to benefit, or harms, the poor. The first, failed inclusion and active exclusion, contrasts the incomplete spread of a beneficial process with the occurrence of a harmful sequence of events, respectively. The second, ‘economic’ and ‘socio-political’ perspectives, contrasts an analysis based on the idea of a production function with one centred on the nature of political decision-making and the exercise of power, respectively. The analysis concludes that there is a strong case to place added emphasis on active exclusion and ‘socio-political’ perspectives on grounds, *inter alia*, that the mechanisms preventing growth from reducing poverty are frequently tied to politics, political economy, the exercise of power, and other related forms of active exclusion.

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## 1. Introduction

Immiserizing growth (IG) here refers to situations where economic growth fails to benefit, or harms, the poor. The concept has deep roots. It was propounded in various forms by leading figures in the classical tradition of political economy including Malthus (2004 [1798]), Ricardo (2004 [1821]) and Marx (1906 [1867]). More recently, it has come to characterise the experience of the United States from approximately 2009 to 2014, where poverty incidence increased to around 15 per cent, and stayed at this level (Procter et al. 2016, Table B-1, 44), despite 8 per cent growth in real GDP/capita over this period (not annual) (FRED 2018).

It should be noted that episodes of immiserizing growth are atypical. Over the past thirty years or so, data strongly suggest that growth leads to poverty reduction on average<sup>1</sup>. This finding is encapsulated in the ‘growth is good for the poor’ narrative which has tended to dominate the discussion of the relationship between growth and poverty reduction ((Dollar and Kraay 2002; Dollar et al. 2016). Much of the debate has focussed on how to maximise the poverty reducing effect of growth, represented in growth elasticities of poverty, by making growth more pro-poor or inclusive. It has scarcely examined situations where growth fails the poor. Still, as discussed next, such instances comprise between 10 per cent and 35 per cent of cases depending on the sample and measures of growth and poverty used.

What accounts for such instances of immiserizing growth? The objective of this chapter is to explore two sets of explanatory frameworks which attempt to answer this question. The first, rests on a distinction between ‘failed inclusion’ and ‘active exclusion’ (Shaffer et al. 2019b). The second contrasts ‘economic’ and ‘socio-political’ perspectives. Empirical studies of cases of IG illustrate how our understanding of the causes of immiserizing growth, and what to do about it, differ markedly based on the analytical frame chosen.

The chapter contributes to the literature by deepening our understanding of IG. Until very recently (Shaffer et al. 2019a), there had never been a systematic study of this phenomenon drawing on the recent empirical record. The idea has been somewhat overlooked in the literature given rapid declines in global poverty (World Bank 2016) and the aforementioned empirical finding that growth is poverty-reducing on average. As discussed further in this chapter, the causal factors contributing to IG are not simply the converse of those often invoked to explain pro-poor or inclusive growth.

The format is as follows. Section 2 discusses definitional matters and reviews the empirical literature on the scope of IG. Section 3 present the first set of explanatory frameworks based on the distinction between failed inclusion and active exclusion. The second set of explanatory frameworks is then examined in Section 4 which contrasts ‘economic’ and ‘socio-political’ analyses of immiserizing growth. A final section concludes.

## 2. Immiserizing Growth: Definitions and Scope

The term immiserizing growth has been used in a variety of ways in the literature. In international economics, it is associated with the works of Jagdish Bhagwati (1958). He demonstrated that the

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<sup>1</sup> Shaffer (2016, 2019c) reviews this literature.

productivity gains from trade could be offset by a sharp deterioration in the terms of trade for price or income inelastic goods, leaving a country worse off. As already noted, the term is being used in a different sense here to refer to situations where economic growth fails to benefit, or harms, the poor.

There are a number of definitional issues which arise from this usage of the term<sup>2</sup>. First, how should ‘benefits,’ ‘harm’, and poverty be defined? This issue subdivides into questions about the use of income or consumption poverty versus other dimensions of deprivation on the one hand, and poverty versus inequality, on the other hand. Most of the applied literature on the relationship between growth and poverty relies on some measure of income or consumption poverty. In the main, I stick with this definition for two reasons. First, incorporating other dimensions of deprivation, such as happiness or social outcomes, into the analysis tends to raise other explanatory issues, as the underlying causal mechanisms are different (Thampi 2019; Wei and Zhang 2019). Further, it deviates from the central motivation of the IG research project, namely to explain why income growth does not translate into income or consumption poverty reduction. Second, the important question of the relationship between growth and inequality, which has figured centrally in the pro-poor, or inclusive, growth literature<sup>3</sup> is conceptually different. Specifically, instances of ‘unequalising growth’, where inequality rises alongside growth, are not the same as cases of immiserizing growth, where there are few benefits, or harm, for the poor.

A second definitional issue concerns growth and, in particular, whether to use growth measures based on the national accounts, such as GDP or GDI, or based on household surveys, such as household mean income. The issue is important because the two can diverge with respect to levels and rates of growth (Ravallion 2003; Deaton 2010). While household survey data are preferable in certain respects, in that they rely on the same data source as the poverty data, there are at least two reasons which militate against their exclusive use. First, national accounts indicators are conceptually different and take into account items, such as profit repatriation by multinationals, which are excluded from household surveys but relevant to an understanding of immiserizing growth. Second, household surveys tend to underrepresent high income earners and may underestimate rates of growth if growth is correlated with income. Accordingly, the empirical findings presented in this chapters draw on studies which relied on both household survey and national accounts-based growth measures with emphasis on the latter, which account for the bulk of cases of immiserizing growth (see Shaffer 2016, 2019c).

How widespread is the phenomenon of immiserizing growth? As already mentioned, instances of IG have been documented in between 10 per cent and 35 per cent of cases. For example, in his sample of 60 low and middle-income countries, Adams (2004) found increases of \$1/day poverty alongside survey mean income growth in 13 per cent of cases, and alongside GDP growth in 35 per cent of cases. Donaldson (2008) reported that in the Dollar and Kraay (2002) dataset of 285 cases, there were around 15 per cent of observations of falling income or consumption of the poorest quintile alongside increases in survey mean income values. More recently, in Fosu’s (2017) dataset of 80 countries spanning the mid 1990s and 2000s, there are around 17 per cent of cases of increasing poverty incidence alongside GDP growth.

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<sup>2</sup> A more detailed discussion is provided in Shaffer et al. (2019b).

<sup>3</sup> Kakwani and Pernia (2000), White and Anderson (2001) and Ravallion (2013).

Drawing on a subset of the Dollar et al. (2016) database, Shaffer (2016, 2019c) found positive GDP/cap growth together with increasing poverty incidence, and falling income of the bottom quintile, in 20 per cent and 24 per cent of cases, respectively. Further, a large majority of cases of increasing poverty (75 per cent), or falling income of the lowest quintile (78 per cent), occur in situations of GDP/cap growth. These results suggest that cases of immiserizing growth is not an insignificant or rare empirical phenomenon.

### 3. Failed Inclusion and Active Exclusion<sup>4</sup>

What accounts for such incidents of immiserizing growth? Answers to this question depend on the explanatory framework chosen. Of the many potential explanations, two sets of explanatory factors appear to have cutting power in the context of IG. One set, which distinguishes ‘economic’ and ‘socio-political’ perspectives, is explored in the next section. Here, the distinction between failed inclusion and active exclusion is developed and empirical examples presented.

To make the distinction between failed inclusion and active exclusion, I draw upon a debate in philosophy about ‘doing vs. allowing harm’.<sup>5</sup> In particular, I rely on an approach associated with the Oxford philosopher Phillipa Foot (1967, 1987, 2002), who maintained that the distinction between doing and allowing harm turns on one’s positioning with respect to stages in a harmful sequence of events. She distinguishes four stages, namely, initiating, sustaining, enabling and forbearing to prevent, which may be defined as follows:

To initiate a harmful sequence is to set the sequence going; to sustain it is to keep it going when it would otherwise have stopped. An agent forbears from preventing a harmful sequence when there is something the agent could have done to stop the sequence and the agent does not do it; the agent enables the sequence to continue when the agent removes some obstacle that would have brought it to a halt. (Woolard 2015, 22).

Foot argues that ‘doing’ harm is associated with the initiation or sustaining of a harmful process, whereas enabling, and forbearing to prevent, fall under ‘allowing’ harm.

A relevant aspect of Foot’s approach is that she does not make the distinction between doing and allowing based on the distinction between action and inaction. She argues that with the exception of ‘forbearing to prevent’, there is in general no relationship between doing harm and action, or between allowing harm and inaction. She provides the example of an actor who, by failing to show up for a performance, initiates a sequence of events which spoils the show (Foot 1967).

The distinction between active exclusion and failed inclusion rests on the presence or absence of a harmful sequence of events.<sup>6</sup> Active exclusion results from such malevolent processes and comprises all four of Foot’s stages. Failed inclusion, on the other hand, is about the incomplete spread of a beneficial process. It occurs when one is left out of, or bypassed by, a positive sequence of events.

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<sup>4</sup> This section is a revised and expanded version of Shaffer et al. (2019b).

<sup>5</sup> See, in particular, Woolard (2015) and Woolard and Howard-Snyder (2016).

<sup>6</sup> This distinction overlaps with, but differs from, distinctions between ‘want-based’ and process-based’ accounts of the causation of poverty (Shaffer 2015) and between relational and residual approaches to poverty (Hickey and du Toit 2007; Mosse 2010).

Two examples will serve to illustrate these differences. Consider the following account of the causes of poverty in the Global South:

Every village in a poor country is an information island. This does much to explain why decades of foreign aid, not to mention large flows of private capital from rich to poor countries, have made so much less impact on poverty in the developing world than optimists about global integration had hoped. Investors remain reluctant to invest in societies about which they know little ... So villagers ... cannot raise funds for businesses or schools – some cannot even raise money to buy bicycles. They remain confined to farm labour which leaves them hungry and weak (Seabright 2010, 252)

This is failed inclusion par excellence. Similar analyses, which situate poverty in low levels of physical, human and social capital, also figure in explanations of poverty traps (Sachs 2005), and of consumption poverty in the applied tradition of micro-economics (Shaffer 2015).

Active Exclusion shifts analytical gaze to malevolent processes. Consider the following depiction of the causes of poverty (and oppression) in rural China prior to the Communist Revolution:

The land held by the landlords and rich peasants, while ample, was not enough in itself to make them the dominant group in the village. It served primarily as a solid foundation for other forms of open and concealed exploitation which taken together raised a handful of families far above the rest of the inhabitants economically and hence politically and socially as well. Usurious interest rates on loans ... the spoils of public office, and graft of commission from the management of temple, church, and clan affairs ... Physical force, naked and adorned, was the third most important pedestal on which the power of the gentry in [the village of] Long Bow rested ... The gentry literally held the power of life and death over the peasants and personally carried out whatever punitive measure they deemed necessary when their interests were threatened (Hinton 1968, 29, 51).

This passage accentuates some of the most important harmful processes found in the broader literature including usury, political domination, graft and violence. It is the paradigm case of active exclusion.

It should be emphasised that, as with Foot, the distinction between active exclusion and failed inclusion does not rest on the distinction between action and inaction, or commission and omission. The point is clear in the context of the fourth of Foot's stages, 'forbearing to prevent', which by definition, is the absence of action. It is also apparent in Foot's third stage, 'enabling', or the removal of a barrier which would have halted, or mitigated the effect of, a harmful process. Examples include the non-enforcement of legislation which would forestall a destructive sequence, such as non-enforcement of anti-discrimination or anti-corruption legislation, or failing to intervene to halt caste-based violence. Non-acts may be, in fact, quite integral to immiserizing growth.

The distinction between active exclusion and failed inclusion is admittedly 'fuzzy.' There are conceptual and boundary problems. Conceptual questions pose with respect to the notion of harm and to the idea of a harmful sequence. For example, do forms of so-called structural violence (Rylko-Bauer and Farmer 2016), such as the acceptance of norms of inferiority, social positioning or limited aspirations, count? Many such phenomena typically are not preceded by harmful

sequences but simply accepted as ‘natural’ and embedded in everyday life. Further, there are boundary problems between the two core concepts in that some processes could conceivably fall under either. For example, a government decision not to invest in infrastructure or public services leaving a region ‘left out’ could be interpreted as either active exclusion or failed inclusion, depending on whether or not the policy decision qualifies as a ‘malevolent process’, whether or not the ‘missing’ investment was feasible, adequate to impact upon poverty, and so forth. In light of these unavoidable ambiguities, the distinction is best viewed as a continuum with empirical cases situated somewhere between the poles. It is a useful heuristic, however, in that it does point to different forms of reasoning about the causes of immiserizing growth and ways to prevent it.

In order to provide empirical content to this discussion, I draw on contributions to a recent edited volume on Immiserizing Growth (Shaffer et al. 2019a) whose country coverage included Bolivia, the Dominican Republic, Ecuador, India, Indonesia, Mexico, Nigeria, the People’s Republic of China, Singapore, and South Korea. Table 1 lists a number of empirical examples of active exclusion, distinguished according to Foot’s stages in a harmful sequence, namely, initiating or sustaining, enabling and forbearing to prevent. The stages of initiating and sustaining have been collapsed as this distinction is less important to immiserizing growth.

**Table 1 Active Exclusion and Immiserizing Growth: Stages in a Harmful Sequence**

Initiating or Sustaining	Enabling	Forbearing to Prevent
1. Discrimination (Mexico, Bolivia, India);	1. Dismantling of Basic Subsidies (Dominican Republic)	1. Absent or Inadequate Social Protection, Social Spending or Policies linked to the Harmful Sequence (Singapore, India, Nigeria).
2. Conflict and Violence (India, Nigeria)	2. Withdrawal of Support for Indigenous Welfare (Mexico)	
3. Land Dispossession (Mexico, Bolivia);	3. Non-enforcement of Anti-Discrimination or Anti-Corruption Legislation (India, Nigeria).	
4. Environmental Destruction (Ecuador, India, Nigeria);		
5. Market Liberalisation and Global Integration (Mexico, Dominican Republic, Bolivia);		
6. Structural Transformation and Technological Change (Singapore);		

There are several stark instances of initiating or sustaining a malevolent process. Discrimination figured prominently in discussion of Indigenous peoples in Latin America (Mexico and Bolivia), and Scheduled Castes and Tribes in the Indian state of Chhattisgarh. For example, Teichman (2019) documents how an exclusionary ethno/cultural ideology by ruling elites has been quite integral to the immiserization of Indigenous communities in Mexico since the 1800s. Historically, this has led to the denigration of traditional institutions and practices, such as communal land-holdings or *ejido*, along with exclusion from publicly provided services and opportunities. The

process of undermining the *ejido* has been effected through such mechanisms as reduced provision of credit, elimination of the rural development bank (BANRURAL) and constitutional reforms leading to privatisation of communal holdings. As in many countries, discriminatory processes have served as mechanisms of immiserization.

The Indian state of Chhattisgarh provides a good example of conflict and violence (Diwaker et al. 2019). It experienced immiserizing growth over the period 2004/5 to 2011/2, in that around 50 per cent of the population experienced falling income despite positive economic growth. Conflict and violence are likely part of the reason. Conflict has been related to mineral extraction, in particular coal, iron ore and limestone, and attendant issues of access to resources and environmental degradation. The situation has been further compounded by Naxalite violence, itself driven, in part, by resource conflicts, which have had devastating effect on local communities.

Environmental degradation is part of the explanation for the so-called Nigeria paradox whereby despite economic growth, poverty apparently increased in the 1990s and remained unchanged in the 2000s (Dauda 2019). The situation is particularly acute in the Niger Delta where oil spills have destroyed farmland and mangrove forests, contaminated fishing grounds and wildlife habitat, and polluted drinking water. In some cases, the effects have been severe enough to necessitate the relocation of entire communities. Degradation of the natural resource environment is one mechanism through which the so-called natural resource curse manifests in Nigeria.

The contribution of processes of market liberalisation to immiserizing growth is evidenced by the case of Bolivia which experienced positive and significant GDP/cap growth alongside large reductions in the income of the bottom 20 percent of the population between 1991 and 1997 (Liu et al. 2019). This increase in poverty disproportionately affected the country's Aymara and Quechua Indigenous communities. Certain of the key mechanisms of impoverishment included privatisation, and in particular, the closure of state-owned mines, trade liberalisation, which flooded markets with cheap, subsidised agricultural goods and land grabs by the timber industry and cattle ranchers which lead to land dispossession. Debates about the feasibility and likely effects of alternative policy packages should not obscure the fact that growth was immiserizing during this period in Bolivia's history.

A final example of the initiation of a harmful sequence of events concerns technological change in Singapore (Liu et al. 2019). Over the period 1978-1983, income of the bottom 20 percent of the population fell, despite rapid economic growth. One explanation for Singapore's period of immiserizing growth concerns its so-called 'Second Industrial Revolution', whereby a concerted effort was made to transform Singapore's economy into one based on capital-intensive, high-tech manufacturing and services. The process was successful in its objective but led to significant job losses, in particular, among low-income and poorly educated workers. Insufficient provision was made to address this process of labour-displacing technological change, in the form of labour policy or social protection, leading to increasing poverty amid growth.

There are also a number of examples of enabling processes, or the removal of an obstacle which could have prevented, or mitigated the effect of, a negative sequence of events. Between 1984 and 1989, the Dominican Republic experienced a period of immiserizing growth with very significant reductions in income for the both 20 per cent. Over this period the Dominican Republic had

embarked upon a process of structural reform, following a debt crisis, to move the economy away from its previous model of import substitution industrialisation. As part of a package agreed with the IMF, the Dominican agreed to cut public spending on health and education which fell in real per capita terms. Further, currency devaluation and the removal of subsidies on some consumer goods led to a spike in prices for food and fuel culminating in the so-called ‘IMF riots’ in the 1980s.

A second example of enabling, already mentioned, is the non-enforcement of anti-corruption legislation. Nigeria is a good example. Corruption is undoubtedly one of the contributing factors to the so-called Nigeria paradox of immiserizing growth (Dauda 2019). Corrupt practices take a number of forms, including inflation of contracts and public expenditure, fraud, embezzlement and misapplication of funds, non-remittance or under-remittance of revenue, which account in large measure, for the failure of oil revenue to spur poverty reduction. Nevertheless, Nigeria has legislation on the books to harshly deal with corruption including the Economic and Financial Crime Commission (EFCC) Act, the Corrupt Practices and Other Related Offences Act, the criminal code, and the Money Laundering (Prohibition) Act (LawPadi 2018). The failure to enforce such legislation enables the pilfering of public resources.

The entry in Table 1 corresponding to Foot’s final stage, forbearing to prevent, is ‘absent or inadequate social protection, social spending or policies linked to the harmful sequence.’ This is the broadest category which could, conceivably, be interpreted widely enough to include almost all residual cases of immiserizing growth, effectively squeezing out the category of ‘failed inclusion’. This excessively wide interpretation is problematic for the core reason that not all harmful sequences are preventable by public action. There may be time lags, implementation problems, financial constraints, capacity shortfalls and so on which render public policies infeasible or ineffective. Nevertheless, as argued in the next section, instances of immiserizing growth are often due to politics and political economy rather than economic imperatives.

One example is India, a middle-income country which has experiencing rapid economic growth in recent years (Thampi 2019). Child wasting, however, apparently increased between 2005/6 and 2015/6 and the cross-state relationship between economic growth and reduction of child wasting essentially vanished. It has been argued that part of the explanation involves insufficient public spending on health and other public services. Public spending on health, for example, has remained at around 1 per cent of GDP since 2000, which is quite low by comparative standards.

The types of process found in table 1, and associated policy responses, are different from those in the pro-poor or inclusive growth literatures. Analysis tends to be based on failed inclusion, or the incomplete spread of beneficial processes, rather than active exclusion. For example, one survey article on the policy framework for pro-poor growth identified the following ‘agreed policy implications’ at the micro-level: agricultural research and extension, rural infrastructure, investment in education and health, provision of microcredit and subsidies for infrastructure for the poor, and so on (Klasen 2004). Similarly, seven pillars of inclusive growth have recently been proposed by the World Economic Forum in their *Inclusive Growth and Development Report 2017*, namely: education, basic services and infrastructure, credit, small assets, employment and fiscal transfers (WEF 2017). Policy measures *directly* addressing discrimination, violence, land



dispossession, environmental destruction and the effects of technological change do not appear in these lists.

#### **4. ‘Economic’ and ‘Socio-Political’ Perspectives**

A second set of explanatory frameworks contrasts ‘economic’ and ‘socio-political’ perspectives. In the context of explanations of immiserizing growth, ‘economic’ perspectives have two core characteristics. First, much of the analysis is based on the implicit idea of a poverty-focused production function, which examines the relationship between inputs and outputs in the production process. Emphasis is placed on the primary income of the poor, or income generated directly by production and exchange, and transmitted primarily through labour and product markets (Stewart, 1985). Second, they tend to be market-focused, with emphasis on factor and product markets which have particular importance for the poor. ‘Socio-political’ approaches differ in that analytical focus shifts to underlying decision-making processes which guide production, distribution and exchange. In addition, there is a much greater focus on extra-market mechanisms, including force and violence, as determinants of distributional outcomes, and in general, on the exercise of power.

As with the distinction between active exclusion and failed inclusion, the distinction between ‘economic’ and ‘socio-political’ perspectives is fuzzy. There are conceptual and boundary problems, as well as overlap and hybridity. For example, all real-world markets exist within a socio-political context which governs their functioning. Accordingly, the distinction is best viewed as a continuum with ideal types at the poles. It does have heuristic value in the context of immiserizing growth, however, by drawing attention to different ways of conceiving the causal mechanisms which bring it about.

Production functions depict the relationship between inputs and output in production. They were implicit in the classical tradition of political economy and have figured quite centrally in modern economic analysis, since, at least, Wicksteed (1894) (Mishra 2007). Inputs consist of the factors of production, namely land, labour and capital, which generate output. Technology is embodied in measures of factor productivity.

Table 2 relies on this basic framework though modified for the present purposes<sup>7</sup>. Factors of production and output appear as column headings with corresponding row headings for quantity and prices. The entries in the table all concern pro-poor production, or ways that changes in the quantity or price of factors of production affect poverty. Output is a source or, and proxy for, primary income. The role of technology is captured in entries in the output column. The entries in this table are meant to be illustrative of mechanisms of IG found in the broader literature and not exhaustive.

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<sup>7</sup> An overlapping, but distinct, framework used to highlight characteristics of different poverty reduction strategies is found in Lipton and Ravallion (1995) and Shaffer (2008).

<b>Table 2 A Poverty-focused Production Function</b>				
	Labour	Land	Capital/Assets	Output
Quantity	Low or Falling Levels of Employment or Labour Force Participation (due to: technological change, globalisation; enclave-type production, etc.)	Lack of, or Falling, Land Ownership, Access or Use (due to: increasing land prices; rising land profitability; environmental externalities, etc.)	Lack of, or Falling, Capital or Asset Ownership or Access (due to: poverty traps, etc.) Increasing Capital-Intensivity (due to: changes in technology or relative factor prices, etc.)	Low or Falling Levels of Pro-Poor Output (due to: shifts in demand; slow technological change in goods produced by the poor; low value-added production in enclave-type growth; etc.)
Price	Low or Falling Real Wages (due to: in-migration; unemployment; increase in cost of living ('wage goods'); sectoral/spatial composition, etc.)	n/a	n/a	Negative Shifts in Terms of Trade or Relative Prices of Inputs and Outputs (due to: international price shifts; exchange rate policy; Dutch Disease; ending of input subsidies, etc.) Declining Competitiveness of Pro-Poor Output (due to import liberalisation; technological change, etc.)

Consider first the column entitled 'labour'. The two main mechanisms of immiserizing growth involve the quantity of work (low or falling levels of employment or labour force participation) or the price of labour (low or falling real wages). Examples within the top cell include labour displacing technological change and elements of globalisation, such as trade liberalisation or off-shoring, or enclave-type industries, such as mining or oil, with few direct spill-over effects. Debates in the US about the distributional consequences of growth have largely focused on the relative importance of the first two sets of factors (Slaughter 1999). The importance of labour displacing technological change to IG has been a constant in the literature, appearing in Ricardo (2004 [1821]) and Marx (1906 [1867]), along with many contemporary analysts such as Bardhan (1985) and Eastwood and Lipton (2000). Nigeria has already been mentioned as an example of an enclave-type oil-based model of growth with few direct employment effects. Mozambique is

another example of immiserizing growth driven by oil and aluminium enclaves with few linkages to the rest of the economy (Cunguara and Hanlon 2012).

Causes of low or falling wages in the context of growth may include: in-migration of unskilled labour or unemployment which bid down wages (Bardhan 1985); increases in the cost of living which depress real wages (wage goods) and the sectoral or spatial composition of growth, with worse distributional outcomes found in sectors with higher concentrations of skilled labour and/or greater capital-intensivity (Loayza and Raddatz 2010). A wage goods type of theoretical argument for IG was proposed at the turn of the nineteenth century by Malthus (2004 [1798]). Evidence of immiserizing growth induced by price hikes for basic consumption goods has been found in Burkina Faso (Grimm and Günther 2007) and Tanzania (Masindano et al. 2013).

The effects on poverty of the next two columns, ‘land’ and ‘capital/assets’, are less direct than that of labour. Whereas increase in wages or employment of the poor, *ipso facto*, increase their primary income the same cannot be said for changes in the quantity and price of land and capital. Still, certain inferences may be drawn based on the empirical literature. For land, the key issues concern lack of, or falling, land ownership, access or use in the context of economic growth. Some of the underlying mechanisms will be discussed in the context of ‘socio-political’ approaches. Others include rising land or real estate prices, as when titling schemes lead to price hikes in urban areas and renters, or those with insecure tenure, are pushed out (Payne et al. 2009), or to the eviction of tenant farmers as the profitability of own cultivation increases (Bardhan 1985). Environmental externalities are another example. The case of the Niger Delta has already been mentioned, where oil spills have destroyed farmland and mangrove forests, contaminated fishing grounds and wildlife habitats with deleterious effect on small farmers. A similar case can be made for parts of Ecuador (Arsel et al. 2019). A different type of negative externality involves the use of mechanised pumps by richer farmers in India depleting water tables and undermining traditional life irrigation systems which served poorer farmers (Bardhan 1985).

Two issues arise under the ‘capital/assets’ category. First, lack of, or falling, capital/asset ownership or access by the poor. As mentioned in the context of the discussion of failed inclusion, low asset holdings are one explanation for the existence of poverty traps. In Mozambique, for example, certain small farmers are apparently mired in poverty traps, too poor to sell their produce due to credit and cash constraints (Cunguara and Hanlon 2012). A second issue, already discussed, concerns increasing capital-intensity of production with labour displacing effects due to exogenous technological change or to changes in factor prices as capital becomes relatively cheaper. A classical historical example is the plight of handloom weavers in England following the invention of the flying shuttle and spinning jenny in the 1700s (Beckert 2015).

The final column is about output of goods produced primarily by the poor. Quantity-related mechanisms of immiserization involve low or falling levels of pro-poor output, while those related to price concern negative shifts in terms or trade or relative prices of inputs and outputs and declining competitiveness of good produced disproportionately by the poor. Levels of output may fall if demand shifts against away from products produced by the poor, the so-called ‘coarse-cloth effect’ (Bardhan 1985, Eastwood and Lipton 2000), if there is slow technological change in goods produced mainly by the immobile poor, the so-called ‘handloom weavers effect’ (Eastwood and Lipton 2000), or in areas of low value added production, such as rain-fed low input agriculture in

Nigeria (Dauda 2019), which have been bypassed by growth, the ‘enclave effect’. Harmful price shifts may include falling international prices for outputs of the poor, due to increasing global production; and declining domestic prices due to exchange rate or agriculture pricing policy or to so-called Dutch Disease, or currency appreciation following the production of an export item, such as oil. Rising price of inputs relative to outputs in production may be due to the ending of input subsidies or to price hikes for imported inputs and so on. Declining competitiveness for products produced disproportionately by the poor may be due to import liberalisation, or to rapid technological change in competing sectors, the so-called ‘millet to milk effect’ (Eastwood and Lipton 2000).

‘Socio-political’ analyses shift analytical attention elsewhere. The first entry point concerns the underlying decision-making processes which drive the sorts of causal mechanisms found in Table 2. A second component is the much more explicit treatment of power relations in terms of both market and non-market forms of power, including force and violence. Such analyses of inclusive or immiserizing growth have not been as widespread as the ‘economic’ ones yet are critical to understanding these phenomena.<sup>8</sup>

One approach is to place emphasis on political economy, or the interests served by public policies and ensuing distributional outcomes. There is a large literature on the political economy of distribution such as Harris (2005) and Sandbrook (2014) who, in different ways, attribute better distributional outcomes to the action of left-of-centre political regimes which represent and champion the interests of the poor. As already mentioned, the opposite scenario is exemplified by Mexico, where the dismantling of the communal landholdings of Indigenous groups reflected the political power of large landowners whose interests were served by public policy (Teichman 2019). The core conclusion of political economy analyses is that perverse distributional outcomes, such as occur in situations of immiserizing growth, are more likely when the economic power of elites translates into political power.

Another example involves the distributional consequences of growth in the US which can be characterised as immiserizing for the period 2009-2014, as noted in the introduction. Explaining this period of IG, and more generally, the rising inequality experienced in the US over a much longer timeframe (Piketty et al. 2016), requires an understanding of the changes in the political, legislative and judicial environment following the Reagan years in the 1980s.<sup>9</sup> The ideological climate swung increasingly in favour of market liberalisation which increasingly served the interests of large corporate actors. The countervailing role of government and civil society has been progressively undercut through such action as the whittling away of antitrust legislation and enforcement, the extension of intellectual property protection, through increased patent protection and copyright, the undermining of unions and so forth. The rightward swing in politics extended to judicial appointments. Judicial decisions have been critical, in the interpretation of existing legislation and in constitutional rulings on such cases as *Citizens United* in 2010, which removed campaign finance restrictions on corporations, and *Janus v. AFSCME* in 2018 which struck down compulsory payment of agency fees by union members, or union dues used for non-political purposes<sup>10</sup>. While debates on the causes of inequality in the US have focused on the relative

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<sup>8</sup> A recent exception is Hickey et al. (2015).

<sup>9</sup> This analysis based on Reich (2015), Baker (2016) and Lindsey and Teles (2017).

<sup>10</sup> On the latter decision, see Liptak (2018).

importance of technological change and globalisation, arguably, the more fundamental explanation is about politics and political economy.

The core insight of political economy is that power matters, and in particular, that economic power translates into political power. A shortcoming is that such analysis can be used in a deterministic way to rule out the possibilities of effective action to reduce poverty. One approach which attempts to address this shortcoming is based on the idea of political settlements (Khan 2010). Analysis centres on the structure of power and institutions within a society which condition, but do not determine, political struggles between elites over control of resources with consequences for poverty. One research agenda focuses on why some political settlements in similar structural contexts can differ markedly in terms of social and economic outcomes (Booth 2015). In the context of IG, a recent analysis has relied on the political settlements framework to examine the distributional implications of episodes of growth (Sen 2019). The author finds that there is a greater likelihood of IG outcomes in situations where such so-called vertical power is concentrated, so that socio-economic standing translates readily into political power.

This focus on power is integral to ‘socio-political’ analyses of immiserizing growth. To accentuate the contrast with the ‘economic’ analysis in table 2, an alternative explanation will be provided for the shifts in the quantity and prices of some of the factors of production discussed, based on the exercise of market and non-market forms of power. The ‘socio-political’ analysis is much broader, however, and not confined to these issues.

Consider first, stagnation or decline in wages. In addition to technology, globalisation and enclave-type production, two other explanations concern the declining power of unions and monopoly power exercised by employers. The recent experience in the US provides a good example. Union membership has declined steadily since the mid-1950s, when rates of unionisation exceeded 30 per cent, to present day rates of around 11 per cent of workers (The Economist 2018). Recent research suggests that this demise of unions has contributed to wage stagnation, as falling union membership means fewer workers benefit from union wage premiums and to increasing inequality, even when controlling for technology and globalisation (Farber et al. 2018). The second issue, monopoly power, is illustrated by the hospital sector, which has witnessed a dramatic degree of concentration in recent years (Cutler and Morton 2013), and where nurses’ wages have stagnated despite nurse shortages (Deaton 2017). Class action lawsuits alleging wage suppression have been filed in multiple jurisdictions across the US, claiming, *inter alia*, that hospitals colluded by illegally sharing confidential wage information to suppress wages (Rosenberg 2013).

Similarly, explanations for low of falling ownership, access and use of land and capital, shift from market mediated transactions to the exercise of power. Conflicts over land are the paradigm case. One useful typology of land conflicts identified the following types which are potential mechanisms of immiserizing growth (Wehrmann 2008, 14-20): i) ownership conflicts between the state and private, common or collective owners (illegitimate conversion of collectively owner agrarian land into state land in China); ii) limited access to land due to law, custom or practice (discrimination against ethnic minorities and women by law or practice); iii) violent land acquisition (illegal occupation of common or collective land by an individual for private use); iv) conflicts between human and natural land use (salination of irrigated land, contamination of land, conflict between natural protection and farming or mining); v) destruction of property (violent

attacks on land, including destruction of farmland and buildings), vi) expropriations by the state without compensation (displacement of land owners without adequate land compensation); viii) conflicts due to land reforms (expropriated farmers illegally taking back the land, peasants receiving insecure rights only); viii) unauthorised sales of common or collectively owned property (unauthorised sale of customary land by chiefs or of collectively owned land by village heads in the context of land grabs). Such outcomes are mediated not through markets but often through force and violence.

## **5. Conclusions**

Economic growth usually reduces poverty but not always. In between 10 and 35 per cent of cases, depending on the data set and poverty and growth measures used, economic growth fails to benefit, or harms, the poor. What accounts for such instances of immiserizing growth?

It has been argued that the answer to this question depends fundamentally on the chosen explanatory framework. Two sets of frameworks were examined. The first, failed inclusion and active exclusion, contrasts the incomplete spread of a beneficial process with the occurrence of a harmful sequence of events, respectively. The second, ‘economic’ and ‘socio-political’ perspectives, contrasts an analysis based on the idea of a production function with one centred on the nature of political decision-making and the exercise of power, respectively. Empirical examples were presented which illustrate how our understanding of the causes of immiserizing growth, and what to do about it, differ markedly based on the analytical frame chosen.

This analysis leads to two broad conclusions. First, much is to be gained by an integrated explanatory approach drawing on insights from multiple points of view. Second, there is a strong case to place added emphasis on active exclusion and ‘socio-political’ perspectives for two reasons. They have received far less attention than those based on failed inclusion and ‘economic’ perspectives. In addition, in many empirical instances of immiserizing growth, something is happening which perverts the ‘usual’ functioning of economic mechanisms which reduce poverty. As argued above, that ‘something’ is frequently tied to politics, political economy, the exercise of power, and other related mechanisms of active exclusion.

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