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The Dark Side of Globalisation

Edited by Leila Simona Talani · Roberto Roccu

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Leila Simona Talani • Roberto Roccu
Editors

The Dark Side of Globalisation

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Acronyms

ACFTU	All-China Federation of Trade Unions
CCP	Chinese Communist Party
CDEU	Coalition for Derivatives End-Users
CIF	Commodity Index Fund
CMC	Commodity Markets Council
CMOC	Commodity Markets Oversight Coalition
CTFC	Commodity Futures Trading Commission
DIA	Investigative Antimafia Directorate (*Direzione Investigative Antimafia*)
DNA	National Antimafia Directorate (*Direzione Nazionale Antimafia*)
ECB	European Central Bank
ECM	Electronics contract manufacturing
EEC	European Economic Community
EMU	Economic and Monetary Union
EU	European Union
FDI	Foreign direct investment
Frontex	European Border and Coast Guard Agency
GATT	General Agreement on Tariffs and Trade
GDLP	Global division of labour and power
GDP	Gross Domestic Product
GPN	Global production network
GVC	Global value chain
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
ISPI	Institute for International Politics Studies (*Istituto per gli Studi di Politica Internazionale*)
ISTAT	Italian Institute of Statistics

LGFV	Local government financing vehicle
NOE	Non-observed economy
OECD	Organisation for Economic Cooperation and Development
PRD	Pearl River Delta
RMB	Renminbi
SME	Small and medium enterprise
SNA	Social network analysis
SOE	State-owned enterprise
UK	United Kingdom
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
US	United States of America
USD	United States dollar
VAT	Value-added tax
WTO	World Trade Organization

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CHAPTER 1

Introduction: The Globalisation Debate—From De-Globalisation to the Dark Side of Globalisation

Roberto Roccu and Leila Simona Talani

Gone are the days when globalisation was almost universally heralded as an economic and social flattener (Friedman 2005), ushering in a "borderless world" (Ohmae 1991) and becoming the ultimate signifier of progress (Friedman 1999). Following the long tail of the global financial and economic crisis of 2007–2008, globalisation is increasingly targeted as part of the problem by supposedly anti-establishment figures of all stripes. Major electoral shocks in the advanced countries, most notably with reference to Brexit following the result of the EU membership referendum in the United Kingdom and Trump's victory in the 2016 US presidential elections, have been interpreted as part of a backlash against globalisation (Barbieri 2016; James 2017). These authors appear worried that we may be past "peak globalisation", as witnessed by the inability of financial flows to reach the pre-2008 levels and by trade growth being outpaced by production growth in 2014 for the first time since World War II. Some commentary has even focused on the possibility of de-globalisation (Kaminska

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2015), that is, a rolling back of the trends towards integration that have characterised the global economy over the past half-century.

Firmly rooted in the International Political Economy (IPE) tradition, this book takes a different view in addressing the question of the negative consequences of globalisation, what is termed "the dark side of globalisation". Directly answering those authors pointing out the vagueness with which globalisation is often used (Rosenberg 2005), engagement with IPE debates enables us to discuss different definitions of globalisation, whether the globalisation we have seen since the 1970s is substantially new, and to what extent it can be governed. Building on these foundations, it will be easier for us to address current discussions on the prospects for de-globalisation.

To forefront our key argument, this book adopts a transnationalist approach, which provides a qualitative definition of globalisation (Dicken 2003; Overbeek 2000; Talani 2014; Mittelman 2000). According to this tradition, globalisation is characterised by structural transformations deriving from technological innovations that are to a large extent external to human agency, and indeed tend to shape it. As a result, globalisation might be put into question or might disappear only if the technological transformations underpinning it are reversed or repurposed. Based on these considerations, this edited volume discards the view that the world economy might be experiencing sustained de-globalisation, insofar as many of the technological innovations brought about by globalisation have not been rolled back.

Importantly, the transnationalist approach has another defining feature, which is crucial for the way in which the dark side of globalisation is understood in this volume. Globalisation is not only seen as technologically driven, but also as a highly uneven process, which creates geographical marginalisation and social inequalities (Talani 2014). This uneven and unequal nature of globalisation suggests that it is a Janus-faced process, where advancements brought about by greater integration have always gone side by side with negative consequences. By focusing on this dark side of globalisation and showing how the global economic crisis, and its various local and sectorial manifestations, only intensified—rather than generated—existing trends, this book provides an account of the current predicament that is both more complex and more persuasive than the opposition between globalisation and de-globalisation.

The negative consequences of globalisation addressed in this volume range from extreme forms of exploitation in the labour market (see Rolf on China in the context of post-crisis economic rebalancing, Chap. 3) to the marginalisation of some regions which produce mass migration of an irregular nature (see Rosina on deterrence, Chap. 4, and Talani on the underground economy, Chap. 7) or exacerbate food crises through interaction with trends in finance (see Baines and Ravensbergen, Chap. 2). Such marginalisation is not only characteristic of the Global South but increasingly interests also the periphery of Europe (see Fouskas on Greece, Chap. 6). Finally, the highly technological content of this definition of globalisation impacts also on the modalities of action of organised crime, more and more global in nature although keeping its local roots (see Sergi on '*ndrangheta*, Chap. 5, and Strazzari on state formation, Chap. 8).

Coming to Terms with Globalisation

The notion of globalisation is not without controversy both within the academic debate and in the wider public discourse. Despite the great success of this concept in recent decades, there is still some degree of confusion about its definition, and the discussion is still open about precisely how globalisation transforms international political and economic relations, and more specifically how it modifies the capacity of the state to intervene in the domestic and in the global economy (Busch 2008: 5).

However, it is possible to classify positions adopted by IPE scholars into three broad groups, alongside the three traditional approaches to International Relations (IR)/International Political Economy (IPE) (Dicken 1999: 5): first, those who at the very least minimise the significance of globalisation and at times even deny its very existence (Hirst and Thompson 1995, 1999); second, those who recognise it but tend to give only a quantitative definition of globalisation (Held et al. 1999; Holm and Sørensen 1995); and third, those who adopt a qualitative definition (Mittelman 2000; Hay and Marsh 2000; Dicken 1999, 2003).

The denial of globalisation is typical of the realist theory and rests on considerations about the historical recurrence of periods of increased international and cross-border interactions. Those who adopt this perspective accept this trend, but deny the "originality" of globalisation and its characterisation as a "new phenomenon". In some instances, proponents of this theory go so far as to deny that in the current phase of the world's economic development, any "global", "globalized" or "globalizing" features exist (Hirst and Thompson 1999).

The denial of globalisation stems from the failure to identify its distinctive characteristics due to the adoption of a quantitative definition of the phenomenon. From a quantitative point of view, globalisation has for instance been defined as:

> The intensification of economic, political, social and cultural relations across borders. (Holm and Sørensen 1995: 12)

An institutionalist interpretation of globalisation also exists, and is one that similarly originates from a quantitative definition of the phenomenon, while stressing on the "transformation" of the nation state within globalisation and the necessity for international institutions to take over many of the responsibilities previously allocated to the state (Cerny 1995).

The transnationalist approach instead adopts a distinctive qualitative definition of globalisation (Mittelman 2000) which identifies the process of globalisation as a qualitatively new phenomenon, characterised by the dramatic increase of foreign direct investment (FDI), the transnationalisation of production and the social groups involved in it (especially labour and business) and an unprecedented interdependence of financial markets (Overbeek 2000). While enabled by specific policies, technological innovations eventually take a life of their own and indeed become "shapers" of the environment within which political and economic actors make their choices (Dicken 1999). As a result, within the transnationalist tradition, technological transformations are considered an exogenous component of the qualitative definition of globalisation, and indeed it is the one factor that brings about transformation in terms of financial transactions and production.

The transnationalist approach differs from the other IPE approaches in the emphasis put on the definition of globalisation as a structural phenomenon, comprising a number of qualitative transformations, which in turn define the current phase of capitalist development (Mittelman 2000; Overbeek 2000; Dicken 1999, 2003). In contrast to quantitative definitions of globalisation, this qualitative one avoids the reduction of globalisation to the amount of flows in the capital, goods, services and people it generates, insofar as it shows how globalisation has its own "ontology", dependent on the compresence, interaction and overlap of a series of structural transformations. In the words of Peter Dicken:

> Globalisation processes are qualitatively different from internationalization processes. They involve not merely the geographical extension of economic activity across national boundaries but also, more importantly, the functional integration of such internationally dispersed activities. (Dicken 1999: 5)

In a similar vein, James Mittelman (2000) understands globalisation as a "syndrome" composed of a number of phenomena, which acquire their meaning by their relation with each other and by their co-existence in a specific historical moment. However, these phenomena are not randomly connected. Their relationship is defined within a precise framework, which allows transnationalists to overcome the accusation of "vagueness" in their definition with regard to the notion of globalisation, often leveraged against them by scholars from competing traditions (Hirst and Thompson 1999).

Technological transformation is the central notion of the qualitative definition of globalisation, and it is the primary factor that brings about transformation in the realms of finance and production. This, in turn, triggers related changes in the economic, social and political spheres.

In particular, technological transformation is at the root of the exceptional developments of financial markets in producing what is normally defined as financial globalisation, that is, the existence of around-the-clock access to financial transactions all over the world. This has in turn strengthened a tendency towards the increasing relevance and centrality of finance to the functioning of states, corporations and households, especially well captured by the literature on financialisation (Callinicos 2010; Lapavitsas 2013). This re-emergence of global finance (Helleiner 1994), however, does not mean that the physical location of financial markets loses significance, or that financial elites become disentangled from national boundaries. Rather, and further demonstrating the uneven nature and effects of globalisation, the role and bargaining power of financial elites inside the national polity increase as their economic position improves, leading to a shift in power relations between the different socio-economic groups. This statement is true both for developed countries, as witnessed for instance by the growing importance of the City of London for the British economy, and for underdeveloped countries, where the establishment of offshore markets produces incredible transformations in the local economy and social structure (Lilley 2000). However, "offshore" does not only refer to the geographical location of economic activities, but to their juridical status as well. In reality, offshore financial transactions also take place in the great financial centres of London, New York and Tokyo (Palan 2003: 2). Finally, unlimited, 24-hour access to financial markets leads to a great sensitivity of capital to interest rates, which, in the long run, reduces the scope for the adoption of differentiated national monetary and macroeconomic policies (Padoa-Schioppa 2000; Cohen 1996; Obstfeld and Taylor 2004).

Technological transformation is also the driving force behind the restructuring of production and its global reallocation through foreign direct investment, mergers and acquisitions, outsourcing and offshoring, and the creation of export processing zones. Indeed, the possibility for multinational companies to modify their productive structures by exploiting geographically displaced cost-reduction opportunities is greatly improved by the availability of technological progress. The latter allows for cheap transport costs, distant labour control or economies of scale in specific locations.

This restructuring and geographical reallocation of production, coupled with financial globalisation, bring about a number of social and political changes affecting all levels of organisation, from the local to the global (Mittelman 2000; Dicken 1999; Overbeek 2000).

Among the social consequences of the processes described thus far, there is the so-called phenomenon of “commodification”, defined as the inclusion in the market sphere of relations previously left outside its boundaries and regulated by different logics (Mittelman 2000).

Moreover, the process of globalisation, as defined to this point, is not neutral in social and wealth terms, but entails new social cleavages and challenges, as well as new winners and new losers. Given the innovative nature of the technological tools necessary to grasp the opportunities of globalisation, the necessity arises for constant upgrading and upskilling. This poses the problem of wealth polarisation in both social and geographical terms, since those who already have the means to access educational and vocational systems, and have the economic possibility to remain in education for longer, will by far be better placed in the global economy. Therefore, the lower strata of society, as well as the weakest ones, like the elderly or women and those living in less developed countries, will be increasingly marginalised by the fast-paced world of the new skills necessary to keep up with globalisation (Overbeek 1995, 2000). It follows, then, that the social and geographical wealth gap is destined to increase, leading to the paradox of “marginalisation within globalisation”.

In political terms, the overcoming of national boundaries for the exploitation of global financial and productive opportunities modifies the existing balance of power between national political institutions and increasingly globalised economic elites. Globalisation places the latter in a position to exert enormous pressure at the domestic political level by credibly threatening to move its economic activity abroad in exchange for favourable economic policy measures. The credibility of the threat, in turn, is ensured by the effective possibility to easily move short- to medium-term capital across the border, as well as to displace production and long-term investment (Overbeek 1995). Whether this leads to a de facto disempowerment of national politics vis-à-vis globalising capital or whether there is still a margin for reaction by national political actors is still the subject of debate in both academic and political circles (Garrett 1998). For some authors,[1] there remains the possibility of the activation of a "double-movement"—Polanyi style (1944)—according to which, after a phase of triumphant liberalism and of the subordination of politics to economics, those who are most affected by these developments will react by producing a counter-movement and a new social equilibrium, guaranteeing a new voice to the losers. Indeed, very much like in Polanyi's understanding, the counter-movement against marketisation could come in the form of both redistributive policies such as the ones implemented through the New Deal and the totalitarian solutions pursued in Germany and the Soviet Union; one could see the current anti-establishment mood in many advanced as well as developing countries as a signal—and not the most auspicious—of a coming counter-movement, advocating one form or another of de-globalisation (Gemici and Nair 2016).

This leads to a further component of the qualitative definition of globalisation. Globalisation not only produces the conditions for the creation of a transnational capitalist elite, but also creates the premises for the transnationalisation of the working class through the restructuring of the international division of labour and the establishment of a new global division of labour (Mittelman 2000). This might represent the basis for a future reproduction of the class struggle at the transnational level, though, of course, there can be no certainty about the final outcome of this process.[2] In this regard, there are significant countertendencies at play, insofar as the substantial reallocation of labour-intensive production in developing

[1] For a list, see Held et al. (1999).

[2] For more on this subject, see Talani (2009).

countries is counterbalanced by the effects of technological development in terms of the increase of distant work, and of the increase of labour mobility, including mass migration.

Indeed, on the one hand, production tends to move to some specialised regions of the globe,[3] where it is possible to exploit the advantages of lower production costs in the form of lower labour costs and/or lower costs of primary resources. This phenomenon gives rise to the paradox of "regionalisation within globalisation" characterised by the creation of economically integrated regions. On the other hand, however, the populations of those marginalised zones of the globe, whose economic conditions are likely to worsen as a consequence of the process of globalisation, experience an increased incentive to leave their home countries and move to the more developed regions of the world looking for better life standards. This produces the two interrelated phenomena of "brain drain", when skilled or highly educated labour flee their country of origins, and "mass migration", when migratory flows interest unskilled labour.

Thus a qualitative definition of globalisation allows IPE scholars to identify the main structural components of this phenomenon, such as the changes in the production and the financial structures, whose mere existence defines the ontology of globalisation. Within this context, sustained de-globalisation—as opposed to a mere conjunctural blip in *quantitative* flows—can occur only in either of two scenarios. The first would entail a substantial repurposing of the technologies that emerged during this phase of globalisation, something which in turn would require a major change in productive relations that is hard to envisage at this point in time. The second scenario, already alluded to earlier, instead sees a substantial debasement in the level of technological development, for instance, as a consequence of a global disaster. While the environmental crisis our planet currently faces is taking on ever-more dramatic proportions (Malm 2015; Moore 2016), the determinants of this catastrophe still work on a considerably longer time frame than the drivers of de-globalisation identified in current commentary. Hence, and given how climate change is systematically underestimated and often fundamentally misunderstood by policymakers, it cannot be attributed any causal role in producing this so-called de-globalisation. Building on these considerations, the next section addresses the question of de-globalisation in a theoretically informed way,

[3] Scholars refer to the "triad" to indicate the three main zones of production in the globe, that is, the Asian Pacific region, America and Europe. See Hirst and Thompson (1999).

and puts forward the case for understanding the current predicament in light of the strengthening and intensification of what we term "the dark side of globalisation". In so doing, the section also outlines the contribution of each individual chapter to the overall argument of the book.

De-Globalisation or the Dark Side?

As outlined at the outset, both economic and political indicators have been invoked to illustrate the crisis of globalisation and current trends towards de-globalisation. Whereas the economic symptoms have to a large extent been accounted for with reference to the extremely slow recovery in advanced economies following the 2007–2008 global financial crisis, it is the political symptoms—and most notably, the Brexit vote and Trump's election—that have elicited deeper analysis, which has taken into account what are often considered the negative externalities of globalisation (Farrell and Newman 2017; Owen and Walter 2017). Thinking in terms of negative externalities implies that there might be remedies to which policymakers can resort, so as to keep the positives of globalisation while minimising its negative implications, for instance providing compensation for the now well-identified losers of globalisation (Scheve and Slaughter 2007). Hence, appropriate policy measures are considered sufficient to provide the foundations for rebooting globalisation along a more sustainable path.

However, such an understanding is deeply problematic if one sees globalisation as a double-edged sword, which *necessarily* involves phenomenal technological developments and major economic marginalisation and social dislocation, the rise of hyper-integrated regional economies and the widespread de-industrialisation and pauperisation of entire regions of the globe. It is exactly for this reason that we find it analytically more productive to think in terms of the dark side of globalisation, as something that may be on most occasions hidden from view, but which is quintessential to the process itself. It is also exactly because of this structural understanding of globalisation that this volume seeks to move beyond dichotomies that seek to find the drivers of Brexit, Trump and the emerging "global Trumpism" either in socio-economic or in cultural/identity factors (Inglehart and Norris 2016). For, while in the 2016 UK referendum, for instance, it is undoubtedly true that "immigration was the most salient issue for Leave voters" despite the fact that they "tended to live in areas with low levels of immigration density and chronic economic problems"

(Owen and Walter 2017: 184), this need not entail that Leave voters prioritised migration over economic concerns, but rather that their economic malaise was increasingly inflected—or even deflected, some might say—in a highly racialised and xenophobic form (Saull 2018). This was also compounded by a mistrust of political elites and their inability to break away from the "golden straightjacket" that fundamentally limited the ability to pursue macroeconomic policies running counter to the neoliberal mantra of ever-greater economic openness and integration (Friedman 1999: 101–111). Hence, by taking systematically into account the economic, political and social repercussions of globalisation, for its winners and its losers, within and beyond national borders, this volume builds on the recent literature that sees the global financial crisis and the rise of populism as part of the same historical process (Blyth and Matthijs 2017). In other words, while the global financial crisis undoubtedly played a role in precipitating the crisis of the liberal global order, the roots of current anti-globalisation—and indeed of the financial crisis itself, to a significant extent—are to be sought in the dark side of globalisation.

To investigate this hypothesis, the chapters focus on three different dimensions of the dark side of globalisation. Firstly, the chapters by Baines and Ravensbergen and by Rolf, respectively, focus on the dark side of formal processes that are integral to globalisation as envisaged and promoted by its supporters. Baines and Ravensbergen look at derivatives in agricultural markets, which are a consequence of the proliferation of financial instruments typical of financialisation (Callinicos 2010), and are thus intimately linked to globalisation. While they are often presented as a necessary tool to hedge against price volatility, the chapter shows that they have over time become a source of volatility themselves. With reference to the case of China, Rolf addresses instead the issue of exploitation of domestic workers and economic rebalancing towards expanding domestic consumption. While this is undoubtedly a challenge faced by late developing countries even before globalisation, the chapter shows that the terms of the challenge are distinctly different when a country is deeply integrated in global production networks and has increasingly taken a central role in the global political economy. Hence, in both cases, two aspects that are considered to be part of the appeal of globalisation—a larger number of financial instruments and greater integration in production networks—are shown to have a dark side.

Secondly, other chapters in this volume, and especially those by Sergi, Talani and Strazzari examine the dark side of globalisation as the purposive action on the part of criminal, illegal as well as informal networks that exploit for their own advantage the opportunities created by globalisation. Sergi does this with reference to the increasingly global reach of the activities of *'ndrangheta*, undoubtedly the most powerful Italian mafia, whose globalisation comes with a very clear growth in the local dimension of the clans as well. Talani instead looks at the ways in which the underground/informal economy has become an ever-more important component of the Italian economy, in light of the inability of its dominant groups, political and economic alike, to address the contradictions of Italy's (non-)growth model. Finally Strazzari analyses how the dynamics of post-conflict state building in the globalisation era have increasingly relied on the centrality of transnational criminal organisations. These three chapters hence emphasise two key features of the qualitative definition of globalisation provided above: the centrality of technological and communication transformations on the one hand and the inevitability of economic and social marginalisation on the other.

Finally, the dark side of globalisation also has a policy dimension. Two of its facets are explored in this volume. On the one hand, migration policies tend to be geared towards the restricting flows of people while at the same time not endangering the assumptions of the latest wave of globalisation, predicated on the very freedom of capital to move freely across borders, which is in turn a precondition for the global migratory flows that we see today (Castles 2010), insofar as migration becomes one of the few remedies to the paradox of marginalisation within globalisation (Talani 2009). This is amply shown in the chapters by Rosina and Talani. On the other hand, the troika-mandated economic reforms in the crisis-stricken countries of Southern Europe further to an unprecedented extent the structural adjustment demanded by the economic logic of globalisation. In his contribution, Fouskas advances this very point with reference to Greece.

As these three ways in which we can think of the dark side of globalisation (the formal, the informal and the policy side) cut across the different chapters, the book is instead divided in two parts on the basis of the geographical focus of the chapters. In the first part, dark issues in International Political Economy, contributors tackle the increasing pressures and tensions being exerted by deeper integration in the world economy. In Chap. 2, Joseph Baines and David Ravensbergen consider the domestic and international ramifications of the financialisation of US agriculture. The chapter finds that the wave of uprisings in the Middle East from 2010 to

2011 coincided with a period of heightened prosperity for farmers at the very top of the US income hierarchy. The authors argue that the dynamics of financialisation link these two phenomena together. On the one hand, financialisation has generated significant benefits for super-rich farmers relative to other agricultural producers. On the other hand, it has exacerbated food price volatility. Sharp food price rises, in turn, accentuated long-standing political grievances in the Middle East and helped catalyse a wave of protests that has variously resulted in revolutionary upheaval, consolidated authoritarian rule and bloody civil war. The chapter predicts that during the next upsurge in agricultural prices, weakly regulated future markets may once again compound market instability and trigger further social turmoil.

In Chap. 3, Steve Rolf considers the question of "rebalancing" China's economy away from exports and towards the domestic market in the context of globalisation. The almost-global recession of 2008 temporarily crashed China's export markets, intensifying calls from state managers and the global financial press for a great economic rebalancing. However, China's economic growth—though slower—did not collapse along with that in the rest of the world. Rolf argues that this was primarily due to the vast bursts of economic stimulus the state was able to unleash by wielding its control over the financial system and the vast export surpluses it had accumulated over the preceding decades. Exploring different hypotheses of economic rebalancing from neoliberals to Marxists, Rolf concludes that such a process is unlikely to be smoothly engineered by the party state and that the faltering profitability of a wide range of core export and state-owned industries must be addressed if rapid growth is to be sustained into the future. The signs here merit concern, suggesting that China is yet to "delink" from the global economy and banish the dark side of globalisation implied by its subordinate position in global production networks and wafer-thin profit margins. In conclusion, Rolf considers the possibility of an economic crisis generated by "capital switching" from manufacturing into fictitious capital formation in finance and property.

In Chap. 4, Matilde Rosina provides a research framework based on the concept of deterrence for coming to terms with irregular migration. Insofar as the empirical focus is on the management of inwards migratory flows in the European Union, this chapter provides a transition between the first and the second part of the book. Rosina highlights the mismatch between the great discursive emphasis on deterrence in several European countries and the varying effectiveness of deterrence-based policies in curbing migratory flows. When does deterrence fail, and when does it succeed, in preventing irregular migration? In the cases characterised by luck of success, do the reasons for such results lie in the inadequate application of deterrence principles or in other, more structural, problems? The chapter aims to add to the academic debate on states' ability to control migration in times of increasing globalisation, and argues that from the combination of the criminological and migration literature, it is possible to better articulate the concept of deterrence in international migration.

Hence, the first part of the book covers what are traditionally considered to be the main dimensions of globalisation, focusing respectively on finance, on trade and global production networks, and on people and migratory flows.

The second part of the book transitions towards a focus on the dark dimensions of the increasingly globalised European political economy. In Chap. 5, Anna Sergi discusses the glocal dimensions of the *'ndrangheta*. The clans of the *'ndrangheta*, from the southern Italian region of Calabria, have become the wealthiest and most powerful Italian mafia groups, present in over 25 countries around the world, undisputed oligarchs of the cocaine market and reliable partners for other criminal groups around the world. The *'ndrangheta* clans are poly-crime criminal networks and they engage in a variety of criminal and semi-legal activities, from drug trafficking to money laundering, from extortion of local communities to investments in legal businesses around the world. Their presence in Europe, Canada, US and Australia mainly has been certainly facilitated by mass migration from Calabria in the past century, while current criminal relationships are rekindled, thanks to the availability of faster communication and means of travels. Moreover, the Calabrian region is exceptionally challenged in its development and in the implementation of innovation strategies, and its marginalisation is the cause and effect of the mafia presence. The purpose of this chapter is to present the *'ndrangheta* clans in today's forms, by looking at some of their international activities and their sources of economic power, which is enabled both by the technological underpinnings of globalisation and by transnational links that were fostered during a wave of outward migration from Calabria that began in the first era of globalisation.

Chapter 6, by Vassilis Fouskas, assesses the consequences of austerity in Greece. Austerity is a quintessentially neoliberal policy, engendered by globalisation, entailing a type of deflation in which the economy adjusts through increased taxation and the reduction of wages and welfare spending. The aim, supposedly, is to restore competitiveness, advance growth and reduce the state's deficits and debts. Austerity in Greece took an unprecedented form imposed directly by core creditor countries, and most notably Germany. As such, it represents an imperial imposition on a European government which was elected on an anti-austerity platform. Insofar as austerity on debtor countries is presented as the only possible solution to Euro-zone countries, it might itself be understood as a dark side of globalisation, brought about by creditor countries that are unwilling to consider a change in their own growth model. In this regard, it might well be conceived as an even more extreme form of "golden straightjacket" on state economic policies presented by Friedman (1999) as one of the main achievements of globalisation. The devastating consequences of this course of action also emerge strongly from Fouskas' exploration, with reference to key macroeconomic indicators, of the effects of austerity in Greece. The argument advanced is that the austerity promoted by the troika along ordoliberal lines is the worst form of bondage upon peoples, and usually leads to unpleasant political turns, resembling the failure by the defenders of the first wave of globalisation to revive the Gold Standard in the inter-war period, with the devastating economic, social and political consequences that it had throughout Europe.

Leila Simona Talani in Chap. 7 provides for an analysis of the consequences of the Euro-zone crisis on the underground economy and irregular migration in Italy. It is suggested that policies aimed at improving the competitiveness of the Italian economy have instead resulted in a weakening of the Italian productive structure. As a result, one could actually make the case that the underground economy fuelled by cheap labour arriving from the Global South, and hence in turn fuelling mass migration, is currently the main competitive advantage that Italy holds within the global political economy. While Italy is often presented as a basket case of sorts within the European context, especially with reference to its macroeconomic variables, Talani argues that an analytical shift towards socio-economic concerns shows even more forcefully the predicament in which Italy currently finds itself and provides a damning indictment for both its political and its economic elites. As they struggled to address the long-standing issue of competitiveness, the lack of public and private investment in productivity gains has effectively cornered Italy towards a growth model in which some of its most dynamic sectors are informal and driven by illegal/irregular labour on the one hand and illegal/criminal capital on the other. In other words, Italy's niche increasingly corresponds to the dark side of globalisation.

Finally, Chap. 8, by Francesco Strazzari, addresses the question of how, in the globalisation era, organised criminal networks have actually a role in the formation and transformation of states especially after war. The chapter moves from the traditional study on the role of bandits and outlaws in the first phases of state formation after war, to project it into the new global era by investigating the interactions between global criminal networks and foreign assistance and intervention. This analysis is substantiated with reference to the vicissitudes of the Balkan States in the three decades of crisis (1981–1991), war (1991–2001) and reconstruction (2001–2011).[4]

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PART I

The Dark Side in the Global Economy

CHAPTER 2

Dark Futures: Super-Rich Farmers and Derivatives Markets in an Unstable World

Joseph Baines and David Ravensbergen

Food price spikes have a devastating impact on people with limited incomes around the world. A sudden increase in the cost of staples such as wheat places enormous strain on households already struggling to meet their basic needs and drives people to take on ever-increasing hours of low-wage work and subsist on nutritionally deficient diets. In the Global South, food price increases hit women particularly hard, as they are often forced to take on additional work in the informal sector on top of managing the household and acting as primary caregivers for dependent children (Scott-Villiers et al. 2016). In the years since the outbreak of the global financial crisis, the hardship incurred as a result of food price spikes has driven people into the streets in protest, with periods of sharply increased food costs correlating with episodes of global civil unrest (Bush 2010; Bush and Martiniello 2017). While it is difficult to attribute primary causality for the eruption of a cycle of demonstrations

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and riots to food prices alone, it is clear that the addition of a sharp increase in the cost of food to societies riven by inequality and ideological division has proven to be a potent and destabilizing combination. From the food riots in over 30 countries in 2007–2008 to the movements that culminated in the Arab Spring of 2010–2011, the increased cost of living driven by food prices has played a catalysing role in fomenting popular protest. As climate change, drought, and inequality intersect with conflicting political aspirations in regions across the Global South, and in the Middle East and Sub-Saharan Africa in particular, food is set to be at the centre of the social turbulence for the years to come.

The causes of price volatility in agricultural commodity markets remain a subject of debate. As the use of commodity derivatives continues to rise, the financialization of the food system and the role of speculation have come under increasing scrutiny. According to three inquiries conducted by the US Senate Permanent Subcommittee on Investigations, 'excessive speculation' in derivatives markets was a major contributor to sudden shifts in the prices of staple commodities in the first decade of the twenty-first century (US Senate 2006, 2007, 2009). Following the global financial crisis, the same committee produced a 635-page report outlining the role of Wall Street speculation using complex financial products such as credit default swaps in driving the wave of foreclosures, bankruptcies, and institutional collapse that threatened the stability of the global financial system. In response to the Senate investigations and the growing public alarm over the consequences of unregulated finance, the US Congress passed the 2010 Dodd-Frank Act in an effort to mitigate the threat posed by speculative investments. With reference to agricultural commodities, the legislation called for new position limits to be enacted that would curtail the unregulated purchase of futures contracts; however, the political will to implement the new rules appears to have declined.

In the following chapter, we examine the uneven effects of the financialized food system, linking the international impacts of food price volatility with domestic dynamics inside the US agri-food sector. Highlighting the dark side of the integration of food and finance, we show how the chief beneficiaries of commodity derivatives have used their financial and political power to resist regulatory changes governing commodity derivatives markets. While a number of scholars have put forward detailed accounts of the conflict surrounding financial regulation more generally (e.g. Moschella 2010; Tsingou 2015), our analysis focuses on the agricultural sector. In particular, we show how food price increases have acted as a vector for redistribution inside the US agri-food system, benefitting certain actors at the expense of others. It is precisely those groups that have prospered during periods of high commodity prices that have been most active in lobbying against the imposition of any new regulatory measures that would limit the use of complex financial instruments in the agricultural commodity sector—particularly commodity index funds or CIFs. We see developments in the United States as a key driver of global trends in the financialization of food. Not only does the United States stand as the world's leading exporter of corn, soybeans, and wheat, it has also been at the centre of the regulatory efforts and financial innovations that have led to the worldwide growth of CIFs. Our analysis points to the lines of conflict that are taking shape within the United States, with small-scale farmers on the losing end of the financialized food regime, and agricultural commodity traders and large-scale farmers lobbying to preserve their advantage. As this conflict plays out, it is essential to keep in mind the impact of high food prices on people around the world, for whom access to affordable and nutritious food is a primary, determinate factor in securing a modicum of welfare and security.

At every single level of the analysis, the dark side of globalization is present. It was trade globalization as superintended by organizations such as the IMF, World Bank, and the WTO which led to the drawing down of public grain reserves by governments in the Global South in the 1980s and 1990s, and it was the drawing down of these reserves that made populations in the Global South more vulnerable to the vicissitudes of an ever-more integrated global grain market (Patel and McMichael 2009). Furthermore, it was financial globalization, as driven by technological innovations in electronic trading as well as deregulatory measures in the United States and beyond, which led to the explosion in potentially destabilizing derivatives markets in the 2000s, and it was the explosion of these derivatives markets that increased the influence of those global economic elites operating within large corporations over national regulators such as the Commodity Futures Trading Commission (CFTC). As this chapter shows, these processes of trade and financial globalization have converged to create a highly uneven terrain of wealth and marginalization within the US and the wider world.

Redistribution Through Crisis

According to Clapp and Helleiner (2012), the massive price increases associated with the 2007–2008 food crisis had a negative impact on actors within the US agri-food system. For farmers and owners of grain elevators, the price volatility imposed a significant financial burden, as they were forced to pay a higher margin fees on futures contracts or shoulder unexpectedly high costs to fulfil prior agreements to buy specified quantities of grain. Moreover, the crisis disrupted the convergence of futures prices and cash prices as contracts came to an end, which hampered the ability of farmers to plan for subsequent harvests. Our analysis draws on the research conducted by Clapp and Helleiner (2012), expanding the frame by adding the animal agriculture sector, as well as showing how the distributional effects of price volatility vary across a range of factors: the geographical location of production, the size of farming operations, and farms' particular commodity focus. On top of this more differentiated picture, we also bring in data charting the fortunes of agricultural commodity traders, which provide a revealing contrast to the farming data. The addition of the spatial distribution of different forms of agricultural production to an analysis of the financial impacts of food crisis is an intuitive step, given the stark division between majority grain production areas in the Midwestern United States and the livestock farming regions of the Southern Seaboard (Hart and Mayda 1998). Within the Midwest, Kansas and North Dakota lead the United States in wheat production, while Iowa and Illinois are the predominant producers of soybeans and corn. In the Southern Seaboard region, Texas stands at the top of the list of beef producers, North Carolina leads in hog production, and Alabama, Arkansas, and Georgia are at the head of the American poultry industry.

Turning to the data presented in Table 2.1, we can see a breakdown of how these different agricultural producers have fared during periods of price volatility, alongside the fortunes of the world's leading agricultural commodity traders. The data we present are the result of regression analysis, matching price levels and instability with farmers' incomes, broken down according to regional specialization. In the bottom half of the table, the data concerning agricultural commodity traders are presented following an approach put forward by Jonathan Nitzan and Shimshon Bichler (2009), in which the relative profit of a group of firms is calculated by taking their average net income and dividing it by the average net income of the leading 500 firms nationally, listed according to their earnings. We

Table 2.1 Multilinear regression results of agricultural income and grain futures price dynamics

		Relative grain	*Volatility of grain*
		Futures prices	*Futures prices*
	N	*Standardized beta coefficient*	*Standardized beta coefficient*
Farmer relative income (Midwest) 2000–2015	62	0.818[a] (0.001)	−0.165 (0.001)
Farmer relative income (Southern Seaboard) 2000–2015	62	−0.379[a] (0.001)	−0.365[a] (0.000)
Agricultural commodity traders' relative profit 2000–2015	62	0.163 (0.071)	0.323[b] (0.068)
Cargill relative profit 1951–2015	65	−0.008 (0.001)	0.737[a] (0.011)

Source: Global Insight, Compustat, and company statements
Note: The price of grain futures is calculated by deflating the daily Commodity Research Bureau grain index by the monthly producer price index. Farm net income data comprise only on-farm income and are restricted to sole proprietorships; they do not include off-farm income and the earnings of corporate farms [a] and [b] refer to significance at 99 per cent ($p \geq 0.01$) and 95 per cent ($p > 0.05$) levels, respectively. Standard errors are shown in parentheses

chart the data for Archer Daniels Midland, Bunge, and Cargill together, omitting Louis Dreyfus as a result of limited data availability, while also listing Cargill separately on account of the much longer historical reach of its earnings figures. For the farmers, relative income refers to a quarterly figure arrived at by dividing the average nominal income of a geographical group of farmers by the nominal income of non-farm workers. The grain prices used are deflated by the commodity producer price index.

The regression analysis reveals that while grain price volatility does not correlate with farmers' relative income in the Midwest, there is a meaningful positive correlation between the relative grain price level and farmers' income. For farmers largely engaged in livestock farming across the Southern Seaboard, the data on both price volatility and grain price levels show a clear negative correlation. Turning to the data on commodity traders, we can see a positive correlation between price volatility and relative profit but no noteworthy connection between price levels and profit. In the case of Cargill, the correlation between grain price volatility and relative profit is even more stark than that seen with Archer Daniels Midland, Bunge, and Cargill taken collectively.

How should we interpret this data? In the case of the leading commodity trading houses, their commanding overview of the intricacies of global trade, including access to private data on grain storage and deliberately cultivated relationships with government officials and other market actors, gives them the edge over farm groups, who tend to lack these advantages. This structural asymmetry translates into a more competitive position in terms of 'price discovery,' which is deepened by market uncertainty generated by major price swings. Given their positions as overseers of market developments, commodity traders are able to outcompete other market actors lacking the same structural advantages by engaging in speculative investment, arbitrage, and selling their competitors private means of managing risks. Indeed, during the commodity price tumult of 2007, a full 34 per cent of Cargill's net income was generated via its financial and risk-management segment (Bloomberg 2014). Taken together, the picture provided by these data reinforces the claims of scholars who see agricultural commodity traders as the primary actors who have prospered under the financialization of the food system (Murphy et al. 2012; Salerno 2016).

Turning now to the two farm groups modelled in the table, the results are in line with what we would expect. For Midwestern farmers engaged primarily in grain production, increased commodity prices translate directly into higher incomes, assuming that production costs remain more or less constant. The lack of a statistically meaningful positive correlation between grain farmer incomes and price volatility reflects the analysis offered by Clapp and Helleiner (2012) at the outset of this section. To reiterate, while high prices are beneficial to commodity sellers, uncertain prices create difficulty in planning production levels and hedging against risk. In the case of farmers in animal agriculture across the Southern Seaboard, we see the inverse relationship between price levels and price volatility on the one side and farmer incomes on the other, since grains represent between 60 and 70 per cent of the cost of production for those raising livestock (Becker 2008). The difficulties faced by animal agriculture producers are compounded by the fact that live animals cannot be kept longer in the hopes of better prices in the future, as grain farmers typically do with their product.

What the disaggregation of farm data into grain and livestock producers ultimately reveals is a spatial pattern of inequality, which in turn maps onto existing patterns of wealth distribution on the basis of race. Farmers in the Midwestern grain-producing states are predominantly of Northern European descent. It is in the Southern United States that the overwhelming majority of Black farmers are concentrated, with 90 per cent in six states across the South. A similar distributional pattern applies to Hispanic farmers, the overwhelming majority of whom are in the South (USDA 2014a). And while roughly 50 per cent of total farms in the United States are active in animal agriculture, over two-thirds of Native American farms specialize in livestock (USDA 2014b). Taken together, these statistics point to a clear pattern, which sees the extant racialized distribution of inequality reinforced by the price dynamics of food crises.

Moving on to Fig. 2.1, we can see the distributional dynamics described above presented in greater detail, with the incomes of both the Midwestern

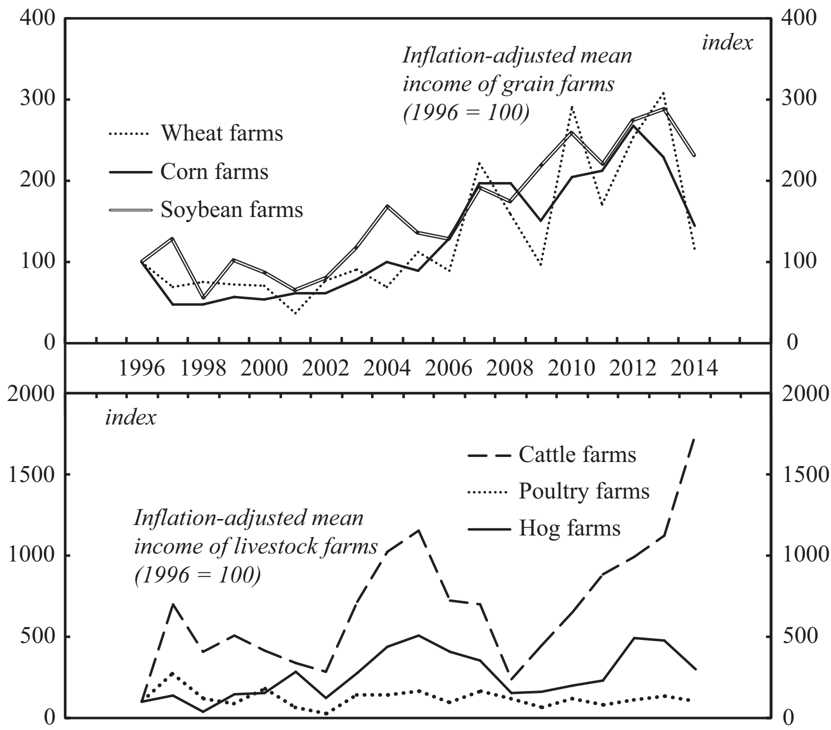

Fig. 2.1 Farm income by production specialism, 1996–2014 (Source: Commodity price index from Bureau of Economic Analysis through Global Insight. Farm income data from USDA (2016). Note: Farm income deflated by commodity price index)

and Southern farms broken down according to the leading single grain or animal type produced by a given farm group. Among grain producers, wheat farmers experience the most income volatility. This can be explained by the fact that farms in the Wheat Belt lack the soil conditions to easily switch over their fields to other crops, which hampers their ability to adjust during periods of low prices (Winders 2009). A similar dynamic pertains among livestock producers. Since cattle have a dramatically longer lifespan than other livestock, requiring up to 27 months to be grown from conception to slaughter, cattle producers are less able to adjust their livestock population when the price of feed grain soars (MacDonald 2008; McBride and Matthews 2011).

Finally, the developments presented above are given further detail in Table 2.2, which complements the commodity disaggregation in Fig. 2.1 with the addition of income and size-based categorization. The large commercial farm category refers to all farms with gross annual earnings in excess of US$350,000, while all family farms below that threshold are classified as small and mid-sized farms, provided that farming is the primary job of the farm's main operator. Among farms focused on grain production, wheat producers experience the highest degree of volatility in their profit margins, compared to relative stability in profit margins for soybean and corn producers. Within the animal agriculture group, cattle producers must contend with the greatest uncertainty, from highly volatile profit margins to the lowest average income and lowest profit margins. Turning to the size breakdown, it is clear that large farms enjoy greater stability in profit margins and overall higher profits in comparison with small and mid-sized farms.

The most striking finding in the table is the average net income of large-scale commercial farms. With average yearly income from farm activities at US$354,541, and the average yearly income generated from off-farm sources at US$72,665 (Hoppe 2014), large-scale farmers earn a combined average net income of US$427,206. Astonishingly, this figure is sufficient to place large-scale farmers within the top 1 per cent of earners in the United States, a category that begins at US$394,000 (Saez 2015). As the asterisks in the table show, large commercial farms operating across each major commodity specialization all post earnings within the top 10 per cent.

Part of the exceptional financial performance of large commercial farms can be explained by their heightened capacity to manage risk. The risk-management strategy of super-rich farmers features at least three distinct

Table 2.2 Income and precariousness in US agriculture

	Average net farm income (US$) 2014	*Population 2014*	*Average profit margin (%) 1996–2014*	*Volatility of profit margin 1996–2014*
All US farms	45,312	2,076,273	23.2	20.9
Large commercial[a]	354,541	219,955	24.2	19.3
Small and mid-size	15,981	631,718	18.7	38.1
Wheat—all farms	45,067	25,391	26.5	53.2
Large commercial[b]	157,790	6518	28.4	50.9
Small and mid-size	4939	10,343	20.8	108.2
Corn—all farms[c]	86,659	117,817	27.4	26.1
Large commercial[b]	224,177	40,265	27.9	26.4
Small and mid-size	18,273	34,878	21.7	49.3
Soybean—all farms[c]	51,641	101,614	26.0	29.9
Large commercial[b]	216,260	20,020	26.1	34.7
Small and mid-size	20,020	38,880	21.0	68.6
Cattle—all farms	28,565	730,756	18.8	119.0
Large commercial[a]	437,317	34,570	20.0	63.2
Small and mid-size	15,106	238,766	17.5	646.3
Hogs—all farms[b]	114,167	22,948	24.4	55.8
Large commercial[a]	334,747	7245	25.4	56.0
Small and mid-size	22,896	7197	17.9	196.4
Poultry—all farms[c]	61,434	49,623	28.6	106.0
Large commercial[a]	778,527	4439	28.4	105.8
Small and mid-size	31,899	24,226	23.1	473.0

Source: USDA Economic Research Service Agricultural Resource Management Survey database
Note: Farms' income categories are set at US$392,000, US$165,000, and US$116,000 for the top 1, 5, and 10 per cent thresholds, referring to the figures laid out by Saez (2015)
[a]Top income percentiles of US households
[b]Top income ventiles
[c]Top income deciles

aspects: first, compared with smaller farms, large operations often have recourse to their own private grain storage space. Storage mitigates the risks associated with low prices at harvest time, allowing farmers to sell only during periods when prices are favourable. Second, large farms engage in futures trading, drawing on their market integration and expertise which are often not available to smaller farms. Finally, some large farms go beyond risk management, extending their financial activities into the realm of speculation. To be sure, a study in the magazine *Farm Futures* surveyed its readers, drawn largely from large-scale commercial farms, and noted that 40 per cent were engaged in some form of speculative activity (Knorr 2007: 20). It is worth noting again that the demographics of farm wealth reflect the pattern of racialized inequality seen across the United States more broadly. Although one-quarter of total US farms earn more than US$50,000 annually, the proportion of Black farmers in that income bracket is only 6 per cent; among Native American farmers, 9 per cent earn more than US$50,000, while Hispanic farmers at this earning level number 18 per cent. The number of female farmers operating at the same financial level is 10 per cent, irrespective of the operator's race (USDA 2014a). Taken together, these data suggest that the ongoing financialization of the US food regime has reinforced existing hierarchies structured along the lines of race, gender, and geography.

Dodd-Frank and Derivatives Reform

In the preceding section, we showed how the financialized food system operates in favour of large-scale farmers, who count among the super-rich strata of US society. Part of what enables farmers to make use of derivatives and other financial products is the existence of a regulatory framework that distinguishes legitimate hedging and risk-management behaviour from pure speculation. Since the boundaries between these two categories are both contested and highly permeable, coalitions have formed to advocate for the maintenance of the regulatory status quo and its amendment. Clapp and Helleiner (2012) have shown how agricultural groups on the losing end of the financialized food system pushed for the curtailment of speculative investments, while Pagliari and Young (2014) have built on this research to highlight the ability of these groups to act as a counter-weight against commodity trading houses and other market actors who have lobbied to preserve the regulatory status quo. In this section, we bring this analysis up to date by showing how these coalitional conflicts have fared in the years since the passage of the 2010 Dodd-Frank Act.

We deploy the terms proposed by Ziegler and Woolley (2016) in referring to the two coalitions facing off in the regulatory debate as the 'stability alliance' and the 'self-regulation alliance.' The former grouping is made up of a coalition of interests who have seen their fortunes wane during the commodity price volatility since the 2007–2008 crisis, and is exemplified by the lobbying organization Commodity Markets Oversight Coalition (CMOC). As we would expect from the data presented above, the largest single constituency within CMOC comprises cattle farmers, with the other groups drawn primarily from small farmers and visible minority farmers' associations. Among grain producers, wheat farmers are represented by the National Farmers Union, an organization historically rooted in the main wheat-producing regions of the United States. The self-regulation alliance opposes the rule-tightening measures promoted by CMOC, advocating instead for the maintenance of the regulatory status quo. Within this network of organizations, the International Swaps and Derivatives Association (ISDA) and the Commodity Markets Council (CMC) lobby on behalf of Wall Street banks and the main commodity houses and commodity exchanges, respectively. Importantly, the Coalition for Derivatives End-Users (CDEU) are also in the self-regulation alliance, and it represents large-scale farmers and other putatively commercial actors whose interests are closely aligned to those of the major commodity traders and banks.

More than simple coalitions of interests representing the winners and losers of the financialization of food in the United States, the self-regulation and stability alliances represent two competing frameworks for interpreting the rules governing hedging and speculation. This distinction is particularly important to agricultural markets, since the investments of market actors engaged in legitimate hedging are exempt from the position limits mandated by the Dodd-Frank Act. Farmers in the stability alliance have been vocal proponents of tightening the definition of hedging, particularly following the food price volatility that broke out after 2007. According to the National Association of Wheat Growers, hedging exemptions have been extended too broadly to those who simply want to reduce the risk of their financial investments, and should only apply to direct participants in the wheat sector, including farmers and owners of grain elevators (USW 2008). Other groups such as the National Farmers Union have lobbied consistently against the 'swaps loophole' employed by CIFs, arguing for a strict new regulatory framework to limit speculation in index funds (NFU 2013).

Beyond lobbying for regulatory changes, the conflict between the self-regulation and stability alliances has also extended to direct criticism of firms accused of speculation. In 2011, the Ranchers-Cattlemen Legal Fund levelled a pointed critique of Cargill and other large commercial beef packers, accusing them of disrupting the legitimate risk-hedging activities of smaller producers by making unabashedly speculative investments in futures markets (R-CALF). Indeed, the accusation from cattle ranchers in the stability alliance was echoed among staff members at the CFTC, who viewed the legitimacy of many of the putative forms of risk management deployed by commercial firms as dubious. The scepticism among CFTC staff extended up to the former chief of staff and the general counsel, who wrote a report pointing to what they saw as the prevalence of speculation disguised as risk management among commodity traders (Arbit et al. 2013). In response, the proposed regulatory efforts of the CFTC focused on reducing the allowable exemptions for anticipatory hedging and cross-hedging.

These CFTC proposals were met with staunch opposition among agricultural commodity traders and other members of the self-regulation alliance, who argued that both forms of hedging are essential to their overall risk-management strategies. In a 2011 hearing before the House Committee on Agriculture, a risk-management spokesperson from Cargill argued that the proposed distinction between legitimate and illegitimate hedging would compromise the entire business model of firms like Cargill. Furthermore, the representative claimed that reclassifying cross-hedging and anticipatory hedging as speculative would prove catastrophic for commodity markets as a whole (Cargill 2011). While the conflict between the self-regulation alliance and stability alliance can be partially attributed to their divergent roles within the US agricultural sector, it also highlights a larger problem affecting financial regulation, which is the difficulty in clearly differentiating between legitimate forms of risk management and speculation.

The case put forward by Cargill was strengthened by the fact that support for maintaining the extant regulatory approach to anticipatory and cross-hedging emanated from members of the stability alliance as well as those in favour of self-regulation. The National Corn Growers Association is exemplary in this respect. As the CFTC began to develop a new regulatory framework, the National Corn Growers Association argued that the proposed rule changes on hedging exemptions would prove to be 'overly restrictive and unnecessarily burdensome' (NCGA and NGSA 2011a). The organization went further, arguing that the consultation and research process should be extended in order to grant the CFTC more opportunity to develop an appropriate framework (NCGA and NGSA 2011b). The concerns of the National Corn Growers Association were echoed by the Farm Bureau, who opposed the CFTC's proposed changes on account of the potential regulatory costs that would be incurred by farm groups facing reduced exemptions from the position limits rule. In a 2014 letter to the CFTC, the Farm Bureau outlined their concerns in detail:

> Changes in the definition [of hedging] itself and changes in the way it is interpreted by the CFTC would have far-reaching consequences for bona

> fide hedgers in agriculture … such action likely would lead to a markedly reduced ability for grain elevators, feed manufacturers, processors and other businesses to hedge their physical commodity risk and force grain and oilseed purchasers to reduce bids to farmers and limit the risk management programs that can be offered to farmers and ranchers. (AFBF 2014)

This position has not been shared among all farmers, however. The National Farmers Union has been a consistent proponent of tightening the definition of speculation and supported the CFTC's proposed restrictions. What this conflict appears to highlight is a growing disjuncture among agricultural producers. Rather than a simple division between the interests of commodity traders and farmers, the opposition of groups like the National Corn Growers Association and the Farm Bureau to the new hedging rules indicates that some farmers see their interests aligned with those of commodity traders. Given that they have built their businesses within the context of the financialized food system, these groups have a clear material interest in maintaining the regulatory parameters to which they have grown accustomed. Furthermore, the integration of major commercial farms into larger networks of agricultural commodity traders and financial firms suggests that these groups would be unlikely to stoke conflict with other market actors upon whom their business depends.

We can visualize the development of the debates around the implementation of new CFTC regulatory measures by turning to Fig. 2.2, which follows the work of the CMOC, CDEU, and CMC in lobbying the CFTC.

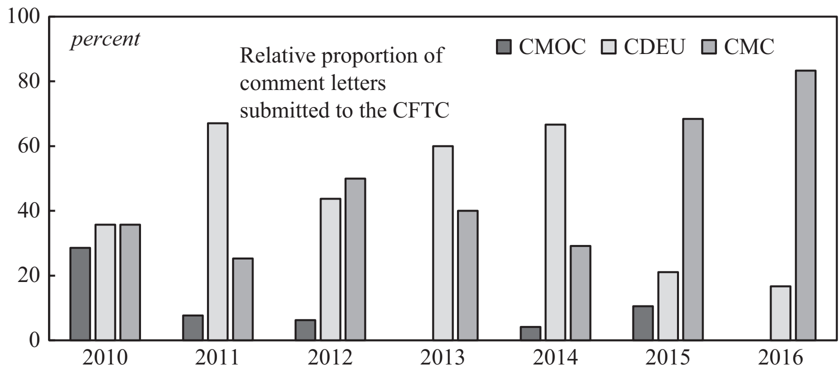

Fig. 2.2 Advocacy efforts during derivatives reform debates (Source: CFTC data on comment submissions (2016))

The data shown track the relative proportion of comment letters to the CFTC, a figure we arrive at by dividing the submissions originating from within each advocacy group by the total number of submissions from all three groups. The trend in the figure shows a move from a relatively even distribution of comments among the three advocacy organizations during the early stages of the CFTC's proposed regulations to a clear increase in lobbying activity from groups within the self-regulation alliance. The CDEU emerged as the dominant advocacy group between 2011 and 2014 and has since taken a secondary role behind the efforts of the CMC. What the quantitative picture suggests is a shift in the regulatory initiative from farm groups in favour of enhancing the rules governing hedging to large-scale farms and financial firms committed to the preservation of limited government oversight.

As the effects of price volatility that began in 2007 faded and more stable market conditions prevailed, the arguments presented by farmers' organizations began to carry less immediacy. In June 2014, the CFTC held a meeting with representatives of major commodity exchanges and commodity trading houses in order to grant them a more extensive opportunity to make their case for a broader bona fide hedging exemption. As is the case across the financial sector, the efforts of regulators are often hampered by their limited knowledge of the intricacies of a given firm or a group of firms' daily operations. While regulators may set out to achieve the goals of maintaining a smoothly functioning market that meets the needs of market participants and ensures the maintenance of the underlying food system, the technical specificities surrounding how these goals should be met are difficult to assess. Given the complexity of the risk-management strategies employed by financial firms, regulators often find themselves reliant on the very actors they are seeking to regulate for information regarding the appropriate classification of different forms of hedging.

Farm groups within the stability alliance suffer from similar informational asymmetries. Without the resources and institutional linkages to the financial sector enjoyed by the members of the self-regulation alliance, small farmers may find it difficult to determine the technical rule modifications that they believe will best serve their business interests. As a result of these dynamics, regulation within derivatives markets tends to be slanted in favour of the most informed actors, who are invariably the largest and most powerful banks and commodity traders. These dynamics were visible following the 2014 meeting between the CFTC and the representatives of large commodity trading interests. Two years following the meeting, the CFTC agreed to some of the proposals made by the commodity traders, abandoning the stricter proposed hedging restrictions and granting greater leeway on position limits (Blosfield and Osipovich 2016). With the influence of the stability alliance at a low ebb amidst a more stable commodity price environment, the regulatory architecture increasingly reflects the preferences of large-scale farms and financial firms.

What the preceding discussion shows is that the more hopeful prognoses on regulatory reform in commodity derivatives markets offered by Clapp and Helleiner (2012) and Pagliari and Young (2014) have not come to pass. During the years of high price volatility, farm groups were able to make a strong case in favour of the Dodd-Frank Act's proposed changes to hedging practices. As Clapp and Helleiner (2012) observed in the period immediately following the Act's passage, the farm groups that comprise what we have called the stability alliance were acting to protect their own interests, but in doing so held the potential to transform the global food system and shore up the interests of those most affected by sudden food price spikes. Just as these two authors subsequently revised their predictions to reflect the waning influence of farm groups over the reform process (see Clapp 2014; Helleiner 2014), our analysis here offers an explanation for why this scenario did not come to pass. Large-scale farmers and commodity traders have been successful in their efforts to organize against the imposition of a stringent new rule regime, arguing that restrictions on the use of hedging by government officials who lack the technical expertise to understand the derivatives trade would impose an excessive and onerous burden on market participants. Behind the conflict over the CFTC's regulatory framework stands the stark material reality in which the corporate cluster comprising commodity traders and large-scale farmers benefits financially from high or volatile prices, smaller farmers—particularly in animal agriculture—tend to see their fortunes decline during price instability, and the world's poor are subjected to life-threatening food insecurity (Patel and McMichael 2009; Scott-Villiers et al. 2016).

Turning to the international dimension of the regulatory dispute between the stability and self-regulation alliances, Fig. 2.3 presents data showing the connection between relative income and profitability levels in the US agri-food sector and global instances of popular protest and revolt. In making these connections, we follow on the work done by Lagi et al. (2011) to connect changing food prices with patterns of social unrest. The

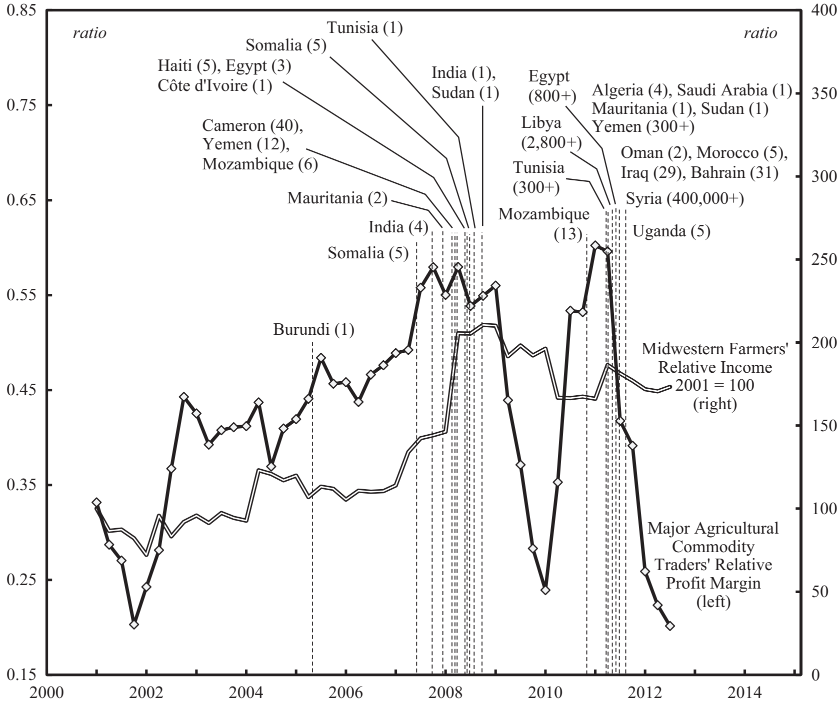

Fig. 2.3 Social unrest and the profitability of agricultural groups (Source: Archer Daniels Midland, Bunge, and Compustat 500 net income data from Compustat through WRDS. Cargill quarterly net income data from Factiva database and Cargill (2016). Revolt data from Lagi et al. (2011). For Midwestern farmers' relative income data, see Table 2.1. Note: Cargill, Bunge, and Archer Daniels Midland are the three major agricultural commodity traders listed here. Figures in parentheses refer to death tolls associated with riots and civil unrest)

data series represented by the solid black line charts the financial performance of the agricultural commodity traders relative to the 500 largest US corporations, using a metric calculated by dividing the average net income to sales ratio of the agricultural commodity traders by the same data for the leading corporate group. The second series, tracked by the unshaded line, traces the fortunes of farmers in the Midwest, using relative income figures as a metric. Along the x-axis, instances of global social unrest sparked by surging food prices are shown by vertical dotted lines. As the chart clearly indicates, both of the groups presented here experienced a financial boon during periods of instability abroad. While the data we presented earlier in the chapter (see Table 2.2) suggest that small wheat farmers in the Midwest did not experience the same boost, the overall fortunes of the Midwestern farming group were positive enough to obscure the misfortune suffered by their more marginal members. Commodity traders experienced similarly buoyant profitability as soaring food prices provoked widespread instability. Taken together, the data we have presented reveal a financialized food regime that functions in the favour of the two groups modelled here, while inflicting financial instability and nutritional precarity on the world's most vulnerable populations.

Conclusion

Set against the backdrop of the global unrest engendered by food price volatility, this chapter has explored the development of coalitional politics within the US agri-food sector, and it has traced the long shadow that these conflicts have cast on the global landscape of food. We see two primary conclusions from the preceding analysis worth emphasizing here. The first observation we can make concerns the variegated material fortunes of farm organizations over the period of price volatility that began in the 2000s. Far from creating a price environment that affects all farmers equally, price instability has acted as a mechanism for redistribution, improving the market performance of large-scale farmers at the expense of small and medium-sized farms. This financial divergence has translated into the regulatory realm, where farm groups are split between those advocating the implementation of position limits and other curbs on speculative activity, and those content with the limited government oversight that has prevailed thus far in agricultural commodity markets in the twenty-first century. As we have shown, the staunchest proponents of derivatives reform have been the wheat and cattle farmers who have experienced the greatest financial precarity during the period of unstable prices. By contrast, large-scale farmers have generally supported maintaining an expansive definition of legitimate hedging practices, given their deep market integration and commanding position within the financialized food regime. This conflict has functioned to exacerbate the entrenched patterns of racialized inequality within the agricultural sector.

The second major observation we have made concerns the indeterminate status of derivatives, particularly the lack of an objective distinction between investments that constitute hedging and those that serve speculative purposes. The distinction between hedging and speculation has varied over time, in line with broader developments in the US political economy. Following financial deregulation in the 1980s and 1990s, hedging was redefined so as to allow market actors such as large financial firms with no stake in the biophysical production and management of grain commodities to enjoy risk-management exemptions formerly reserved for commercial actors. When the price volatility that coincided with the global financial crisis in 2007–2008 put speculative investment under increased public scrutiny, it appeared as though regulatory efforts would seek to roll back commodity futures deregulation and return to the more stringent historical definition of bona fide hedging. But as market conditions have brought food prices back to stable levels, the appetite for regulatory reform has decreased, and the major beneficiaries of lax regulation in the self-regulation alliance have been able to capture the terms of the debate. With globalization linking the daily lives of populations across the world with the derivatives trading strategies of large corporate actors, a future spike in food prices appears poised to contribute to another round of instability and unrest around the world.

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CHAPTER 3

The Dark Side of Globalised Production: Economic 'Rebalancing' in Contemporary China

Steve Rolf

Introduction

Globalisation is often celebrated by its boosters as a process of global 'Westernisation', whereby those in the Global South get to enjoy the benefits of consumer capitalism at the behest of its innovative multinationals. But, just as Marx scorned the exchange fetishisms of liberal political economy by uncovering the 'hidden abode' of value production in Victorian England's exploitative factory system, today, it is to China's industrial economy we should look as the true pioneer of capitalist globalisation. A total of 700 million wage workers, nearly half internal migrants from China's inland provinces, have been exposed to the vicissitudes of global flows of capital; toiling now for decades in factories, mines, in call centres, and on construction sites—no longer primarily to serve the national economy as under Maoist autarchic policies, but instead to boost the profits of transnational firms operating extended global production networks.

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Consider Apple, the world's largest company by value and doyenne of the globalised US tech economy, whose new multibillion-dollar, all-glass headquarters—flooded with natural light—is celebrated for the propitious conditions it offers its 12,000 workers. Meanwhile, those primarily Chinese workers assembling the latest iPhone models toil for 11 hours a day in strip-lit Foxconn factories, surrounded by anti-suicide nets, and subjected to forced exercise regimes by management (cf. Barboza 2016).

For those who care to look beyond Silicon Valley's aphorisms, this 'dark side' of integration into global production networks sits in plain view. Many neoclassically oriented economists admit so, and credit China's entry into global manufacturing networks with producing the country's astonishing growth spurt—implicitly taking such labour practices as unfortunate collateral in the broader march towards economic development globalisation is bringing. A number of critical political economists have tended to concur with this view, but rather than celebrating integration, they instead view manufacturing production networks as a new iteration of dependency relations based on internationally exploitative unequal exchange (Lo 2016; Smith 2016). But this poses a puzzle: if China's economy is so deeply integrated with those of the Global North, how come it demonstrated such remarkable resilience to the otherwise 'global' economic crisis of 2008 which wreaked various forms of havoc across virtually all other economies? Could this unique buoyancy in fact represent China's rise as an autonomous centre of accumulation?

This chapter interrogates the views of those optimists who expect China, having reaped the benefits of an open economy, to now 'delink' from a global economy plagued by a long depression and to become a new engine of growth, buoyed by a virtuous cycle of rising wages and internal consumption. In this view, the retreat from globalisation towards economic nationalism (whether 'organic' or policy-led) might banish this 'dark side' of labour exploitation in production networks. Such rebalancing is unlikely, I argue, because China's economy remains profoundly imbricated with the global economy. Surpluses accumulated through export-led growth and captured by the state, alongside its distinctive form of control over the financial sector, have together allowed the Chinese government to insulate itself from global headwinds for a long period. But it is only through a return to the profitability of investments across its core export sectors can China hope to sustain its dynamic growth rates into the future.

It is consequently misleading to point to China's post-crisis performance as evidence of its potential emergence as an autonomous region of growth. Its 'core sectors' as yet remain deeply embedded in global production networks in which Chinese firms remain by and large subordinate, rather than competitors, to advanced economy firms. After outlining why this continued interdependence and the profitability crisis which it has entailed render 'economic rebalancing' unlikely, I go on to explain why the bout of state-financed stimulus in infrastructure after 2008 found its way into real estate investment, which has increasingly come to form a new 'growth engine' in the post-crisis period. This risks what Harvey (2016) refers to as a 'switching crisis': whereby investments flow from the productive manufacturing sector to unproductive speculation on the built environment, deferring—but ultimately heightening—the crisis in the real economy.

The Effects of the Crisis of 2008 in China

China's GDP statistics do not much reflect the global economic crisis of 2008. Despite the turmoil in markets unfolding across much of the world economy, in 2008 and 2009, Chinese GDP grew by 9.6% and 9.1%, respectively. Though down from 14.2% growth in 2007, this was not substantially less than the average growth rate of 11.2% between 2002 and 2007. As Hsing (2012) points out, this apparent stability led to the widespread argument that China had 'delinked' from dependence on the US and European markets, and was now functioning as a largely autonomous pole of growth in the world economy (cf. Dollar 2008). In this perspective, China's domestic market has developed so substantially that the fall-off in exports had little impact on its real drivers of growth: domestic consumption and investment. And, despite a lull in 2008–2009, export performance nevertheless rebounded in line with the recovery in the world economy after 2010. China improved its overall share of world manufactures output from 9% at the outbreak of the crisis to 13% by the close of 2014. The deepening of supply chains and a decline of imports in parts and components for final-stage assembly operations both fuelled this growth, as China further developed its capacity as a components supplier to global production networks (GPNs) (Mathai et al. 2016)—though equivalent increases in exports of raw materials were equally as significant as industrial upgrading.

While the crisis presented an opportunity for China to consolidate its role as world factory in the medium term, the short-term consequences were severe. China's balance of trade, which had improved by an average of 70% year-on-year from 2002 to 2007, improved by just 17% in 2008, and worsened substantially—for the first time in over a decade—by 32% in 2009 (figures from Hsing 2012: 252). Exports (China's major surplus generator during the 2000s) accounted for a net loss of 1.9 GDP percentage points in 2009 (Akyüz 2011: 14), while from 2007 to 2013, China's trade surplus fell from 10% of total GDP to just 2%. This falloff in export demand had an immediate social impact. Detailed research demonstrates between 20 and 36 million workers were left unemployed as small and medium-sized manufacturers across China's export heartlands suffered a deep shakeout, resulting mostly from the collapse in demand for final consumer goods in the crisis-ridden advanced economies (Giles et al. 2012). While (highly untrustworthy) official statistics register just a 0.1% drop in employment nationwide, even these report layoffs being heavily concentrated in the coastal exporting areas, with a 3.8% fall in industrial employment in Guangdong and a 3.3% fall in Zhejiang province. Exports mostly revived after 2010 along with employment, but this recovery—while strong—was insufficient to drive economic growth on a national scale as it had done during the 2000s. As such, while exports proved vital for the economy during the 2000s, they have contributed very little to China's economic growth since 2009 (Fig. 3.1), and the overall rate of growth slowed in line with this decline (to 6.8% in 2017).[1] The year 2008 represents the end of the exportist 'system of accumulation', though *not* the end of Chinese exports.

The Theory of China's 'Rebalancing'

If exports stopped contributing to China's GDP growth after 2008, where did growth come from? A look below headline growth figures militates against an understanding of China's post-crisis political economy as an uncomplicated and successful 'delinking' from world markets, based upon sound fundamentals built up during the previous decade. Instead, it war-

[1] Figure 3.1 shows net exports not adjusted for import intensity of exports, consequently minimising the contribution of exports during the 2000s and overstating losses from 2008. For an explanation, see Akyüz (2011: 6–12).

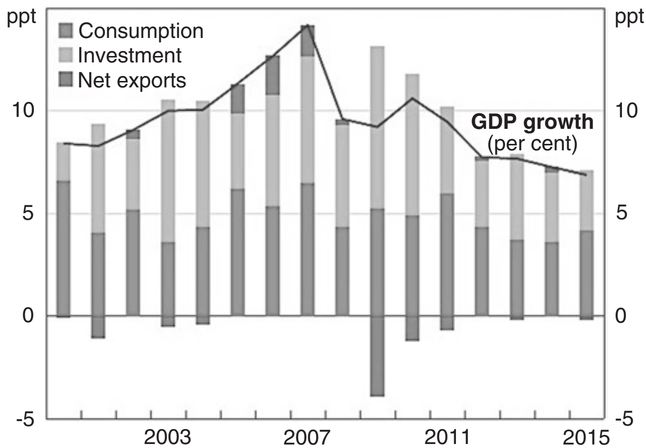

Fig. 3.1 Contributors to GDP growth in China, 2000–2015 (percentage contribution, not adjusted for value-added) (Source: Kent 2016)

rants the alternate view: that 2008 represented a real crisis and a major turning point for China's political economy towards renewed state intervention.

The export-manufacturing sector (mainly consisting of small, private firms) revealed fundamental weaknesses, but was mostly beyond the reach of targeted state support due to the small size of exporters, their limited access to bank finance, and lack of relationships with higher levels of government. The threat of widespread unemployment and a sharp economic slowdown forced the central government into action. But while the situation necessitated extreme levels of fiscal stimulus and credit provision to sustain national economic growth, these were mainly directed to *state* firms: vertically integrated, nationally owned, and centrally co-ordinated. Tax rebates for exporters and a lowering of the VAT rate likely helped, but these were relatively minor interventions compared to the assistance received by state-owned enterprises (SOEs). A stimulus package of RMB 4 trillion (US$600 billion) was announced in November 2008 by the central government (of which RMB 1.2 trillion was directly funded by Beijing). And repeated rounds of smaller cash injections and bank loans have continued since, most recently in early 2016. As Eaton (2015) notes, this led to the popularisation of the celebratory phrase 'the advance of the state, retreat of the private sector' (*guojin mintui*) by state managers and in the Chinese media.

Box 3.1 The 'Middle-Income Trap'

David Shambaugh (2016: 42) describes the 'middle-income trap' as 'a concept used by developmental economists to describe a newly industrializing economy that reaches a mean income threshold—usually about $11,000 (China is currently at $7593, or about $11,850 PPP equivalent, according to the World Bank)—which begins to compromise the economy's competitive advantages in low-wage manufacturing'. The implication is that China's period of rapid growth is likely to end in the near future, and history suggests that growth will thereafter contract quite sharply (before reaching the level of the advanced economies) (Eichengreen et al. 2013). But the trap is simply an (inductive) projection of past trends, and conflates economic growth across the time and space of different national states as though they represent comparable units and processes. The timing and circumstance of China's industrialisation in relation to the global political economy are radically different to virtually all previous experiences of catch-up growth. Global trends, like the rise in economic inequality within national economies (Piketty 2014) and the shift from national vertically integrated industries to GPNs, seem to complicate any simple notion of 'national development' by which an economy converges with advanced capitalist countries in per capita income. While the middle-income trap may be far too generalised for comparisons between experiences to be meaningful, it does suggest that we should not *assume* convergence is the inevitable outcome of China's high-growth period.

In retrospect, however, many commentators have registered criticisms of this rescue package. Hung (2015: 160) is representative of received opinion when he declares it a 'missed opportunity' for Chinese state managers to break away from dependence on exports:

> To the disappointment of those who advocated the use of the stimulus to rebalance the Chinese economy, the stimulus package in the end carried no more than 20 percent of social spending, and the majority of the spending

> went into the same old investments in fixed-capital assets, such as high-speed rail, and the expansion of sectors already plagued by overcapacity, such as steel and cement … [Thus,] it was not able to generate much increase in the share of disposable income, employment, and domestic consumption in the economy.

The notion of an economic 'rebalancing' of the Chinese economy towards the domestic market has found currency across the political economic spectrum (and goes beyond the immediate question of the content of the economic stimulus programme itself). From neoclassical perspectives which view a crony state capitalism as repressing household income in favour of SOEs (Huang 2008), to China's 'New Left' who view the Chinese Communist Party (CCP) as dominated by a misguided form of neoliberal policymaking designed to hold down wages (Wang 2009)—and many shades of opinion in between—virtually all suggest that a shift of the growth model away from low-wage exports is necessary for China's future success. Fundamental to such accounts is the argument that the investment component of GDP growth is much too high, and the consumption component consequently too low. The experience of previous East Asian developmental states has cohered into a form of orthodoxy regarding the anticipated stages of China's catch-up growth: first, an intensive export-led manufacturing boom, then, a rise in consumer spending and the growth of the service sector, and an attendant switch to a headquarter economy as lower value-added sections of the value chain move elsewhere (or, potentially in the Chinese case, inland). And—since at least 2005—Chinese state managers have also been open to the perceived limitations of the exportist system and have proposed strategies and policies aimed at 'rebalancing' Chinese growth. Most notably, Premier Wen Jiabao's candid comments in 2007 deemed Chinese growth 'unsteady, unbalanced, uncoordinated, and unsustainable':

> Unsteady development means overheated investment as well as excessive credit supply and liquidity and surplus in foreign trade and international payments. Unbalanced development means uneven development between urban and rural areas, between different regions and between economic and social development. Uncoordinated development means that there is lack of proper balance between the primary, secondary and tertiary sectors and between investment and consumption. Economic growth is mainly driven by investment and export. Unsustainable development means that we have not done well in saving energy and resources and protecting the environment. (cited in Pettis 2013: 71–2)

While it may be in the direct interests of central state managers to oversee a domestic reorientation of the economy, perhaps one reason the rebalancing hypothesis has proven popular outside of China is because it offers an apparent solution to (and partial excuse for) the weak, debt-reliant US growth model which blew up in 2008. Roach (2014), for instance, argues that restrictions on the growth of consumption in China lay behind its rise as an export powerhouse, while cheap Chinese exports permitted a mirror-image 'overconsumption' of goods in the US. In spite of the current account deficit, US consumption was facilitated by the credit bubble enabled by Chinese deposits of surpluses in US Treasury bonds. Correcting this imbalance through restricting US consumption and debt deleveraging is the proposed solution, while pressuring China to raise its rate of consumption (by ending Chinese citizens' supposed 'cultural' propensity to save) (Obstfeld and Rogoff 2009). But it is not clear that weaknesses in the US economy should be attributed to Chinese trade imbalances—not least since the US trade deficit with China is reduced by between 25% and 50% once the location of value added in GPNs is accounted for (Xing 2016: 63–4). For instance, while the iPhone appears, in the balance of trade figures, as a major drain on US economy, the overwhelming bulk of value is captured by Apple (a US firm)—a pattern mirrored across electronics supply chains. And, while, according to official figures, China's consumption share is very low at around 36% of GDP (compared with an average of 50–70% for most large economies), Gatley (2013) argues that the true figure (after accounting for big-ticket consumer spending and financial services) is around 40%—while Liu et al. (2016) argue that it should be revised upwards even further. So although it is commonplace to link US economic difficulties to the rise of China, the evidential basis is weaker than it first appears.

Inside China, what kind of economic restructuring is recommended to resolve these putative imbalances? Responses to this question might be broadly divided into three camps: Keynesian, liberal, and radical. Pettis (2013) provides the clearest statement of the Keynesian case. He argues that unsustainable overinvestment has occurred as China has exported the surplus product which Chinese consumers are unable to absorb because of the artificial repression of wages and a virtual absence of social security. But, despite the inevitable growth slowdown changing this model necessitates, it need not *necessarily* entail a crisis:

> One can easily posit a case in which China's GDP grows by 3 percent annually, Chinese household income grows at 5 percent, and consumption at 5 or 6 percent. In that case Chinese households will continue to feel better off and to have improving economic prospects. But by definition if household income grows faster that GDP, there must implicitly be a transfer of resources from the state to the household sector. For much of the past three decade [sic] we have seen the opposite, so the household share of the rapidly growing pie has contracted. (Pettis 2013: 93)

So while transfers from workers to firms through low wages and high productivity gains helped finance the boom, future growth will rely on reverse transfers from the state and firms to workers and consumers (via wage increases and social security).

A version of the liberal argument is given in Lardy and Borst (2013), who—while granting that financing a rudimentary social safety net might help matters—place more weight on an opening of the financial and service sectors to foreign investment. This, argue Lardy and Borst (2013: 3), should act to raise interest rates and to speed the privatisation of SOEs as their soft-financing by state banks is restricted. In turn, capital might be lured away from manufacturing and into the service sector, dampening manufacturing capacity and offering Chinese savers a better return on their capital. These policies, they contend, helped Japan's economy rebalance towards a high-consumption economy during the 1980s (though they neglect to consider Japan's 1980s manufacturing profitability decline, nor the eventual collapse in property and equity values).

There are difficulties with both of these positions. The neoliberal emphasis on opening the service sector—which now accounts for half of China's GDP—might provide a lucrative new set of markets for Chinese savers (as well as Western financial services firms and retailers), but it seems unlikely to provide the income growth required to significantly improve the consumption share of GDP. Qu and Li (2016: 4) find that productivity growth in service sector firms continually lags that of manufacturing by roughly half, while in 2015, 'each worker in the manufacturing sector generated RMB 45,000 more output than their counterpart in the three biggest services sectors.' Manufacturing is widely understood to result in outsized productivity gains proportionate to the rest of the economy (Rodrik 2006), while the service sector would likely prove unable to offer the kind of wage growth manufacturing workers have experienced over the past decade. Financial sector liberalisation, a rise in interest rates, and cutting off the supply of easy credit to SOEs and other less profitable investments would likely improve the return on assets for banks—but any spate of SOE bankruptcies thus induced would also generate unemployment and increase the pool of unutilised labour: heightening the lack of consumption at least in the short term and possibly depressing overall wages. This zero-sum picture of private and state firms obscures the more complex symbiosis at work in China's hybrid political economy.

What for the Keynesian solution? A long-standing political economy tradition has posited either restricted workers' consumption or (in a fundamentally similar explanation) a disproportion between production and consumption, as the cause of crises (Baran and Sweezy 1966; Aglietta 2010). Most recently, post-Keynesian analyses have been popularised as an alternative to the dominant neoclassical explanations of the recession of 2008–2009. Piketty (2014) locates the root of the crisis in rising wealth inequality in the US, while Stockhammer (2013) argues that declines in the wage share of income led to debt being used to finance consumption, thus producing a bubble to defer a crisis which eventually manifested in subprime mortgage markets. For Vermeiren (2013), like Pettis (2013), the restricted share of labour in Chinese national income accounts for China's need to 'export' surplus capacity, overproduced relative to domestic consumption needs. This is a peculiar characterisation, since China's consumer goods manufacturing industries developed in processing zones to some degree detached (economically and geographically) from the wider national economy (Cartier 2001). China did not merely export already existing excess capacity onto world markets (cf. Breslin 2011) but developed—largely at the behest of overseas multinationals—new sectors and plant capacity specifically targeted at the world economy.

Regardless, for Marx, a disproportionality between production and consumption ('underconsumptionism') was a permanent feature of capitalism and no inhibitor to growth in and of itself—since capital, by definition, aims to extract surpluses through expanding the divergence between the cost of labour and labour power. Underconsumption is a permanent feature of a capitalist economy and thus a necessary, but insufficient, explanation for any particular crisis:

> It is a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption … If the attempt is made to give this tautology the semblance of greater profundity, by the statement that the work-

> ing class receives too small a portion of its own product, and that the evil would be remedied if it received a bigger share, i.e. if its wages rose, we need only note that crises are always prepared by a period in which wages generally rise, and the working class actually does receive a greater share in the annual product destined for consumption. From the standpoint of these advocates of sound and 'simple' (!) common sense, such periods should rather avert the crisis. It thus appears that capitalist production involves certain conditions independent of people's good or bad intentions. (Marx 1992: 486–7)

Consequently, while the income share of Chinese workers is not an irrelevance, Marxist political economy instead forefronts profitable investment as the prime determinant of growth in a capitalist economy. Wages earned through participation in profitable enterprise are the major determinant of the income growth of the working class, and these are tied to economic cycles which move rather independently of wages—so it is not given that a simple redistribution of national income share towards labour would provide a panacea for stable economic growth. As Ross (2012) points out, in the Chinese case, reducing investment in order to increase the consumption *share* of China's GDP would in fact only serve to reduce the overall *magnitude* of economic growth and reduce consumption in real (though not relative) terms. Martin Wolf (2017)—an enthusiast of Keynesian rebalancing policies—candidly admits the difficulties involved: 'household disposable income is only a little above 60 per cent of GDP, while private consumption is about 40 per cent of GDP … If one wanted consumption to grow faster than now, the share of household incomes in GDP or of household wealth in total wealth needs to soar. The former would squeeze profits and investment. The latter would mean transferring public assets to households. Neither looks technically and politically workable.'

What the Keynesian argument fails to adequately address is how tight and declining profit margins for Chinese manufacturers might be improved through a redistribution of income *away* from capital. And there is increasing evidence (across a variety of measurements—e.g., McKinsey 2016; Pauls 2016; Roberts 2016: 200; Li 2016: 79) that not only is profitability below advanced economies in high-tech manufacturing, but that returns have been falling persistently across private and state sectors since around 2004. McKinsey (2016: 32) argues that annual, economy-wide returns on invested capital (based on a 3 year rolling average, taking data from 3000 publicly traded firms) averaged 7.4% in 2014, well below the profitability of investments in the US, which generated a return of 10.2% on the same measure.

The more or less traditional Keynesian, demand-side argument for rebalancing is given a radical edge in the work of Lüthje and his associated collaborators (Butollo 2015; ten Brink 2013; McNally et al. 2013), who develop a version of the rebalancing hypothesis rooted in the conceptual apparatus of the Parisienne Regulation School (Aglietta 2010; Boyer 1990). They posit a distinction between 'extensive' and 'intensive' accumulation regimes: the first based on adding more workers, extending working hours, or intensifying the pace of work (what Marx called absolute surplus value production); the second based on productivity gains made through labour-saving investments in plant and machinery (*relative* surplus value production). In this view, rebalancing the economy away from the exportist system and towards one based mainly on consumption requires more than just state-mediated income transfers, but institutions of collective bargaining capable of securing wage gains in line with productivity improvements. Consequently, for these authors, 'rebalancing' is more a question of class power and institutional form rather than state-directed redistributive politics.[2] This version of the rebalancing hypothesis is plainly attractive insofar as it offers a potential source of complementarity between the (central) state, labour, and capital, and explicitly links improvements in wages and working conditions with technological progress and shifts up the value chain. Eli Friedman (2014: 1014) views a 'class compromise' as key to achieving this: 'rebalancing the economy requires overcoming forces in society that are tied to the current model of growth, and this cannot be accomplished through purely technocratic (depoliticized) means. A labour movement that has mobilized its rank and file in fighting for and winning new rights will likely have an interest and some capacity in fighting for the enforcement of those rights.' On this view, with an increase in the bargaining power of workers, an 'intensive' regime of production might emerge—initiating a virtuous spiral of economic growth based on a rising labour share of GDP.

[2] Lüthje (2014) raises the important distinction between *sectorally specific* regimes of accumulation, which views the auto industry and electronics as more conducive to 'intensive' forms of accumulation than lower technology sectors (like textiles)—but also points out how high-tech industries are often plagued by the allure of cheap labour in China which inhibits investment in industrial upgrading (see also Lüthje et al. 2013; Butollo 2014).

But, insofar as this radical account cleaves to the Keynesian redistributive argument, it fails to address the question of profitability. As Brenner and Glick (1991) have compellingly demonstrated, sustained wage gains for broad sectors of the population have historically followed from the expansion of profitable investments in the manufacturing sector (which tighten the supply of labour)—rather than from the institutionalisation of collective bargaining, or the formal linking of wages to productivity growth through wage accords (both of which are typically side or after-effects of a boom: Harman 2010: 165). In fact, even the paradigmatic intensive accumulation regime—the Fordist class accord in the post-war US economy—does not live up to the ideal Regulationist typology, since 'the ratio of the wage index to the labour productivity index for the private nonfarm economy *falls* fairly steadily for the entire period from 1948 to 1970' (Brenner and Glick 1991: 93), during precisely the period when wage gains were greatest and the US 'consumer economy' is understood to have developed. And if the Regulation School's historical case is weak, it also demonstrates conceptual difficulties—most fundamental of which is to neglect to treat investment as one form of consumption. While orthodox macroeconomic theory separates the two, in the Marxist schema, there is no fundamental difference as to whether output is consumed by the public or is utilised as capital for reinvestment. As Harvey (2010: 110) puts it, the 'effective demand for yesterday's surplus product depends upon … [workers'] consumption plus the new demand generated out of tomorrow's further expansion of production'. So even if workers' consumption is restricted, 'capital generates its own internal effective demand' through demand for investment. Debt bridges this temporal gap but does not resolve the contradiction, which ultimately requires the devaluation of capital. And this capital-led demand is contingent upon the anticipation of profit. The radical explanation does not show, or seek to show, that greater workers' compensation would lead to more sustainable growth than a high rate of (profitable) investment, and thus offers no *economic* justification for its rebalancing prescription.

And, a final difficulty (affecting neoliberal, Keynesian, and radical versions of the rebalancing hypothesis) is an underlying methodological nationalism, which understands *nationally bounded* matrices of production and consumption to form a natural equilibrium. As Pradella (2014: 21–35) elaborates in a discussion of Smith and Ricardo, this methodological nationalism evolved from classical political economy's reluctance to identify the exploitation of labour as the source of surplus value—and its consequent assumption that states, as self-enclosed economic units, could always resolve crises within their borders. By contrast, Marx (1990: 256–8) explicitly rejected Say's law and held that the money-form permitted the separation between production and consumption and enabled crisis formation. The rebalancing assumption (that all states should strike a production-consumption balance at the national scale) seems especially anomalous under contemporary globalised capitalism—which has separated in space and time the production and consumption of virtually all the necessities of daily life.

Rebalancing Policies

Having questioned versions of the rebalancing consensus that view the consumption share of GDP as critical indicator of economic health, what are the prospects of China avoiding the so-called middle-income trap (see Box 3.1)? The current consensus is that China's economy is suffering from slower growth because of chronically restricted consumption, so rebalancing towards the domestic consumer market ought to be a fairly simple question of overcoming vested interests in order to raise incomes and generate a virtuous cycle of growth. Instead, I have argued the problem is one of a decline in the profitability of investments due to a prolonged downturn in the globalised industrial cycle—making state attempts to sustain high growth rates and increase consumption into the future significantly more onerous. If this hypothesis is correct, then one might anticipate policy initiatives based upon the (fallacious) rebalancing hypothesis to struggle. This section explores some of the practical difficulties being encountered by state attempts to transform the growth model, before considering how cheap labour and weak firms have reinforced each other to inhibit a wide-ranging economic transformation.

Hukou *Reform*

In March of 2014, the Party's 'new-type urbanisation plan, 2014–2020' committed to a comprehensive reform of the *hukou* system, giving an extra 100 million migrant workers urban citizenship by 2020 while hinting at a future abolition of the system (Chan 2014). Dollar (2014) argues that 'reforming the *hukou* system would affect rebalancing in several ways.

An important source of productivity growth is the movement of labor from small-scale farming to higher-paying jobs in manufacturing and services. Relaxing restrictions on mobility should lead to higher productivity growth, higher incomes for those currently registered as rural residents, and greater government expenditure on social services.' But implementing this policy has proven immensely difficult, as local governments lack funding and incentives to integrate migrant workers into urban life. A chronic lack of social housing is one issue—Zhang et al. (2017) find that 89% of urban housing was privately owned in 2010. And since the central state is concerned to avoid further population growth in its megacity regions, it has doubled down on *hukou* restrictions in cities like Beijing and Shanghai while directing migrants to smaller, second- and third-tier cities least able to bear the cost of extending the benefits of urban citizenship. Powerful local growth coalitions remain politically opposed to *hukou* liberalisation (Zhang and Li 2016). Despite some progress, then, it appears wildly optimistic to assume that *hukou* will no longer structure the labour market by 2020.

Welfare Provision

Since the *hukou* system reinforces China's weak social security provision by restricting access to urban social services for China's 270 million migrant workers and their families, it follows that even gradual reform of *hukou* constraints should result in substantially increased welfare spending. A lengthy process of constructing a social security net has been undertaken since the widespread SOE layoffs of the late 1990s, legislated in 2011 by the Social Insurance Law. China has achieved (very) basic health coverage for 95% of the population and minimum state-subsidised pension. But although it has surpassed the poorest East and South East Asian economies, public social spending remains chronically low in China at slightly over 8% of GDP (up from 5% in 2005) versus an average of 21.1% of GDP in OECD countries and 23% in Japan, the regional leader (OECD 2017). The bulk of the obligation for social insurance payments remains with employers, rather than government, and this responsibility is typically bartered down (or completely away) by local governments when attracting overseas investment (CLB 2017). Regardless of this, welfare provision is rarely a consumption-boosting policy in itself, since its contributions are primarily levied on workers. As Kroeber (2016: 192) points out that 'creating a social safety net is likely to have a modest impact at best on consumer behavior, especially during the period when households are putting more into the welfare system through tax payments than they are receiving in benefits.'

Pro-labour Policies

New Labour Contract Law of 2008 mandates contractual legal protection for private sector workers, an end to the use of repeated fixed-term contracts, and it stipulates social insurance payments that employers should make. Minimum-wage legislation at various state scales has also been introduced since the mid-2000s (Chan and Zhai 2013). Friedman and Kuruvilla (2015: 183), like other authors, associate such pro-labour legislation with economic rebalancing—arguing that as 'rising wages and increased domestic consumption is in line with the central government's wishes to 'rebalance' the economy, so they may provide tacit support' for industrial action aimed at upholding legislated rights. Zhuang and Ngok (2014), however, cite a great deal of research demonstrating how such legislation goes largely unimplemented on the shop floor (for instance, less than half of Chinese workers were covered by a contract of any kind in 2013). Weak enforcement is a problem of both disempowered state agencies and a lack of grassroots union strength—primarily because of how the All-China Federation of Trade Unions (ACFTU), the only legal trade union in China (representing 280 million members), is heavily imbricated in party state networks. The ACFTU typically represents the interests of the state and capital in the event of industrial disputes rather than those of workers. While weak enforcement agencies and unions are one part of the problem, (sector specific) workarounds pursued by firms are also to blame. Zhu and Pickles (2014: 48) cite research into the impact of the law on hiring practices, where the 'indirect effect in many factories has been the adoption of a more cautious hiring policy and the consolidation of work contracts around key technical personnel, with a parallel increase in short-term and temporary work contracts' for remaining workers. Similarly, research by Chan and Hui (2014) demonstrate how local governments in exporting regions collaborated with international chambers of commerce in order to water down the stipulations of the law so that they did not become prohibitively expensive for capital—suggesting business associations allow capital to constitute itself as a political force in an authoritarian regime, while local governments function as vehicles for such pro-capitalist mobilisation.

Geographic Reorientation of End Markets

Another rebalancing strategy being explored is to encourage export-oriented firms to shift production towards China's booming domestic market. Total national incomes were recently estimated to be around US$5 trillion, while Chinese consumer spending more than doubled from US$650 billion to US$1.4 trillion from 2000 to 2010 (Towson and Woetzel 2015). So, runs this argument, exploiting higher domestic incomes and shifting to domestic consumers as a source of demand might point to the future for Chinese export firms. Yang (2014) points to the technical and political economic difficulties in managing such a transition from global to national production networks, since the majority of China's processing firms and municipal governments are mutually interdependent on the export regime. However, as Butollo (2015) argues (drawing on the experience of township governments representing garment clusters in Guangdong), local governments seem just as likely to actively engineer such a transition through various industrial policies if it appears to present a viable growth strategy. However, many of the downsides raised by sceptics of the benefits of 'South-South' trade (i.e., trade between developing countries—see Horner 2016) are mirrored by such proposed domestic market transitions in China: low domestic incomes, a greater intensity of competition, and fewer prospects for industrial upgrading due to the generally low technological level. Many firms are understandably reticent about shifting from previously high-income economies to new markets where cost rather than quality is the prime factor.

Moreover, in line with the general slowdown in Chinese economic growth, the Chinese domestic market for consumer goods itself shows signs of slowing. Growth of China's domestic clothing sector is slowing rapidly, increasing by less than 5% year on year (Fung Business Intelligence 2016). Consumer electronics demonstrates a moderately faster rate of expansion (of 9% in 2016), though it also appears to be slowing quite quickly in line with reduced GDP growth. And, besides the question of cooling Chinese demand, it is unclear why consumer spending should be considered preferable to a high rate of saving, since switching from the latter to the former mostly serves to redirect capital from the financial sector (where they are typically redeployed towards investments by state banks) to retailers in the service sector—a sector we have already noted (see above) is less productive and pays lower wages than manufacturing and construction.

Rebalancing and the 'Middle-Income Trap'

In sum, these state policy goals suffer from the weaknesses of the 'rebalancing' hypotheses insofar as they misattribute economic performance of capital to the consumer spending ratio—rather than the profitability of investments. If generally weak profitability and sluggish global export markets render a positive-sum expansion of effective demand difficult, what about a zero-sum improvement in China's global competitive standing vis-à-vis the advanced economies—that is, a genuine convergence in competitiveness? While China currently poses little competitive threat to the core industries of the advanced economies, I want to return to the redistributive question posed by Keynesians and radicals with a hypothetical: that an increased labour share of income might be of service to Chinese capital insofar as it represents a forced investment in the capacities of what Marx terms the 'collective worker'—or an increase in what others have since termed the 'social wage' (concepts of which I can only include a too brief discussion here; cf. Harman 2010: 132–9; Shaikh 2003). In his chapter on struggles over the length of the working day, Marx (1990) identified a tendency for the ferocity of competition between capitalists to damage the basis of workers' social reproduction, their productivity, and thus to weaken capital itself (cf. Barker 2013; Cammack 2015). State regulation of working times could both improve productivity and increase profits—since an overly long working day means the 'sum of the expenses for the reproduction of labour-power will be greater; just as in a machine the part of its value to be reproduced every day is greater the more rapidly the machine is worn out' (Marx 1990: 377). Might a recomposition of labour-capital relations in favour of workers concurrently benefit Chinese capital in general, insofar as it manifests in improved profitability and competitiveness of Chinese enterprises due to productivity gains (an argument made by McKinsey 2016)?

For migrant workers (the overwhelming majority of those in manufacturing), the incomplete proletarianisation established by the *hukou* system, the weakness of workers' shop-floor organisation and the absence of formalised collective bargaining structures, weak minimum-wage enforcement, and the lack of social security do likely act to inhibit firm-level investment in human capital. This is because they collectively render workers highly mobile and unlikely to stay in one job for very long. Average annual job turnover fluctuates around 20% across the Chinese economy, but anecdotal evidence from manufacturing firms gathered during my fieldwork suggested that it was not uncommon for a firm to replace 20% of its assembly line staff on a *monthly* basis in South China's factory districts (interview data). Here, the radical account of rebalancing is on firmer ground, since it accounts for Chinese firms' weak structural position in production networks by appeal to these constraints facing the labour movement. Despite the dramatic upsurge in labour protests, strikes, and pro-worker legislation (especially after the crisis of 2008–2009: CLB 2014), the economy's competitive advantage in low-wage manufacturing has not been substantially eroded and the structural characteristics of the labour regime remain in place. Chinese firms remain largely 'exempt from wage and employment "rigidities", which under capital intensive regimes of accumulation usually would trigger restructuring of production technologies, work organization, and production regimes' (Lüthje 2014: 18). And China's low wages permit 'outdated' fixed capital (like obsolete sewing machinery in garment factories) to remain in use, disincentivising further productivity improvements such as production line automation or the adoption of industrial robotics.

Consequently, advanced economy firms have continued to deepen their niches in high value-added activities while using Chinese producers as bases for outsourced manufacturing. A recent report for the European Commission confirms this picture: the 'EU and China have highly complementary production structures with the EU specialising in high and medium skill value added and China increasingly orienting its GVC participation towards low-skill and capital value added. These complementarities allow firms to exploit the benefits of specialisation and obtain important cost advantages in production' (Gasiorek and Lopez-Gonzalez 2013: 86). This is striking because unit labour costs (real wages over productivity gains) *have* increased dramatically in China since 2005. One widely circulated study registers a trebling of manufacturing wages from 2005 to 2016, from US$1.20 to US$3.60 per hour (*Euromonitor* 2017), and while this might overstate the case, it does broadly accord with the trend mapped by the IMF of a persistent and steep increase in unit labour costs (Fig. 3.2). Another recent cross-national comparison confirmed that since 1978, while real incomes for the bottom 50% of earners in the US have fallen by 1%, in France they have increased by 39%, while those of China's bottom half have increased over 400% (Alvaredo et al. 2017). Any such sustained increase of wages above productivity should logically indicate the emergence of an 'intensive' accumulation regime. But the labour share in GDP has not substantially increased, and still stands below its

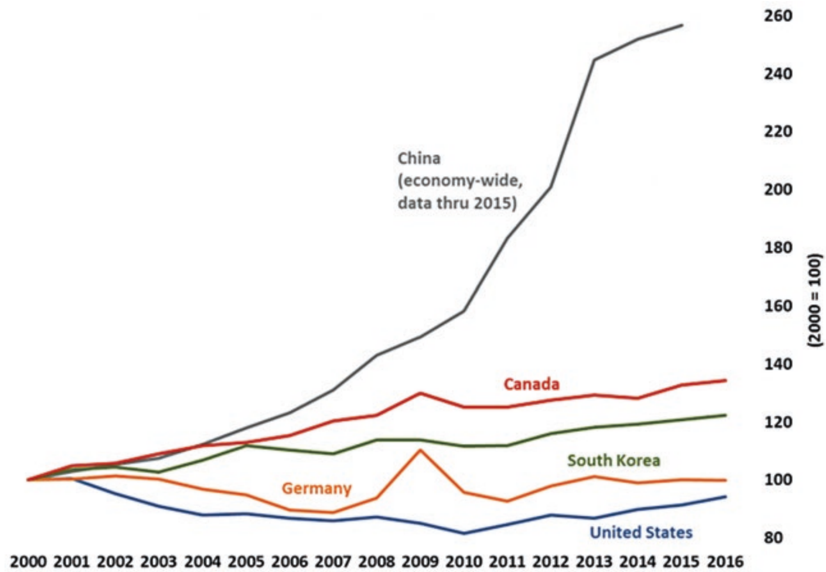

Fig. 3.2 Changes in unit labour costs, various countries (2000 = 100) (Source: US Department of Commerce 2017, http://acetool.commerce.gov/labor-costs)

level in 2001—though a persistent decline throughout the 2000s has been somewhat ameliorated since 2010 (Qi 2014). And in international comparison, wages remain very low (roughly 10% in those of the US and other advanced economies in 2016, though somewhat higher in large cities), meaning that even while Chinese exports increase in price, the aggregate effect of advanced economy outsourcing to China utilising GPNs should continue to be a reduced cost of imports—so long as volume growth of outsourcing outpaces increases in Chinese workers' wage share (a process the European Central Bank (2011) positively refers to as the 'share effect'). In sum, the effect of the 'China price' enjoyed by producers thanks to low wages has not yet dissipated (cf. Harney 2008).

Previous East Asian developers transitioned away from low value-added manufacturing through outsourcing by their lead firms in response to wage rises, retaining and deepening 'core competencies' in branding and research. Crucially, Gray (2015) notes the key role played by organised labour in this regional industrial transition, one often repressed in orthodox accounts of the developmental state (Johnson 1982; Amsden 1989;

Wade 1990). Despite their idiosyncratic developmental trajectories, Japan, Korea, and Taiwan experienced successive ‘Lewis turning points’ as a growth spurt dried up the supply of cheap labour, which enabled workers to win substantial wage gains and encouraged industrial upgrading:

> Taiwan reached its Lewisian turning point in the late 1960s and Korea in the mid-1970s … whereby the transition from the ‘unlimited labour supply’ to limited labour supply led to increased structural power … of workers. These transitions ultimately underpinned the rise of labour movements in the 1980s and led to wage increases that ultimately undermined the authoritarian labour regime. (Gray 2015: 73)

Gray anticipates China’s following in this regional lineage, pointing to recent labour unrest as a sign that labour markets are likely to similarly tighten. But there are three factors which appear to compromise this possibility. First, recessions of 1973 and 1997–1998 aside, the global economy and export demand remained strong throughout much of this earlier period, while momentum was firmly in the direction of globalisation with successive rounds of tariff and trade barrier removals culminating in the move from the GATT to the WTO. This gave Korea and Taiwan the impetus needed to sustain export booms until the late 1990s, in tandem with repeated rounds of upgrading and industrial restructuring, to become increasingly autocentric economies with per capita incomes rising towards those of the Global North. By contrast, contemporary China confronts conditions of long-term global economic stagnation, a slowdown in trade, and export markets that appear less amenable to economies supplying cheap labour.

Second (and despite much speculation about the tightening of labour markets), the supply of labour in China is very much contingent upon the labour regime imposed by GPN-integrated manufacturing. *Hukou* inhibits the movement of many underemployed rural workers to the cities, particularly in the older age categories. And this immobility dovetails with the age and gender demands of the labour regime in globalised industries. As Kam-wing Chan (2010: 523) argues, in clothing and electronics assembly work—the biggest export-manufacturing employers—demand for assembly line workers primarily targets young (often female) labour aged from 16 to 30, ostensibly possessing ‘youthful eyesight and high manual dexterity’. By the age of about 30, these characteristics are perceived by employers to have been exhausted and migrants often struggle to find work, often returning to the countryside to raise children. Employer complaints of a 'labour shortage' should thus be qualified:

> While there is a "famine" in the young ages, a vast ocean of unemployed or underemployed rural labor, mostly ages 35 and above, remains, the size of which is estimated at close to 100 million … the depletion of young surplus rural labor is far from being the exhaustion of all surplus labor in the countryside. The situation is still very different from the full-employment scenario postulated in the Lewis model when the "turning point" is reached. The co-existence of migrant labor shortages and large surpluses in the rural sector may be quite unique to China's industrialization and urbanization experience, because of the prolonged and continuing rural and urban social segmentation. (Chan 2010: 523)

To what extent this age and gender segregation might become undone as labour shortages bite remains unclear, and several factories I visited complained that they had lately been 'forced' to hire older, male workers for job roles typically performed by young women (interview data). But, to the extent that it does hold a significant portion of the un(der)employed portion of the labour force in the countryside, far from only repressing workers' consumption share, the *hukou* system and the age bracketing of the workforce contribute to labour shortages in the cities and rising manufacturing wages. Weighed against this is, of course, the division imposed upon the labour force between resident and non-resident workers, and the inaccessibility of social security for most migrants—factors which significantly reduce the 'social wage'. It suggests that adjudicating China's Lewis turning point is a complex procedure, entangled with cultural political economies of age and gender as well as post-Maoist legacies of citizenship and mobility rights.

Third, Gray's account does not register how the predominance of GPNs in China's core manufacturing sectors further complicates the picture, through its adverse effects on Chinese corporate power. Kincaid (2003: 163), in a critique of underconsumption theory, notes that—even without nominal wage increases—productivity gains can have the effect of 'reducing the prices of commodities, and raising real wages'. So one important mechanism by which workers would typically gain (in income terms) from productivity improvements is by the cheapening of wage goods. And this mechanism does seem to have been at work in previous East Asian developers as they came to resemble advanced economies with large household consumption demand forming a market for domestically produced goods. However, to the extent that Chinese firms are subordinate players in GPNs, this tendency (rising productivity increasing real wages by cheapening consumer goods) is diverted, since windfall productivity gains tend to ricochet *up* the production network to lead firms based in competitor economies—as these firms act then to reorganise production networks through generalising innovations and sourcing new, cheaper, suppliers. Milberg and Winkler (2013: 123–4) argue that it is this 'asymmetry of market structures in GVCs, and the ability of lead firms to generate and maintain the asymmetry, that is at the core of the [advanced economy] oligopoly firms' cost-cutting strategy that has helped them maintain their cost markups'. And since China's core manufacturing sectors mostly function as an export hub for advanced economy consumer markets, advanced economy-led firms typically capture the gains that might otherwise have accrued to workers. A US$50 reduction in the sale price of an iPhone is of little value to China's factory workers so long as the asking price remains far beyond their reach.

So while weak labour organising is one part of this story, another is that China's entry into GPNs has produced very few globally competitive firms in the vein of Japanese and Korean car producers, or even midscale Taiwanese fabless chip firms—and those large, vertically integrated Chinese firms that have emerged remain overwhelmingly in the heavily protected state sector (Nolan 2014; Rugman et al. 2016). Kaplinsky and Morris (2016) describe China's mode of integration into the world economy as 'thinning in' to very particular areas of the production network, using small firms to perform the least desirable tasks in long supply chains while gradually aiming to upgrade their capacities (rather than 'thickening in', by constructing vertically integrated export firms). Implicit in widespread concerns regarding wage increases is the acceptance that China remains mostly in competition with other low-wage economies rather than encroaching on advanced economy firms. This leaves open a broader question: if Chinese wages continue to increase significantly, is incremental 'second-tier' innovation—the small improvements in manufacturing process (rather than novel product development) at which Chinese firms are increasingly adept—a secure enough niche to sustain producer price inflation at the expense of overseas lead firms?

While recent value chain analysis has hypothesised a possible shift in the balance of power as large first-tier suppliers begin to emerge (Appelbaum 2009), the case of Foxconn is sobering. In the aftermath of worker suicides at its Shenzhen plant in 2010, wages and operating conditions were marginally improved. Apple responded to higher costs and negative publicity by diversifying its supplier base to Pegatron and other large Electronics contract manufacturing (ECM) based in the Pearl River Delta (Chan et al. 2013). Foxconn, in turn, shifted some production inland, tapping the rural underemployed in new plants (its Chengdu facility opened in 2010) as a source of lower wages. At least in this instance, intense pressure to improve conditions at a single plant (Foxconn's coastal Longhua facility) came up short against the pressures from lead firms and the capacity of large contract manufacturers to reorganise production networks. And, this was in spite of substantial firm-level progress in second-tier innovation. Foxconn now produces touchscreens for electronic cars, lithium batteries, industrial robots, displays for smartphones, tablets, and medical equipment. But despite acquiring a great deal of technical knowledge through learning by doing for lead firms, it has resisted moving directly into mobile phone manufacturing and other forms of novel product innovation, since the firm is extremely hesitant to be seen as competing with its major customers (Apple continues to represent around half of total orders). In spite of ballooning revenues of over US$132 billion, Foxconn's operating margin remains just over 2% (van Liemt 2016).

Beyond this individual case, the mixture of relatively high technology with low margins remains pervasive across China's electronics sector, even as firms have moved far beyond performing rudimentary assembly work in the last decade. Lüthje and Butollo (2017: 8) observe that despite the 'substantial upgrading of the ECM [electronics contract manufacturing] industry … [and] rapid growth of Chinese telecommunications equipment makers headquartered in the PRD [Pearl River Delta], such as Huawei and ZTE', a 'restructuring and diversification of production … is occurring under the auspices of ongoing low profit margins and cut-throat competition in ECM.' Even in the case of wholly domestic-owned firms now emerging in the smartphone sector (Oppo, Vivo, ZTE, Huawei), competing with global leaders by replicating their complex interaction between branding, research, and dense supply chain networks appears a near impossibility: while these firms have taken a significant amount of domestic market share and increasingly branched out into global sales, they operated on razor-thin profit margins. While each turned over US$200 million in profit in the third quarter of 2016, Apple entrenched its dominant share of global earnings share (taking 91% of profits—US$6.7 billion) (Sui 2016; Grimes and Yang 2017). Manufacturers suffered from 60 consecutive months of producer price deflation from mid-2012, while in 2015, the value of China's manufacturing exports stagnated for the first time since the crisis of 2008 (UN Comtrade 2015). This suggests that after rebounding from the crisis, China is at last finding the secular limits of its current place in the global division of labour as its export engines encounter severe pressures.

This reciprocal interaction between weak firms and weak labour bears a strong resemblance to phenomena Silver (2003)—in a discussion of the globalised car industry—terms the 'contradictions of semiperipheral success' facing catch-up economies:

> Windfall profits that accrued to U.S. automakers helped them underwrite a stable labor-capital accord and mass consumption social contract that lasted for more than four decades after the CIO struggles of the 1930s. In contrast, the lower profit levels associated with the intense competitive pressures toward the end of the life cycle (and the relative national poverty of the favored new sites of production) make such social contracts increasingly difficult to sustain economically. In other words, late-developers of mass production automobile industries have experienced the social contradictions of, capitalist development (including strong working classes) without the benefits that might allow them to deal with those social contradictions successfully.

Whatever the prime direction of causality, it is clear that this is having an adverse effect on China's capacity to move further up the value chain and to compete directly with the advanced economies in lucrative market segments. As Ghemawat and Hout (2016) write, 'China is not transitioning from low-end, first-generation exports to high-end, second-generation exports as quickly as Japan or South Korea did. When those countries' GDPs per capita were at China's current level, capital goods made up more than 25 percent of their exports, and their performance on capital-goods exports continued to improve, rather than leveling off as China's has.' Technology licence payments by Chinese firms continue to amount to over US$20 billion per annum (SCMP 2017).

Switching Crisis?

So far, this chapter has argued China's exportist system of accumulation is increasingly suffering the effects of faltering profitability of capital rather than a failed strategy of rebalancing. Paradoxically, China's investment rate has increased markedly since the global crisis of 2008. Despite accounting for an already high 40% of GDP in 2008, fixed-asset investment peaked at 48% in 2011 and has since remained above 45%. There are two principal reasons for this exorbitantly high investment rate, which has become the prime driver of China's economic growth since 2008. First is the central state's programme of forced investment in state-owned enterprises (industries often already suffering overcapacity), primarily to fuel infrastructure building. Second is a dramatic increase of (private and public) fixed-asset investment in housing and real estate, where profits remain healthy, and which is increasingly coming to substitute for private sector manufacturing investment. This final section considers the interconnections between these two developments and argues that China appears to be experiencing a form of investment 'switching crisis', which potentially prefigures a deeper slowdown.

Regaining ground since 2008–2009, private sector investment in China has again trended downward since 2014, bottoming out as it approached 0% in the summer of 2016 (Fig. 3.3). But SOE investment in fixed capital

Fig. 3.3 State and private investment in China (% change, year on year) (Source: Ross 2016)

(more than) made up for the loss of export earnings and decline in private investment, meaning that (in the language of 'rebalancing') a 'narrower external imbalance has come at the cost of growing internal imbalances' (Zhang 2016: 8). But, since low-return SOE investment has historically been financed by export-generated surpluses, any increase in the investment rate of SOEs—especially if accompanied by a fall in export earnings—could only be funded by an expansion of credit. And credit creation did indeed spike dramatically from 2008. China's debt load has increased to 2.8 times GDP, from 1.5 times (a then much smaller) national product in 2005. This US$28.2 trillion in debt has been overwhelmingly run up by corporations (rather than households, banks, or local governments), which owe two-thirds of this money. The bulk is owed by state firms.[3] Many central banks pursued quantitative easing to rescue financial institutions, but the increase in China's supply of broad money since 2007 amounts to US$16 trillion—greater than increases in rest of the world combined, and dwarfing that of the US (c. US$5 trillion) and the Eurozone (US$1 trillion) (Mandeng 2016).

Just how sustainable is China's debt-financed state-led investment? Kroeber (2016: 212) describes China's earlier development as a process of 'capital widening', where simply increasing the (chronically low) ratio of capital to total GDP permitted windfall gains in productivity. But today, the value of China's total capital stock is quickly approaching three times the value of GDP—double its ratio in 1994—a level of capital saturation only reached by Japan in the early 1980s and Korea in the year 2000, after they were considered wealthy economies. The upshot is that as China's capital stock accumulates, so do pressures to extract returns commensurate to the scale of the sunk capital investment. Boosting productivity by adding new machinery becomes more expensive, increasing pressure to utilise existing investments more productively. In this scenario, China's strategy of directing further investment into the state sector has precisely the opposite effect, especially since it suffered from both relatively low returns and industrial overcapacity even before 2008. An OECD (2015: 125) report cites official government statistics showing 'up to USD [$] 6.8 trillion of ineffective investment had been undertaken since 2009, a

[3] Though the flood of lending surging through the economy has also resulted in the emergence of a thriving shadow banking sector which increasingly targets small private firms with high interest rate loans (Tsai 2015). This explosion of underground lending is no surprise given the quantity of renminbi printed since 2008.

very large share of which consisted of local governments' industrial and infrastructure projects'.

Consider the crisis of overcapacity in the steel industry generated by China's overinvestment in fixed capital. Total global demand for steel amounted to 1500 million metric tons (MT) in 2015, while total world capacity stood at 2300 MT. This 800 MT in overcapacity was overwhelmingly due to China's addition of an extra 552 MT of capacity since 2008, independent of market demand. Indeed, China produced more steel in 2015 (803.3 MT) than the next 30 producers *combined* (for comparison, Japan, the second largest producer, produced 105 MT), while repeated central state efforts to run down unnecessary steel mills have so far proved ineffectual (Brun 2016). This story of runaway capacity could be repeated across a range of heavy goods industries like coal, shipbuilding, chemicals, and oil refining. And even in higher-tech areas where the state has a significant stake, like aerospace engineering, a flood of government investment is not exactly producing the desired 'indigenous innovation' called for in documents like CM2025. China's first domestically constructed passenger aircraft, (state-owned) Comac's C919, conducted a successful test flight in May 2017. But although this did represent a major milestone in some regards, the *Financial Times* (2017) reported

> 'the wings and the tail are made in China, but many of the most important and most technologically advanced parts are purchased from foreign companies, such as GE and Safran, which provided the engine, and Honeywell, which supplied the wheels and brakes and communication and navigation systems … the C919 is still 10–15 years out of date, compared to the latest versions of the A320 and Boeing 737, meaning it will probably cost more to run.'

Such misplaced investment in heavy goods reveals the limitations of the Keynesian industrial strategy of forced investment. But one area where 'overinvestment' is commonly understood to make sense is urbanisation, which is viewed as a means of promoting economic and productivity growth for China in the medium to long term (Green 2010; Roach 2014). According to the World Bank (2014), because urban services are more productive than farming and more labour intensive (and thus capable of absorbing more workers) than manufacturing, simply urbanising a greater portion of the rural population should lead to further growth and productivity gains. At the outset of reform, fewer than 20% of Chinese lived in cities, while the 50% urbanisation threshold was passed in 2012. Although nowhere has such a great quantity of people become urbanised in such a short space of time, proportionately, the growth of the urban population remains below that of previous East Asian developers. So in principle, urbanisation has room to continue. But assuming investment in urban infrastructure can unproblematically boost growth runs into a number of problems. First is that urbanisation is not a guarantee of employment generation in itself, even in the urban service sector. As Miller (2012: 162) argues, 'if the economy does not create enough jobs, China could easily find itself succumbing to the same bleak predicament as many Western societies: handing over welfare payments to a disenfranchised urban underclass living in run-down public housing estates.' And second, undermining the *hukou* system also represents a threat to the regime of social reproduction, insofar as cheap migrant labour was largely produced by concentrating the social costs of childcare, ill health, and retirement in the countryside.

These longer-term difficulties of urban development aside, I want to close this chapter by considering whether China's contemporary *form* of urbanisation—especially its highly speculative and profit-driven nature—might be fruitfully represented by what David Harvey (2016) conceptualises as a 'switching crisis'. In an article titled 'the urban process under capitalism' originally published in 1978, Harvey develops a simplified model of capitalist investment comprising primary, secondary, and tertiary sectors. The primary circuit of capital, manufacturing, is where value is created—but tends to experience overaccumulation since productivity is improved by reducing the quantity of labour versus capital utilised. The secondary circuit of capital comprises infrastructure, real estate, and the built environment, and tends to suffer from underinvestment (since 'investments tend to be large-scale and long-lasting, often difficult to price in the ordinary way, and in many cases open to collective use by all individual capitalists'; Harvey 2016: 128). The tertiary circuit is made up of investments in R&D and welfare expenditures, which again tend to experience underinvestment in typical conditions, but which are liable to be changed by class struggles over the social wage. For our purposes, we set this tertiary circuit to one side to focus on the interplay between manufacturing, finance, and real estate.[4]

[4] Interestingly, Harvey (2012: 60) has been amongst the more perceptive Western geographers to have considered the China's contemporary urbanisation drive, though he does not mobilise his concept of a switching crisis to do so. He observes that the 'speculative scale of the Chinese development seems to be of an entirely different order than anything before in human history'.

The purpose of Harvey's model is to concretise the dynamics of crisis formation, by tracing how low profitability due to overaccumulation in manufacturing can be resolved, temporarily, by redirecting investment into the (underdeveloped) secondary circuit—housing, infrastructure, and the like. This redirection usually requires the formation of capital markets alongside a 'state willing to finance and guarantee long-term, large-scale projects' by issuing fictitious capital (like bonds and central bank loans) (Harvey 2016: 132). Such urban fixed-capital investments typically pay off in the short run, insofar as they compensate for historic underinvestment during a prior manufacturing boom. But since it is virtually impossible to guarantee the productivity of long-term, large-scale investments (especially when they are precipitated by a flood of capital escaping the crisis-ridden primary sector) or to correlate these with the needs of renewed manufacturing profitability, sectoral switching typically represents a strategy of (temporal) *crisis-deferment* rather than resolution. Harvey (2016: 136) notes that 'manifestations of crisis thus appear in both the secondary and the tertiary circuits of capital. But there is a substantial time-lag because of the long turnover time of such investments.' Eventually 'the crisis takes the form of a crisis in the valuation of assets,'—that is, falling real estate prices.[5]

This theory of a switching crisis bears at least some relevance for the contemporary Chinese case, where the recent scale of investment in real estate and urban construction has been enormous. A booming urban property market emerged during the 2000s (helped by low land valuations and an ageing housing stock), and by 2008, nearly 10% of GDP growth was generated by investment in real estate—70% of which was residential

[5] Christophers (2011: 1352), in perhaps the most scrupulous deployment of Harvey's theory to date (see also King 1989; Beauregard 1994), warns that looking for definitive empirical verification of the theory may be too demanding because of the complexity of accurate empirical measurement of intersectoral value transfers and fictitious capital formation. He suggests two empirical strategies which should at least be strongly suggestive of the process: first, an empirical measurement of the relative significance of investment in the built environment compared with investment in productive activities (data which I consider sufficient in the Chinese case) and, second, the propensity of institutional investors to switch their portfolios from manufacturing investment to real estate investment. Since evidence of this latter type is not readily available in the Chinese case, we must rely largely on the first, supplemented by more general observations which we would expect to accord with a disproportionate flow of investment into the built environment where returns seem increasingly unlikely to materialise in the long run.

construction.[6] Plainly, property became economically significant for China's national economy before the crisis of 2008, and to this extent was coterminous with development of the 'real' economy (cf. Hsing 2010). Property prices peaked in 2011 as China registered its first small decline in housing values, before recovering later in the year (a pattern repeated in 2014–2015). However, in parallel with the ramping up of state spending on infrastructure, the overall pattern of the post-2008 period has been marked by a dramatic spike in the upward trend of investment in property—with real estate generating 15% of GDP growth in 2014 and attracting US$1.5 trillion of fixed-asset investment, a level at which it remained through 2015 and 2016. Property in 40 cities increased in price by 60% from 2008 to 2014, while average prices stood at 494% of total household disposable income in 2016 (second only to Australian ratio) (McKinsey 2015). China poured more concrete between 2011 and 2013 than did the US during the twentieth century (MacCarthy 2014); the country accounts for more than half of the world's skyscrapers (Wood 2014), and available real estate floor space increased by over 50% in major and 200% in smaller cities between 2009 and 2014 (Woodworth and Wallace 2017: 5–6). Investors who purchased property in the early days of private housing sales have benefitted from soaring prices. Consequently, the decline of exports and attendant increase in state spending have led to real estate playing a far more significant (arguably, a key) role in the system of accumulation—one sector where private investors feel confident of earning a return, and one upon which officials increasingly depend to generate revenue.

There seems little doubt that real estate has become an increasingly critical locus of economic activity. With a closed capital account and US$30 trillion of savings deposited in banks, a giant cash surplus struggles to find a productive outlet within the national economy. Many bank deposits are collateralised against housing values and returns on infrastructure projects. Research by *Deutsche Bank* finds that in 2015, local governments sourced 43% of their tax revenues from property and construction (vs. 10% from manufacturing activities)—while off-budgetary revenue

[6] Land remains state owned, but land-use rights were separated from ownership in 1988, and the dynamic of financially struggling local governments turning over rural land for urban usage was entrenched thereafter as early as 1994 with shifts in the taxation regime. Initially, land development was mostly for industrial usage, since the system of dormitory migrant labour (where factories provide accommodation) required minimal residential construction. It was only during the late 1990s that an urban property market was established—by transferring ownership of the bulk of all housing from the state to previous tenants.

earned from land-use sales was equivalent to half again of all above-board revenue (*ValueWalk* 2017). And an enormous quantity of debt has also been mobilised in service of this construction binge. Nearly three-quarters of the RMB 4 trillion stimulus package of 2008–2009 was funded by local (rather than central) government, funnelled from state banks to local urban development projects through local government financing vehicles (LGFVs). Nominally independent (but de facto state-operated) LGFVs serve as investment houses for local governments unable to borrow directly from state banks. While relatively insignificant before 2008, these had proliferated to over 10,000 by 2014 (Breslin 2014). McKinsey (2015) research highlights that half of China's total debt of US$28.2 trillion is linked, directly or indirectly, to real estate markets. The housing boom is also intimately tied to improving consumptive capacities of Chinese, since rapid price rises are compensating for slowing incomes, generating a 'wealth effect'. In 2016 alone, it is estimated that price rises in major (first-tier) cities increased the wealth of homeowners by RMB 24 trillion.

One highly visible manifestation of this increasingly entrenched urbanisation dynamic is the now notorious phenomenon of 'ghost cities' (Shepard 2015). This first came to public attention following reportage on the case of Kangbashi in Inner Mongolia—then an entirely uninhabited urban development constructed a 30-minute drive from the established city of Dongsheng in the Gobi Desert. Completed in 2010, Kangbashi is capable of housing 300,000 citizens, though was home to just 28,000 in 2011 (Sorace and Hurst 2016). Since then, a flood of reports on apparently deserted urban developments (more often new city districts than entire cities) have appeared, while images of uninhabited skyscrapers and carless city streets add to the dramatic sensibilities of such journalism. For some, this speculative urban construction makes eminent sense, considering the likely scale of China's future urbanisation. Miller (2012: 123), for instance, argues that China 'can digest a few white elephants' because 'every year, China's cities must absorb more than 20 million new inhabitants.' For Sorace and Hurst (2016: 30), however, ghost cities lay bare the performative aspect of urbanisation—that cities must be constructed before they can be inhabited, but that this significant temporal gap between their production and realisation opens up a significant space for crises. As such, speculative urbanisation is underlain by a mistaken 'assumption that the *construction of urban landscapes* will eventually result in *urbanization* by attracting financial investment and residents', which may not be the case.

Do these trends amount to a potential housing bubble? Optimistic accounts of China's speculative urbanism hinge around two important contentions. First, it is argued that a bubble is unlikely in Chinese real estate markets because mortgages require very high down payments (often around 30%), making repayment crises less likely than elsewhere. Second, because capital markets are shallow and essentially detached from the real economy, they cannot well facilitate switching of private investment from manufacturing and into house price speculation. This second point ignores the extent to which, in the absence of developed capital markets, China's state has played a highly significant role in directing assets into real estate with its investment programmes—by using its control over bank finance to redirect savings towards urban development investments. And despite the security offered by large mortgage down payments, a fall in house prices due to oversupply (or even a crisis of debt repayments elsewhere in the economy which depresses the value of housing)—would have some impact on the banking sector: since housing represents 60% of personal savings and against which the majority of bank deposits are collateralised. While state control of banking might avoid a full-blown financial crisis, in Japan, this could not halt a permanent slide in corporate and land prices during the 1990s and a 'zombie decade' of stagnant growth.

Finally, while further urbanisation is likely an economic and social requirement of China's future development, the dynamics of the urban process evidently function as a barrier to its core aim—to offer housing to rural migrants locked out of cities' socio-economic life. China's urbanisation is consonant with the increasingly global pattern of what geographers refer to as 'neoliberal urbanism'. As He and Wu (2009: 284) explain, 'the local state and enterprises have jointly endeavored to promote rapid urban (re)development, which is strongly based on real estate development … The elements of neoliberalization, eg privatization and commodification, drastic inter and intra-urban competition and radical urban socio-spatial transformation, are emerging in China.' One concrete impact of these broader socio-spatial trends is the result that a great bulk of housing—constructed as a site for investment—is at the top end of the market, in luxury, secure condominiums. These are far beyond the reach of the bulk of migrant workers (and to some extent appear purposefully designed to exclude them and their attendant social security bills), while their high price commands a strong return for investors (cf. Gaulard 2013). Unsurprisingly, given this market mismatch, inventories of unsold housing are piling up, and 5 billion square metres of floor space were on the market in mid-2016 (up from 3 billion in 2012). But even were prices to fall substantially, it seems unlikely that such high-end housing would be adapted for and sold to lowest-income residents.

Attempts to rationalise the urbanisation process have proven inadequate. The 12th Five-Year Plan mandated the construction of 36 million units of social housing from 2011 to 2016, but nearly half of this stock was in university dormitories and other public constructions with only tenuous claim to the label 'social housing'—while local governments frequently build highly unsuitable social housing constructions cheaply, far away from amenities and transport links, in order to fulfil obligations to the plan. Miller (2016) reports that mortgage uptake amongst first-generation migrants has increased substantially in the past year, as new housing developments in interior provinces aimed at low-income returning first-generation migrants come online. But the number of migrants with mortgages remains at just 1.3%—a figure that does not appear likely to change significantly in the near future. Local governments (in the final instance responsible for nearly all real estate development) are driven overwhelmingly to pursue economic growth, while property buyers are primarily chasing a return on their invested assets rather than residency (Sorace and Hurst 2016). China's housing market appears to function more as a sinkhole for investment, than to meet the housing needs of the polity. This capital switching might not conform exactly to Harvey's patterning, but its broad-strokes approximation should concern those invested (both economically and socially) in China's accumulation system.

Conclusion

Much more could be written regarding the danger signs facing the Chinese economy—not least the continuing (gradual) slowdown in growth, the two dramatic equity value crashes which spooked global investors in July 2015 and January 2016, and the large-scale capital flight which prompted China's spending of US$1 trillion in foreign currency reserves to prop up the yuan during 2016.[7] However, despite the multiple and complex crisis

[7] It is quite possible that China is nearing the end of its liquid forex reserves (which amounted to a total of US$4 trillion in 2015), since it is believed that many bank loans are capitalised against the remainder, making it impossible to deploy them in service of the yuan in the face of further capital flight.

tendencies which this chapter has aimed to identify, I do not side with those pessimists who regularly predict the imminent demise of the Chinese economy. As argued in Box 3.1, we should be cautious about extrapolating from the experience of past catch-up developers, since today's geopolitical economy is radically different from that encountered by previous catch-up developers.

The evidence does appear, however, to suggest that a clearing out of unproductive capitals is likely necessary before a renewed round of accumulation can begin—and attest to the intrinsic irrationality of globalised system of capitalist production of which China remains a major constituent part. China's compressed urbanisation process has drawn together central government, for whom urbanisation is increasingly a national accumulation strategy, local governments, who rely on the revenues from turning over land for developments, and investors (including an upper strata of the non-migrant working class), who have so far secured healthy returns by purchasing property. This switch of investment flows may have deferred the depth of economic crisis in the short term, but its future consequences remain to be seen. China's growth pattern is increasingly marked by the effects of the collapse of its export sector in 2008 and the manifold attempts of the state to maintain growth in the face of the long depression weighing on the global economy. The continuing depth of China's integration with that global economy means that its success is unlikely to be determined by state attempts towards rebalancing.

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CHAPTER 4

Globalisation and Irregular Migration: Does Deterrence Work?

Matilde Rosina

The changes and pressures brought about by globalisation greatly incentivise out-migration, including in its irregular forms.[1] It is in particular these irregular forms that carry the imprint of the *dark side* of the globalisation process and where the latter's negative externalities manifest themselves: Be it enough to think about the over 5000 people who lost their lives in 2016 while crossing the Mediterranean to achieve what they hoped would be a better life in Europe,[2] or about all the Nigerian women and girls who arrived in Italy as victims of trafficking in human beings, meant to be sexually exploited (likely over 8000 in 2016).[3] Adding to that, and in particular for all those who attempt to reach Europe through Libya, the line between smuggling and trafficking is an increasingly thin one, with repeated abuses and ill-treatments taking place both within institutional

[1] For a discussion of the effects of globalisation on migration, see Talani (2015).

[2] IOM (2017).

[3] In 2016, 11,009 Nigerian women arrived to Italy by sea (UNHCR 2016) and IOM estimates 80% of them to be victims of trafficking (IOM Italy 2017, p. 9).

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detention centres and outside them.[4] At the same time, the criminal organisations that engage with the migration business are characterised by a growingly professional network[5] and by revenues believed to be second only to those generated by drug smuggling.[6] And yet, in spite of all this, arrivals to the European Union (EU) have been record high from 2014 onwards, well above the 2011 levels that followed the Arab Spring.[7]

Aiming to provide a solution to the growing numbers of unauthorised entries and supposedly attempting to improve the appalling conditions related to such journeys, European governments' responses have often focused on policies based on the idea of discouraging migration by threatening harsh sanctions, by opting, for example, for indefinite detention or for penalties of criminal nature—in other words, by focusing on measures based on deterrence and giving them prominence in the domestic discourse.

Indeed, deterrence has an understandable appeal for policymakers, due to its ease of applicability in both explaining irregular migration and providing a solution to it[8]: Because individuals are expected to migrate irregularly when the anticipated benefits are greater than the foreseen costs, increasing the latter should make the conduct less profitable and appealing and therefore reduce its occurrence. In this way, irregular migration is presented as a phenomenon that can be easily controlled, and even prevented.

From a theoretical perspective, deterrence is fully embedded in the realist tradition's emphasis on national sovereignty,[9] and reinforced by the neo-classical assumption that migration is the result of a calculation of expected utility as deriving from the difference between the estimated benefits in the country of destination and of origin and the costs of migrating.[10] But is deterrence effective in curbing migratory flows?

At first sight, taking the European Union as an example, the outcome of deterrence measures looks far from uniform. On one hand, the Spanish government managed to virtually seal the route from West Africa to the Canary Islands, which used to be the main entry point to the EU for

[4] Amnesty International (2017).
[5] UNHCR (2017).
[6] Di Nicola and Musumeci (2014, p. 40).
[7] Frontex (2017b).
[8] Cf. Pratt et al. (2008, p. 367).
[9] Briskman (2008, p. 128).
[10] Ryo (2013, p. 576).

irregular migrants in 2006, following a number of measures that would qualify as deterrents, including repatriations, information campaigns, and the end of domestic relocations.[11] On the other hand, however, taking the whole Schengen area as a benchmark (which seems more logical, given the absence of barriers to free movement inside it), the number of irregular border crossings steadily increased between 2012 and 2015,[12] despite the numerous attempts to limit the flows by, for example, establishing systematic and indefinite detentions in Greece,[13] criminalising irregular entry and stay in Italy,[14] and launching EU-led operations to disrupt smuggling networks in the Mediterranean Sea.[15]

In light of the above, and in order to develop analytical tools to discuss whether deterrence failures are caused by the inadequate application of the strategy's basic principles or by other, more structural, problems, in this chapter, I propose a research framework to deepen the analysis of this specific kind of measures and investigate whether they can have a meaningful impact on people's decision to migrate. To do so, I first engage with the debate on states' ability to control migration in the context of globalisation, discussing the realist, liberal institutionalist, and transnationalist approaches.[16] Then, I shift to the specific topic of deterrence, analysing the key elements on which the strategy rests, as well as the potential problems that may limit or undermine its effectiveness. The discussion of the functioning of deterrence is carried out by combining the migration literature with criminological studies, which have vastly researched states' efforts to promote compliance with the law through the imposition of legal sanctions and are therefore well suited to broaden the understanding of deterrent strategies in the context of migration.[17]

[11] Frontex (2017a), 'Western African Route'. For an analysis of Spanish policies, see Godenau and López-Sala (2016) and López-Sala (2015).

[12] Frontex ARA (2016, p. 17).

[13] Angeli et al. (2014).

[14] Italian Parliament, Law 92/2008 (2008).

[15] EUNAVFOR MED operation SOPHIA, for more information: https://eeas.europa.eu/csdp-missions-operations/eunavfor-med/36/about-eunavfor-med-operation-sophia_en.

[16] For transnationalist accounts, see Sassen (1996), Mittelman (2000), Dicken (2011), Castles (2004a, b), León and Overbeek (2015), Talani (2010, 2015). For realist accounts, see Weiner (1985, 1995, 1996), Borjas (1989), Teitelbaum (2002), Freeman (1995, 1998), Freeman and Kessler (2008). For neoliberal institutionalist accounts, see Hollifield (1998, 2004), Geddes (2003), Geddes and Korneev (2015).

[17] It should be stressed that the use of criminological literature is not aimed at supporting the classification of irregular migration as a crime but simply takes advantage of the well-established basis of research that the field possesses.

Migration Control and Globalisation

The question of whether states can control migration, in the context of contemporary globalisation processes, has long been a major source of concern for Western governments, and a subject of intense discussion for academics. Whereas some scholars support the idea that governments are still the key actors (the realist approach),[18] others argue that a relevant role is played by supranational institutions (the liberal institutionalist approach),[19] and others yet maintain that migration is to a large extent an uncontrollable phenomenon (the transnationalist approach).[20]

The Realist Approach

Starting with the realist hypothesis, authors subscribing to it support the idea that the rules of entry and exit, as designed and implemented by both countries of origin and countries of destination, play a key role in forcing, promoting, or impeding migration.[21] Globalisation, they argue, does not nullify states' capacity to control migration.[22]

Weiner, one of the most prominent representatives of the realist school, maintains that comparative analyses of migration policies show that, despite globalisation processes, states are able to control the flows of people traversing their borders, although with varying degree of effectiveness.[23] He argues that ease of access is more relevant than market forces in shaping migratory flows, and highlights in particular the utility of ID cards and checks on illegal employment. Further, he stresses that the role of sending countries should not be underestimated, as they can also exert notable influence on the flows, by either encouraging certain categories of people to leave or preventing others from doing so.[24]

Highlighting the differences among regime types, Teitelbaum depicts the effectiveness of entry and exit measures as a continuum along which

[18] Weiner (1985, 1995, 1996), Borjas (1989), Teitelbaum (2002), Freeman (1995, 1998), Freeman and Kessler (2008).

[19] Hollifield (1998, 2004), Geddes (2003), Geddes and Korneev (2015).

[20] Sassen (1996), Mittelman (2000), Dicken (2011), León and Overbeek (2015), Castles (2004a, b), Talani (2010, 2015).

[21] Borjas (1989), Weiner (1995, p. 134), Teitelbaum (2002).

[22] Freeman (1998), Weiner (1996).

[23] Weiner (1996, pp. 184–5).

[24] Weiner (1995, pp. 34, 205–7; 1996, p. 184).

authoritarian regimes are able to exercise 'substantial' control and democratic ones 'variably effective' control.[25] Yet, both Teitelbaum and Weiner argue, even in the latter case it would be wrong to say that state action is ineffective, as, in the absence of any limitation, the number of people attempting to migrate would be notably higher.[26]

The realist approach has been highly influential in the debate on states' ability to control migration, but it has also often been criticised for employing a monolithic conception of the state and failing to appreciate the pluralism of interests that are involved in migration issues.[27] This, in turn, also prevents the theory explaining how those immigration policies that are criticised for being irrational or inadequate came to be adopted.[28]

These issues are however overcome by Freeman,[29] who approaches the processes that lead to the adoption of immigration policies from an economic interest point of view.[30] While he can be considered part of the realist school due to his focus on the state as the main unit of analysis,[31] he slightly departs from it, stressing the importance of multiple actors involved in the decision-making and lobbying processes. Freeman argues that the management of migration still belongs to the realm of state sovereignty, and it would be wrong to assume a general loss of control over in-flows, since it is domestic politics itself that decides the degree of openness it wants to allow.[32] In other words, states' ability to control migration is not decreasing, but actually increasing, and the main obstacles to achieve such a goal lie in political factors. Freeman's model maintains that it is possible to predict the kind of political model that will be in place in liberal democracies by examining political mobilisation and the effects of migration on wages and income, as well as on the fiscal system, of host societies.[33]

Freeman's hypothesis is crucial in emphasising the role of the political processes that lead to the adoption of immigration policies, as well as of the groups that influence such processes. Yet, it should be noted that his

[25] Teitelbaum (2002, pp. 165–6).
[26] Teitelbaum (2002, pp. 160, 166), Weiner (1996, p. 185).
[27] Samers (2015, p. 377).
[28] Meyers (2000, p. 1265).
[29] Meyers (2000, p. 1265).
[30] Talani (2015, p. 21).
[31] Talani (2015, p. 21).
[32] Freeman (1998, pp. 89, 103).
[33] Freeman and Kessler (2008, pp. 671–2).

study neglects the role of ethnicity and identity issues,[34] which are now often leveraged by populist radical right parties through 'nativist' sentiments[35] and can therefore greatly alter political dynamics.

Overall, the realist position considers states as the fundamental unit of analysis, and contends that they are still able to control migration. However, increasingly high numbers of irregular migrants attempting and managing to reach Western countries, and Europe in particular, seem to suggest a less-than-perfect capability in restraining the phenomenon, making numerous authors question the validity of the realist hypothesis.

The Neoliberal Institutionalist Approach

A second school of thought has sought to go beyond realism, by developing arguments aimed at combining political factors with economic ones: Neoliberal institutionalism, according to which supranational institutions play a key role in states' acceptance of migration.[36]

One of the main defenders of this thesis is Hollifield, who argues that realists' omission of the economic and social factors is highly problematic.[37] Indeed, he maintains, states are trapped in a 'liberal paradox' when dealing with globalisation, caused by a clash between the pressures for greater openness by international economic forces and the push for greater closure by domestic political forces.[38] How such a paradox is resolved, and therefore what the eventual degree of openness of a country to migration is, depends on the extent to which rights are institutionalised and constitutionally protected. Indeed, not only the legal framework created by a state represents the context in which migrants pursue individual aspirations, but individuals in liberal democracies can also generally access 'rights of membership', that is to say, those rights granted to all members, regardless of their citizenship. These rights may incorporate more or less rudimentary civil and social provisions, sometimes even political ones, depending on the country of reference, and are very difficult to withdraw or ignore, as to do so would negatively affect the state's legitimacy. Consequently, Hollifield argues, the institutionalisation of rights repre-

[34] Talani (2015, p. 23).
[35] Samers (2015, p. 375).
[36] Hollifield (1998).
[37] Hollifield (1998, p. 606).
[38] Hollifield (2004, p. 886).

sents the most significant constraint on states' capacity to control migration.[39]

The institutionalisation of rights, in turn, depends not only on political or economic interests, but also on ideas and institutions, with the result that states cannot detain control over migration in a unilateral way but need multilateral cooperation.[40] As an example, it is argued that regional integration makes the formation of domestic coalitions in favour of openness easier, an argument that is also supported by Geddes, who, focusing on the European Union, similarly argues that cooperating and harmonising policies on immigration issues have allowed member states to escape the jurisdictional and political constraints they faced domestically, and increased control over migration.[41]

Although Hollifield's hypothesis looks promising in including both political and economic analyses, the academic regards rights as deriving from a state's legal system,[42] rather than from supranational regimes, and does not therefore fully classify as a neoliberal institutionalist.[43] Indeed, it is questionable whether the fundamental element on which such theories rest, a strong international regime of migration, actually exists, or is being developed[44]: Hollifield himself states that the International Organisation for Migration (IOM) and the International Labour Organisation (ILO) are not even close to the international regimes that regulate trade and finance.[45] An exception is of course the European Union, but, even there, freedom of movement is only applicable to citizens of member states, not to third country nationals.[46]

The Transnationalist Approach

Attempting to overcome the problematics of both the realist and neoliberal institutionalist approaches, and relying in particular on economic arguments, transnationalist accounts have provided for a further interpretation of states' ability to control migration. According to the scholars subscribing to this tradition, the process of globalisation that began in the

[39] Hollifield (1998, pp. 619–20; 2004).
[40] Hollifield (1998, p. 598; 2004, p. 903).
[41] Geddes (2003, pp. 20, 196).
[42] Hollifield (1998, p. 619).
[43] Talani (2015, p. 24).
[44] Talani (2015, p. 23).
[45] Hollifield (1998, p. 615).
[46] Hollifield (1998, p. 626).

late twentieth century has gradually eroded state sovereignty, to the extent that migration is largely an uncontrollable phenomenon.[47] Following Dicken, it is possible to describe globalisation as an indeterminate set of processes composed of *qualitative* transformations.[48] In this sense, globalisation differs from internationalisation, as, while the latter only concerns the quantitative increase in cross-border traffic, the former also addresses where and how such changes occur.[49]

How does migration come to be an uncontrollable phenomenon, for transnationalists? Sassen argues that, in developing countries, the answer lies in the internationalisation of the economy: By promoting the increase in foreign direct investments as well as the feminisation of the industrial workforce, and by intensifying economic relations with developed economies, internationalisation disrupts traditional labour structures and incentivises out-migration.[50]

Extending the discussion to countries that are not developing, and following Dicken's emphasis on the importance of adopting a qualitative approach, Talani defines globalisation as a process that eventually leads to a 'new global division of labour, [and] produces mass migration from marginalised regions of the globe', through a number of steps.[51] In her model, technological transformations are at the basis of the alterations that affect global production and its geographical reallocation, by contributing, for example, cheaper transportation costs and remote labour control systems. In this context, production moves to specialised areas, characterised by lower costs, generating dynamics of 'regionalisation within globalisation', that is to say, creating economically integrated regions. This process, however, has as a side effect the increase in the marginalisation of the areas not involved in the process of geographical reallocation of production, and the deterioration of such zones' living conditions, with the result that phenomena of both brain drain and mass migration are incentivised.[52] Adding to that, Mittelman highlights that emigration further aggravates the marginalisation of such countries, by taking away their healthy workforce (in the case of mass migration) or their investments in human capital (in the

[47] Dicken (2011), Mittelman (2000), Sassen (1996), Léon and Overbeek (2015), Talani (2010, 2015), Castles (2004a, b).

[48] Dicken (2011, pp. 6–8).

[49] Dicken (2011, p. 6), also Léon and Overbeek (2015, p. 39).

[50] Sassen (1996), Sassen, in Talani (2015, pp. 27–8).

[51] Talani (2015, pp. 30, 39), see also Roccu and Talani, this volume.

[52] Talani (2015, pp. 31, 39).

case of brain drain), in what becomes a vicious cycle where migration simultaneously affects, and is affected by, the restructuring of the global political economy.[53]

What does the above imply for states' control of migration, according to transnationlist accounts? Following Sassen, states' desire to limit the movement of people across their territory clashes with their propensity to liberalise trade, services, and finance, with the result that immigration restrictions cannot but fail to deliver the expected results.[54] In other words, the economic de-nationalisation caused by globalisation is incompatible with the political re-nationalisation encouraged by migration issues.[55]

Even more sceptical about states' roles are Mittelman, Talani, Léon, and Overbeek, albeit with varying degrees. Indeed, they all argue that the dynamics of globalisation transcend national boundaries, not being defined by the latter's existence anymore, with the result that states lose their centrality in social relations.[56] Nevertheless, for Mittelman, the role of variations in migration policies and their consequences should not be neglected, as state capacity is, yes, diminishing, but also continuing at the same time.[57] On the contrary, Léon, Overbeek, and Talani argue that politics is being subordinated to economics, as businesses can leverage the potential displacement of their economic activities abroad to gain more favourable economic policies from national governments.[58]

Overall, globalisation theorists develop in-depth analyses that persuasively explain migration, especially at the macro-level. Yet, at the very root of their arguments, many of them seem to share the neo-classical interpretation of economic mobility as a function of spatial disequilibria[59]: Globalisation, by exacerbating dualities, incentivises migration. While this neo-classical hypothesis has found vast consent, it has also been criticised for the scarce importance it attributes to migrants' agency and for being too deterministic.[60]

In addition to the above, the idea of a complete subordination of politics to economic forces seems rather problematic, especially when the role

53 Mittelman (2000, pp. 58, 62, 63).
54 Sassen (1996), Léon and Overbeek (2015).
55 Sassen (1996). See also Mittelman (2000, p. 73).
56 Léon and Overbeek (2015, p. 40), Talani (2015, p. 30), Mittelman (2000, pp. 58, 68).
57 Mittelman (2000, p. 65).
58 Talani (2010, pp. 30, 40), Léon and Overbeek (2015, pp. 45, 50).
59 Hollifield (1998, p. 610).
60 Tapinos (2000, p. 291).

of politics is negated a priori.[61] As a matter of fact, while it looks plausible to argue that states do not detain full control over migration, the effects that their actions and decisions regarding the economy, the labour market, education, or foreign policy can have on migratory flows suggest a more active role for states[62] than the one presented by transnationalists. After all, Dicken himself argues that nation-states are 'a most significant force in shaping the world economy'.[63]

To conclude, from the above discussion it emerges that states' ability to control migration is heavily limited by both domestic and external constraints, identifiable in pressures for openness and internationalisation by socio-economic interests and forces, as well as legal constraints safeguarding migrants' rights. Yet, this may not necessarily imply a complete loss of sovereignty, as governments may still in part shape incoming flows, including through action in other related fields. Of course, how exactly they decide to do that, and the eventual effectiveness of policy choices, are to be problematised, and it is indeed to these issues that I now turn: After having surveyed the theoretical context in which migration control is articulated, I now address the specific topic of deterrence, a policy tool which has vastly been adopted in recent years by Western countries in the hope of reducing irregular migration, but with unclear outcomes. In the next sections, I therefore complement migration studies with criminological ones, in order to discuss not only the functioning of deterrence, but also its potential weaknesses in managing migratory flows.

The Functioning of Deterrence

The word 'deterrence', from the Latin term *deterrere*, to frighten from or away, refers in its broadest sense to a strategy to 'discourage and turn aside or restrain by fear'.[64] From a criminological perspective, it is one of the multiple techniques available to legislators to increase individual compliance with the law.[65] While compliance may be generated by instrumental reasons, or by the normative belief in the legitimacy and morality of the law, deterrence only aims to affect the former by inserting or reinforcing

[61] Hollifield (1998, p. 609).
[62] Czaika and de Haas (2013).
[63] Dicken (2011, p. 171).
[64] Oxford English Dictionary (2016).
[65] von Hirsch et al. (1999, pp. 3–4).

negative incentives,[66] and its key characteristic is that observance of the law shall not be induced through the actual imposition of the penalty but, rather, through its threat.[67]

The fundamental concept underlying the notion of deterrence is the utilitarian idea that people engage with actions that procure them more pleasure than pain[68] or, in rational choice terms, that people balance the costs and benefits deriving from a certain conduct than acting in pursuit of utility maximisation.[69] As a consequence, legislators should, in order to increase compliance, alter the legal costs connected with unwanted behaviour, by introducing or amending sanctions, so that the fear of the expected punishment preponderates over the desire for potential gains.[70] This, in turn, implies an interactive relationship between two parties, the threatening agent (the state) and the threatened audience (the public at large and potential offenders specifically).[71]

In light of the above, I refer to deterrence as a strategy meant to discourage irregular migration to a country, through potential migrants' fear of negative consequences.[72] Specifically, deterrence can be distinguished from dissuasion and containment: While the former aims to affect its targets' rationality through both positive and negative incentives,[73] the latter is meant to effectively stop ('contain') people emigrating.[74]

To better explain the difference, let me bring some examples. To begin with, fences and push-backs are not deterrents, for they materially prevent people from crossing borders. In contrast, the criminalisation and detention of irregular migrants, their exclusion from social benefit schemes, and the imposition of sanctions on employers of irregular foreign work are all cases of deterrence, in that they do not stop migrants, but rather attempt to affect their assessment of the costs involved. Finally, border patrols and repatriations can have a double function of containment and deterrence: Taking the latter as an example, increasing the number of repatriations

[66] von Hirsch et al. (1999, pp. 3–4).

[67] Zimring and Hawkins (1973, p. 91).

[68] Bentham, cited in Andenaes (1968), and Beccaria, cited in Onwudiwe et al. (2005, p. 235).

[69] Akers (1990, p. 654), Nagin (2013, p. 9).

[70] Andenaes (1968, p. 79).

[71] Zimring and Hawkins (1973, p. 91).

[72] Based on von Hirsch et al. (1999).

[73] Freedman (2004, p. 104).

[74] Hassan (2000, p. 185).

acts as a deterrent when it causes a person not to cross a border, in fear of being returned. However, when a migrant is actually repatriated, that is not deterrence anymore but enforcement of the law. Indeed, in the latter case, deterrence has failed.

It can be useful to also distinguish between general and specific deterrence: While the former applies to the whole society, and is based on the threat of a potential penalty, the latter is directed against individuals who have already offended, and exploits the restraining effect of the experience of punishment.[75] Another way to think about the difference is that special deterrence applies in the instances where general deterrence has failed. In terms of migration, Hassan defines general deterrence as the set of measures taken in a country of immigration to discourage people from going there irregularly, and specific deterrence as the set of measures aimed to discourage them from remaining there.[76]

Having defined deterrence and explained the reasoning at its basis, I now focus on how it actually works. In other words, how can policymakers introduce or strengthen negative incentives, so that the costs involved in unwanted actions outweigh the potential benefits? Quite intuitively, the starting point regards the legal costs embedded in the foreseen sanctions.

Legal Costs: Certainty and Severity

The basic assumption of deterrence implies that, for the strategy to work, there must be legal (or formal) costs associated to the unwanted conduct. In particular, Cesare Beccaria, the very first philosopher of deterrence, identifies the certainty, severity, and celerity of a punishment as the key factors shaping the overall effectiveness of a deterrent threat.[77] Despite some early findings that the success of deterrence is inversely proportional to the waiting time between the commission of a crime and the administration of its penalty,[78] the study of celerity has not been continued in later analyses of deterrence, due to its ambivalent theoretical construction and lack of evidence.[79] On the other hand, however, the principles of certainty

[75] Andenaes (1968, p. 78).
[76] Hassan (2000, p. 185).
[77] Beccaria (1973) [1764].
[78] Robinson and Darley (2004, p. 193).
[79] Nagin (2013, p. 10).

and severity of the threat have constituted the foundation of nearly all investigations on deterrence that followed.

Of the two, Beccaria hypothesised, perhaps contrary to common perceptions, that 'the certainty of incurring a modest sanction has a greater impact than the fear of incurring a more terrible one, but with hope of impunity'.[80] Indeed, absent detection and apprehension, there is no possibility of conviction or punishment,[81] and several empirical studies have now confirmed that the biggest restraint to the commission of an offence is the infallibility of the punishment (in terms of both apprehension and conviction).[82]

On the other hand, the effectiveness of increasing the severity of a punishment is more controversial, with many scholars sceptical about its success.[83] Indeed, there appears to be little consistency: While lengthening a short prison sentence may contribute to enhancing deterrence, for example, doing the same with sentences that are already long may not yield any benefit in terms of crime reduction.[84] These diverging effects may be explained by people's propensity to not perceive costs as proportional to punishment[85] and by the fact that, above and below certain thresholds, individuals appear to be immune to changes in the severity of the threatened sanctions.[86] Finally, and perhaps quite paradoxically, increasing the severity of a penalty might also result in undermining the certainty of incurring it, as courts may be less willing to implement sanctions they deem too severe or unjust.[87]

The above criminological findings are corroborated by several migration studies: In their model of multi-layered deterrence, Godenau and López-Sala note that the deterrent effect of migration control strategies against experienced migrants is proportional to the ratio of failed to total attempts.[88] In other words, the closer the number of instances in which the individual is either intercepted or repatriated is to the total number of

[80] Beccaria (1973) [1764].
[81] Nagin (2013).
[82] See Nagin (2013) and von Hirsch et al. (1999, p. 6).
[83] See, for example, Nagin (2013) and von Hirsch et al. (1999).
[84] Nagin (2013, p. 39).
[85] Nagin (1998, p. 21).
[86] von Hirsch et al. (1999).
[87] Nagin (2013, p. 20).
[88] Godenau and López-Sala (2016, p. 4).

attempted border crossings, the more deterred he/she will be.[89] Carling and Hernández-Carretero similarly find that the deterrent effect of repatriations can only be significant if migrants perceive it to be certain that they will be repatriated in absence of valid documents.[90] In their words: 'As long as prospective migrants see the outcome of their migration attempt as a question of luck', deterrence is likely to only have a limited effect.[91] Yet, it is questionable whether the current situation in Europe is able to offer certainty: Not only large numbers of expulsion orders have been issued against unauthorised migrants, and then proven impossible to enforce,[92] but Italian officers have also been reported as not registering some of the apprehended undocumented migrants, so that the latter could travel farther north and apply for asylum in another country.[93]

The rather controversial effect of severity is also supported by migration analyses, several of which report that strengthening penalties and worsening reception conditions do not succeed in deterring people from travelling to the West. A study by Cornelius and Salehyan on the propensity to emigrate from Mexico to the USA in the mid-2000s, for example, finds that, while the probability of successful entry does affect migrants' decisions, the perceived adversity of border patrols and the dangers of border crossings do not have a statistically significant effect, simply inducing people to devise more accurate 'evasion strategies'.[94] Likewise, Kox studies the specific deterrent effect of detention in the Netherlands, that is, the ability of the practice to induce detained migrants to leave the country,[95] concluding that detention did not affect the willingness of the majority of migrants in custody to leave the country, rather only managing to influence a minority's intentions.[96] According to Talani, the acceptance of rough conditions, especially at the beginning of the journey, may be explained by the fact that migrants view them as only a temporary phase.[97]

Finally, to support the thesis that too much severity may undermine certainty, Bhagwati reports that both Swiss and German courts have, in

[89] Godenau and López-Sala (2016, p. 4).
[90] Carling and Hernández-Carretero (2008, p. 56).
[91] Carling and Hernández-Carretero (2008, p. 56).
[92] Carling and Hernández-Carretero (2011, pp. 47–8).
[93] See Fargues and Bonfanti (2014, p. 13).
[94] Cornelius and Salehyan (2007).
[95] Kox (2011).
[96] Kox (2011, pp. 89–95).
[97] Talani (2018).

multiple instances, found evidence of employers hiring irregular foreign work but have decided not to sanction them severely, considering the punishment to be excessive, and that the situation in the USA has been rather similar.[98] In similar fashion, Boswell stresses that such sanctions have often been imposed in weaker forms than envisaged by the law, either because of an actual difficulty to determine employers' degree of responsibility or out of sympathy with the usually small firms involved.[99]

Bounded Rationality and Perceptions

As discussed in the previous section, criminology stresses the role of certainty, rather than that of severity, as a deterrent of crime, and studies in the field of migration seem to corroborate the hypothesis. Yet, the idea of men being extremely logical human beings, perfectly comparing the costs and benefits of their actions, seems rather unconvincing. Indeed, although deterrence is based on the utilitarian idea that people act in pursuit of pleasure and in escape of pain, the criminological literature has soon distanced itself from the assumption that men are perfectly rational. Rather, it considers this as an unrealistic expectation, and acknowledges that individual behaviour can deviate from the *Homo oeconomicus* model,[100] opting therefore for the concept of 'bounded rationality', in which choices are affected by imperfect or scarce information, structural constraints, moral principles, and 'non-rational' influences specific to each individual.[101]

In the same vein, Richard Ned Lebow and Carol Bohmer question three assumptions that they consider at the basis of deterrence measures in migration: That individuals make decisions on the basis of a cost-benefit analysis, that this calculus can be altered from the outside, and that people are free not to act if the expected costs exceed the expected benefits.[102] Instead, they argue, not only is the individual assessment of costs not necessarily rational, and its calculation frequently 'opaque to outsiders', but people can also feel compelled to act even if the anticipated costs are higher than the gains.[103]

[98] Bhagwati (2003).

[99] Boswell (2011, p. 18).

[100] Loughran et al. (2016, p. 107).

[101] Akers (1990, p. 661).

[102] Bohmer and Lebow (2015).

[103] Ibid. While Bohmer and Lebow draw from deterrence in the field of international relations, the principles they highlight are remarkably similar to those outlined for criminology, and useful to highlight.

In order to take account of people's bounded rationality, and avoid building models that would entail limited empirical applicability, criminologists have, since the 1960s, focused not so much on the actual legal costs involved in sanctions, but rather on how they are *perceived* by the individuals whose decision-making process they are expected to affect, so that personal assessments of reality can be integrated into the analysis.[104] Indeed, '[t]here can be no direct relationship between sanctions and criminal action; the two must be linked through the intervening variable of subjective perceptions of the risks and rewards of committing an offense'.[105]

According to several academics, sanction risk perceptions are heavily affected by personal and peer experiences[106]: On the one hand, people who have not offended before tend to base their perceptions on information derived from friends, family members, other offenders, and the media,[107] as well as overestimate the certainty of apprehension and conviction.[108] On the other hand, career criminals generally rely on their personal 'experiential effect' to estimate the likelihood of being caught, and tend to have a better appreciation of the likelihood of being caught.[109] Such hypotheses look consistent with recent migration studies, finding that most details regarding undocumented border crossing are transmitted to potential migrants through personal networks and smugglers,[110] and may indicate experienced migrants' propensity to estimate detection in light of previous attempts at crossing irregularly, as suggested by Godenau and López-Sala.[111]

Social Costs: Stigmatisation and Social Control

In addition to studying the effects of legal costs and individual perceptions of them, criminologists highlight the role of the expected social costs asso-

[104] This has given birth to a literature denominated 'perceptual deterrence', developed since the 1970s, which has found vast consensus. Source: von Hirsch et al. (1999, p. 33).

[105] Decker, Wright, and Logie (1993, p. 135), cited in Jacobs (2010, p. 418).

[106] Stafford and Warr (1993, p. 130), Pogarsky et al. (2004, p. 364).

[107] Stafford and Warr (1993, p. 130).

[108] Robinson and Darley (2004, p. 184).

[109] Nagin (2013, p. 60).

[110] Thielemann (2011, p. 7), Richardson (2010).

[111] Godenau and López-Sala (2016, p. 4).

ciated to being sanctioned for the commission of an unlawful act, as powerful promoters of compliance with the law.[112]

In this context, social costs refer to the stigmatisation of the offender by the community,[113] following the former's apprehension or punishment,[114] and can be represented by disapproval, loss of status or exclusion from a group.[115] Their role has been found so important as to make some scholars argue that the relative deterrent effect of informal social costs may be more relevant than that of formal legal costs.[116] Indeed, the process of socialisation is often regarded as a strong tool to produce social control,[117] and it has been found that, because being labelled as deviants entails significant changes in a person's social participation and public image,[118] the more integrated people are, the more deterred they feel by the potential stigmatisation following public exposure for the commission of an unlawful act.[119]

Following the labelling and social control theories, the role of communities is important because social rules are not universal or absolute, but rather the product of specific social groups.[120] In the words of Becker, '[d]eviance is not a quality that lies in behaviour itself, but in the interaction between the person who commits an act and those who respond to it',[121] and a deviant act is therefore simply one that is defined as such by a group.[122] As a consequence, whereas the community that enforces a certain rule perceives those who break it as outsiders, it is also possible that, from the latter's point of view, those who have made the rules are the outsiders.[123] In particular, if the offender's entourage does not perceive an illicit conduct as especially blameworthy, or the enforcing actor as legitimate (either because it condemns with disproportionate punishment pro-

[112] Nagin (2013).
[113] Zimring and Hawkins (1973).
[114] Nagin (2013).
[115] Zimring and Hawkins (1973, p. 191).
[116] Akers (1990, p. 675).
[117] Zimring and Hawkins (1973, p. 119).
[118] Becker (1963, pp. 31–2).
[119] Nagin (1998, p. 20).
[120] Becker (1963, p. 15).
[121] Becker (1963, p. 14).
[122] Becker (1963).
[123] Becker (1963, p. 2).

cesses in an unfair way or overreaches its intervention area), the mechanism of stigmatisation may fail, and even have a counterproductive effect.[124] Moreover, if being detained becomes normal in a group, no stigma will be associated to it: For deterrence to be effective, the actual imposition of the punishment must be a relatively rare event.[125]

Social control theory is also useful to highlight the vicious cycle produced by deviance and its marginalisation. According to Becker, when an individual is labelled as deviant in a specific context, people tend to assume that he/she is more likely to engage with other types of offences as well, and often end up marginalising him/her, by making the deviant characterisation the prevailing one.[126] However, because marginalisation implies exclusion from conventional groups, the process generates a self-fulfilling prophecy, in which the person labelled as deviant is incentivised to move closer to groups at the margins of society and break other rules he/she did not intend to break.[127] As a consequence, deviant behaviour is reinforced by its marginalisation, and its reiteration becomes, in part, a consequence of the public reaction to non-compliance.[128]

The labelling theory has been criticised for being extremely relativistic,[129] and for focusing only on minor crimes, failing to explain more serious ones.[130] Yet, because irregular migration is a victimless crime, it provides perfect application of the theory. Moreover, the accent on the question 'deviant for whom?' highlights the presence of multiple communities that may interpret deviance differently, and therefore greatly contributes to the analysis of potential migrants' assessment of social costs.

When transposing the analysis of social costs to migration policies, it may be useful to consider stigmatisation from the perspective of the two different groups with which migrants interact: The sending and receiving communities. Starting from the former, migrants' community in their home country is likely to have a great impact on the decision to migrate, especially by shaping the individual's perception of migration norms. However, existing studies suggest that irregular migration is not necessar-

[124] von Hirsch et al. (1999, p. 40).
[125] Nagin (2013).
[126] Becker (1963, pp. 33–34).
[127] Becker (1963, p. 34).
[128] Becker (1963, p. 35).
[129] Wellford (1975).
[130] John Muncie, in McLaughlin and Muncie (2001, p. 160).

ily perceived as an immoral act, but most often simply as a way to achieve a better life. Carling and Hernández-Carretero, for example, find that, in Senegal, (irregular) emigration is a strategy meant not only to acquire economic prosperity, but also to ameliorate one's social status, to the extent that leaving the country is seen as the easiest way to success, and embodies a symbolic value of masculinity and honourability.[131] Simultaneously, Ryo argues that the US immigration system is not perceived as fair by actual and potential Mexican migrants,[132] who instead view it as illegitimate, arbitrary, and hypocritical, being biased in terms of both the class and race of newcomers, offering better opportunities only to certain groups, and not acknowledging the structural need for migrants' labour.[133]

On the other hand, deterrence measures, and in particular detention and voucher schemes, are likely to involve high social costs for migrants in receiving communities, by associating the former with dangerous people and criminals, and justifying the state's limited responsibility towards them.[134] Moreover, the fundamental mistrust at the basis of the asylum system in several Western countries risks criminalising asylum seekers in the eyes of the public, even before their claims are assessed, and, when the word 'detention' is used as a synonym of 'imprisonment' to refer to criminals' convictions, as is the case, for example, in the UK, the link between migrants and wrongdoers is further strengthened.[135]

While these outcomes are not advisable in terms of integration objectives, in mere terms of deterrence, they would seem acceptable. Yet, social costs stemming from the stigmatisation of migrants in receiving countries may be weakened by the fact that the former are not full members of the host society[136] and softened by the help and support of local ethnic communities. Moreover, the extensive use of detention may undermine its stigmatising effect for, as seen above, punishment should be rare to produce deterrence.

In addition to the above, Reyneri finds that migrants' widespread involvement in the underground economy in Southern European coun-

[131] Carling and Hernández-Carretero (2008).
[132] Ryo (2015).
[133] Ryo (2015).
[134] Hassan (2000).
[135] Malmberg (2004, pp. 13–15).
[136] Stumpf (2006, p. 412).

tries contributes not only to their marginalisation and to the growth of negative attitudes among locals against newcomers, but also to the emergence of negative perceptions of locals among migrants themselves.[137] The author explains the phenomenon through the above-mentioned social control theory, according to which an actor's conduct is to be attributed to his as much as to others' actions.[138] In other words, the marginalisation of migrants causes a vicious cycle to start, leading to an increased attractiveness and necessity of further engagement with irregular activities[139] and an enhanced difficulty to be regularised (in both employment and residence status).[140]

To put it briefly, an important aspect of deterrence is the expectation of incurring not only formal sanctions, such as detention or fines, but also social costs, in the form of stigmatisation, which depends in turn on the degree of socialisation of the individual concerned. At the same time, however, stigmatisation may lead to further marginalisation, and prompt the person to get involved with further underground behaviour.

The Pitfalls of Deterrence

As seen thus far, legislators can increase deterrence by making the sanction associated to a certain act more certain and, at times, more severe. At the same time, they should pay attention to the social dynamics surrounding the relevant behaviour, in order to have a better understanding of the community's perception and assessment of the unwanted behaviour. Yet, even in cases of certain and severe penalties, and high social costs, threatened punishment may fail to bring about the expected deterrent effect, and non-compliance may occur. Indeed, the above is not enough to explain the outcome of strategies to prevent migration, as deterrence involves a number of aspects that may turn into problems, some of which are easier for states to contain, others less so. It is to these possible weaknesses that I now turn, to analyse their potential impact on deterrence strategies.

137 Reyneri (2003), cited in Talani (2010, p. 194).
138 Becker (1963, p. 35).
139 Talani (2010, p. 186).
140 Reyneri (2003, p. 134).

Communication and Unconscious Biases

Because deterrence is about persuading a target population that the costs involved in a certain behaviour are going to be greater than the benefits to be potentially gained from it, the transmission of information from the threatening agent to the threatened audience makes up for a key part of the strategy. While criminological studies assessing the effectiveness of sanctions take this problem into account by analysing citizens' perceptions of certainty and severity, rather than their official rates, the political strategy based on deterrence may still fail because of lack of attention to the communicative elements.

Certainly, a necessary condition for deterrence to work is that the potential offender is aware that a certain conduct is proscribed and that he/she may be sanctioned for it.[141] As a consequence, the threatening agent should not only increase the certainty and (sometimes) severity of a penalty, but also make sure that potential offenders are aware of such changes and that their assessment of costs and benefits are modified in response to them.[142] Overall, what is important to keep in mind is that the deterrent effect of a threat depends on the perceptions of the audience, rather than on the message as meant by the state.[143]

In fact, although perfect information was ruled out of the deterrence paradigm from the very early stages, even the possession of at least some accurate information is in itself problematic, as seen above when discussing perceptions. An interesting study suggests that, often, people tend to assume that the law is just how they think it should be, making it particularly hard to raise awareness of a sanction in a community that is not persuaded of the illegality and immorality of the related criminalised behaviour.[144]

In migration even more than in criminology, the problem of limited accurate knowledge of sanctions is extremely relevant, and Thielemann, among others, argues that the amount of information possessed by potential newcomers is systematically overestimated by receiving governments.[145] Indeed, although the development of communications has

[141] Zimring and Hawkins (1973, p. 142), Robinson and Darley (2004, p. 175), Nagin (2013, p. 7).

[142] Zimring and Hawkins (1973, pp. 142, 147).

[143] Zimring and Hawkins (1973, p. 157).

[144] Robinson and Darley (2004, pp. 176–7).

[145] Thielemann (2003).

made it easier to gain access to information, it should not be assumed that the degree of exposure to the media enjoyed in the West is available throughout the world,[146] and it has been shown that personal networks and smugglers play a key role in providing information to potential migrants.[147]

Still, both networks and smugglers may carry inaccurate information. On the one hand, previous migrants generally have quite a general understanding of migration policies and tend to conceal the hardships endured in their migration experience.[148] On the other hand, smugglers, whose role as providers of information seems to have now replaced that of personal networks,[149] are more likely to be more knowledgeable on the topic, but engage with migrants in order to make a profit, and have therefore an incentive to oversell the probability of success.[150] Additionally, news accounts reveal that even facilitators' knowledge may be dubious at times: In Libya, for example, some smugglers were reported in 2013 as not aware, first, of the existence, and then of the suspension, of the Italian search and rescue operation Mare Nostrum.[151]

To raise awareness of the hardships and consequences of irregular migration, receiving states could invest in information campaigns in countries of departure. Persuading an audience, however, involves key challenges. To begin with, a message can be interpreted by different audiences in different ways, as its meaning cannot be fixed by the sender.[152] In the field of migration in particular, the transnationality of the threat and the consequent cultural distance between the sender and receiver contribute to increasing the gap between the message as intended by the former and as interpreted by the latter. As a consequence, if strategies of deterrence are ethnocentric and fail to account for the due differences, the communication may result as ineffective or counterproductive. Adding to that, the Bayesian updating model suggests that when people are presented with new information, they do not completely abandon prior beliefs, but rather

[146] See Richardson (2010, p. 11).

[147] Thielemann (2011, p. 7), Richardson (2010).

[148] Richardson (2010), Carling and Hernández-Carretero (2008, p. 8), Talani (2010, p. 193).

[149] Richardson (2010, p. 12).

[150] See, for example, Kingsley (2015b).

[151] Kingsley (2015a), Bohmer and Lebow (2015).

[152] Richardson (2010, p. 8).

update them.[153] The degree of adjustment depends on the amount of prior knowledge, so that individuals with less prior information tend to change their judgements more readily, and vice versa.[154] Finally, according to the cognitive bias hypothesis, people have a systematic bias in favour of information that is consistent with prior knowledge, which makes it easier for them to ignore, deny, or discount messages that are inconsistent with original beliefs, to the extent that they could even result in reinforcing contrary opinions.[155]

As a matter of fact, Carling and Hernández-Carretero, through the study of Senegalese migration to the Canary Islands in the late 2000s, argue that would-be migrants are not unaware of the risks involved in migrating with pirogues, as Western governments portray them.[156] Instead, they employ specific techniques to reduce the perceived hardships, either by stressing on their experience and ability to overcome the dangers involved or by adopting strategies to minimise risks (from practical expedients such as avoiding two people from the same family travelling together to more psychological ones, like seeking spiritual protection).[157] Moreover, the authors of the study also highlight potential migrants' propensity to (1) avoid contrasting information, by refraining from asking questions, or thinking about it; (2) discredit the sources of such information, by deeming governmental organisation untrustworthy, campaigns as imprecise and partisan, and testimonials as bribed; and (3) dismiss conflicting information as insignificant to their case.[158] These are meaningful findings which support the argument for the presence of a cognitive bias in favour of information consistent with one's mind-set.

It should be highlighted that Carling and Hernández-Carretero's analysis refers to migrants' awareness of the risks involved in irregular migration, rather than to their knowledge of the policies and sanctions in place. Yet, their study is useful in that it shows the difficulties of getting a message across, and empirically demonstrates that communicating the hardships involved in undocumented border crossing may not be sufficient to deter people.

[153] Pogarsky et al. (2004, p. 346), Nagin (2013, p. 61).
[154] Nagin (2013, p. 61).
[155] Lebow (2007, pp. 72–5), Stein (2009, p. 63).
[156] Carling and Hernández-Carretero (2008).
[157] Carling and Hernández-Carretero (2008, p. 11).
[158] Carling and Hernández-Carretero (2008, pp. 9–10).

The Political Dimension

As a policy meant to preserve the external boundaries of a state, deterrence is inherently embedded in the political context, the dynamics of which may bear significant implications for the eventual development and outcome of the strategy. As criminological studies tend to be apolitical and avoid taking into consideration the environment in which deterrence measures are formulated, I rely in this section on insights deriving from the discipline of international relations.

As an important theorist of deterrence in the field of international relations, Freedman analyses how the political context may affect the articulation of deterrence threats, and identifies in the presence of multiple audiences a major potential problem of deterrence.[159] Indeed, the actual target of deterrence strategies, he argues, is often ambiguous: Deterrent messages and threats are meant not only for the interested adversary, but also for the threatening country's domestic public, and for its international allies.[160] In this context, the danger is for a policy to become so preoccupied with the concerns of those who are closer and louder that it increasingly neglects the requirements of those who are further away and quieter.[161] Yet, the more deterrence is driven by internal considerations, rather than by external ones, the wider the gap between how the strategy should be undertaken and how it actually is becomes.[162] As a consequence, Freedman concludes, when the deterrent message is not targeted at the notional audience, but at other ones, strategies of deterrence risk resulting as incoherent.[163]

In contemporary Europe, where the electoral value of immigration is high, concerns about the domestic public play a key role. Indeed, the politicisation of immigration, the rise of populist radical right parties, as well as the insecurities and frustrations generated by the recent economic and financial crises—all contributed to the increase in the political salience of immigration-related matters and increased the electoral incentives for policymakers to adopt highly visible and symbolic measures with an expected immediate effect, rather than committing to long-term goals, in the hope of appeasing public hostility by showing commitment and of

[159] Freedman (2004, pp. 47–52).
[160] Freedman (2004, pp. 47–52).
[161] Freedman (2004, p. 50).
[162] Freedman (2004, p. 51).
[163] Freedman (2004).

creating, at least, an '*appearance* of control'.[164] While such a choice may look beneficial in terms of political gains and stability, the aforementioned discussion shows that, if the interests of the indirect target audiences are considered by the threatening actor to be more important than those of the direct one, the deterrent strategy is likely to be affected by inconsistencies.[165]

In addition to the above, a second possible indirect audience for measures of deterrence is composed of the governments of the countries of origin and transit of migration. Indeed, third countries are key interlocutors on issues of migration: Following Weiner, it is possible to argue not only that migration policy can affect international relations between states, but also that the latter can shape the former.[166] In particular, the situation in which a country allows or promotes emigration to a country that restricts entry is extremely delicate.[167]

Overall, deterrence is weakened by 'threats issued to impress audiences other than the notional target'[168]: In migration just like in international relations, because different audiences have contrasting interests and varying degrees of influence on governments' decision-making, if the interests of secondary audiences are allowed to prevail over those of the primary audience, then, the message the threatening actor ends up building risks resulting as contradictory and inconsistent.

Do Costs Outweigh Benefits? The Lack of Positive Incentives

As seen above, the aim of deterrence is to alter a potential offender's cost/benefit analysis by inserting or strengthening negative incentives. Yet, the focus on the cost side of the decision-making equation alone, and the lack of attention to the benefit side, have been the object of severe criticism in the criminological literature.[169]

[164] Massey et al. (1998, p. 288) (emphasis in original), cited in de Haas (2006), Hollifield (2004, p. 903), Weiner (1995, p. 198), Cornelius and Tsuda (2004, p. 42).

[165] Freedman (2004, p. 51).

[166] Weiner (1985, pp. 447–8).

[167] Weiner (1985, p. 447).

[168] Freedman (2004, p. 49).

[169] Loughran et al. (2016, p. 90).

Indeed, because the full behavioural formula concurrently includes both positive and negative incentives,[170] Akers argues that deterrence is not enough to explain decisions of compliance or non-compliance, and suggests instead to maintain a broader approach, including the study of positive inducements.[171] Taking this argument further, Loughran and others suggest that rewards may even have a slightly stronger effect than sanctions, although recognising that both elements are important.[172] They also note that rewards shall not only be monetary but may also involve social benefits, such as increased social status, or other kinds of pleasures.[173] Interestingly enough, even James Wilson, one of the main thinkers of deterrence, maintains that the wisest solution is to simultaneously raise the benefits of compliance and the costs of non-compliance.[174]

Yet, recalling the origin of the word deterrence as a strategy meant to frighten away,[175] it looks evident that it can only involve attempts aimed at affecting the cost side of the target's decision-making, so it is possible to argue that the basic feature of deterrence, that is its focus on negative incentives, is also its most problematic one for, by neglecting positive inducements, it may not be able to significantly affect people's decisions.

In migration too, several authors emphasise the need to address the drivers of flight and increase the benefits of non-migration, rather than merely raising the costs of reaching the West. Cornelius and Salehyan, for example, maintain that taking a labour-market approach would be more effective than introducing stricter border controls,[176] and Holzer and colleagues state that deterrent policies have no relevant impact if the conditions that generate migration in a neighbouring country 'reach a critical level'.[177] Further, Castles adds that even though, in the short term, addressing the causes of economic and forced migration may result in a surge in out-flows from the interested country (as predicted by the migration hump hypothesis),[178] in the long term these would stabilise and therefore bring a reduction of migration.[179]

[170] Akers (1990, p. 660).
[171] Akers (1990).
[172] Loughran et al. (2016, p. 107).
[173] Loughran et al. (2016, p. 91).
[174] Wilson in McLaughlin and Muncie (2013, p. 355).
[175] Oxford English Dictionary (2016).
[176] Cornelius and Salehyan (2007).
[177] Holzer et al. (2000, p. 1205).
[178] Martin and Taylor (2001).
[179] Castles (2004b, p. 2).

To identify the costs and benefits involved in migration decision-making, it is useful to distinguish between structural and facilitating factors. On the one hand, with structural factors I refer to the main drivers of migration, composed of political, social, and/or economic considerations (such as perceived wage and employment differentials, relative deprivation, persecution, natural and man-made disasters),[180] which can be summarised in the wide-ranging aspirations to ameliorate one's (or one's family's) living conditions. Facilitating factors, on the other hand, account for those elements that can facilitate the process of migration but need to be separated from its drivers: Social networks, which create the social capital able to reduce transition and adaptation costs,[181] are key examples, and their role has been reinforced by the revolution of communications and globalisation,[182] as well as by the development of the migration industry.[183]

Combining the above with deterrence theory, I would argue that the benefits deriving from irregular migration to Europe can be identified in the expected improvement or resolution of any of the structural factors that induce people to migrate, from an economic, social, and/or political perspective. By contrast, the costs of migrating irregularly can be identified in the costs of the journey (both monetary and non-monetary), and those of adapting to the new environment (including integrating in a new community and labour market), and can be reduced through the help of facilitating factors. Because deterrence affects costs, it is the latter that can be altered by the threat of negative consequences, through the introduction or strengthening of legal sanctions for unauthorised crossing, and the leverage of negative social implications.

In light of the above, it is possible to conclude that the intrinsic characteristic of deterrence as a strategy only focused on negative incentives, and omitting positive ones is likely to be problematic in the context of migration, especially if potential migrants perceive the rewards to be gained from migration as more beneficial than the hardships to be shouldered along the journey and integrate in the new environment.

[180] See, for example, Borjas (1989), Böhning (1994), Weiner (1995, pp. 212–3), de Haas (2011), Castles et al. (2003).

[181] Neumayer (2004, pp. 164–5).

[182] Boswell (2003, p. 30).

[183] Castles (2004a, p. 209).

Availability of Alternatives

While the aim of deterrence is to discourage non-compliance with the law, individual deterrent measures can only target a specific conduct among several that may lead to the same objective. Whereas, on the one hand, this suggests that the more alternatives a person has, the more deterrence is likely to succeed,[184] on the other hand, it also implies that the decrease in a specific offence caused by a new or strengthened deterrent measure may generate an unexpected negative outcome: The increase in other substitute offences.[185]

Likewise, in the field of migration, deterrence measures may produce substitution effects, reducing arrivals through a specific route but, at the same time, increasing those occurring through other ones. De Haas studies such dynamics and identifies four types of potential substitution effects: Spatial, inter-temporal, categorical, and reverse-flow.[186] The first two produce a diversion of migration towards other countries or moments: While the former may be exemplified by the increase in African migration to Greece in the early 2000s, following the intensification of border patrols along the Spanish and Italian routes,[187] the latter is illustrated by the Dutch government's attempts to stop immigration from Suriname by promoting the independence of the colony in 1975 and preparing a ban on migration, which only made arrivals spur in the short term, due to Surinamese people's fear of not being able to enter the Netherlands later on.[188] By contrast, the categorical substitution effect can be illustrated by the contemporary propensity of migrants to apply for asylum even if they are not escaping persecution, in light of the fact that the opportunities for low-skilled workers to legally enter and remain in the EU are limited, and an example of the reverse-flow substitution effect may be seen in the decision of many guest workers from Turkey and Morocco to permanently settle in Northern Europe after the 1973 immigration limitations, rather than return home and not know whether they can re-enter in the following years.[189]

[184] Zimring and Hawkins (1973, p. 135).
[185] Levitt (1998, p. 361).
[186] de Haas (2011, p. 27).
[187] Fargues and Bonfanti (2014, p. 5).
[188] de Haas (2015).
[189] de Haas (2011, p. 27), Bhagwati (2003, p. 99).

The notion of substitution effects should be employed with caution, as it assumes that potential migrants are thoroughly aware of the legislation in place and carefully weigh the possible alternatives against each other. Moreover, it implies the existence of a fixed number of would-be migrants, who are then pulled towards different directions, spatially or otherwise, according to the convenience of different countries' immigration provisions.[190] Further, it should be understood whether would-be migrants perceive changes in sanctions as route specific or as generally applicable to the European region as a whole.[191] Despite such warnings, the concept of substitution effects is extremely useful to highlight the broader impact of deterrent policies, and is especially relevant in the Schengen area, in view of the absence of internal barriers between participating states.

Conclusion

In this chapter I have analysed deterrent strategies meant to control migration from a theoretical perspective. I have argued that deterrence is about discouraging irregular migration to a country, through potential migrants' fear of negative consequences, and that, in order to do so policymakers can strengthen the legal costs, by increasing the certainty and, to a more limited extent, the severity of sanctions. Yet, because people are not perfectly rational, it is important to consider how such changes are perceived by potential newcomers, as well as the social costs involved in the migration experience, which depend in turn on the degree of socialisation of individuals.

Despite such cautions, deterrence involves elements that may be problematic in terms of eventual effectiveness. First of all, persuading an audience, and in particular one that does not share the same background as the sender of the message, and which may interpret messages differently, involves key challenges, not least because of psychological biases that make people deny, discount, or avoid information inconsistent with existing beliefs. In addition, the political dimension of deterrence may backfire, in that if the domestic or international audiences gain more relevance in the eyes of policymakers than potential migrants, the threat is likely to be shaped in an inconsistent and ineffective way. Further, the mere focus on negative incentives may not be enough to ensure that the

190 Boswell (2003, p. 36).

191 Cf. Nagin (1998, p. 19).

costs involved in migration are effectively greater than the benefits derived from it, from the standpoint of people experiencing hardships in their own country. Finally, even though deterrence may succeed in decreasing migration through a specific route at a certain moment, it may also produce unintended substitution effects towards other routes or categories of migration, therefore nullifying the overall result.

Overall, the analysis has shown that these four pitfalls may severely limit or undermine the effectiveness of deterrence in reducing irregular migration. Assessing how exactly they play out in practice is a key next step to understand whether deterrence failure is due to inadequate implementation or more structural issues that render the strategy intrinsically unsuitable to reduce migration. This question is all the more relevant since, although deterrence is meant to *prevent* irregular migration, its failure bears notable consequences on migrants' experiences. Indeed, once migration does take place, in spite of sanctions or threats, the measures that were originally intended as deterrents are actually enforced. If such a strategy is to be continued, we should at least understand whether it is effective in achieving its goals, and, if not, why that is the case.

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PART II

Europe and the Dark Side of Globalisation

CHAPTER 5

Traditional Organised Crime on the Move: Exploring the Globalisation of the Calabrian 'ndrangheta

Anna Sergi

Introduction

The 'ndrangheta is a mafia group from the Southern Italian region of Calabria; it is today considered the most powerful Italian mafia and the most *glocal* one—both locally strong and globally present (DNA 2017). These claims are based on the extreme versatility and flexibility of 'ndrangheta clans in different criminal markets, as well as their ability to act in proximity with politicians, entrepreneurs, and other social agents through infiltration, corruption, and connivance. Europol (2013) has warned about the reach of 'ndrangheta clans in Europe, in both illegal and legal markets (Transcrime 2015), while Italian authorities have repeatedly carried out investigations in other countries in their attempt to understand the extent of this mafia group's activities abroad (Sergi and Lavorgna 2016; Calderoni et al. 2016; Caneppele and Sarno 2013; Storti et al. 2016).

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Most concerning for international cooperation among police forces is the role of ‘ndrangheta clans in the cocaine market in Europe. More specifically, certain ‘ndrangheta clans are believed to dominate this market through established ties with drug producers in Latin America and close relationships with local criminal groups abroad (Europol 2013; Calderoni 2012). Furthermore, through monopolistic control of the port of Gioia Tauro in Calabria and successful relations with other organised crime groups in Italy, the ‘ndrangheta clans have established themselves as “reliable” criminal actors (Sergi and Lavorgna 2016).

The reach of this criminal group and its numerous clans (about 150–160 clans known to the Italian authorities, of which many have international projections) has been assessed at various levels. According to Europol (2013), not only is the ‘ndrangheta, as a mafia-type organised crime group, a threat to the European Union, but its activities and clans are traceable outside Europe in countries such as Canada, Australia, the USA, as well as in Latin America. In accordance with most of the literature on the subject and with the Italian Antimafia Prosecutor Directorate (DNA) in the recent years (DNA 2017), Europol (2013: 3) considers that “the basis of the power of the Italian mafias resides in their control and exploitation of the territory and of the community”, thanks to “contextualised concepts of family, power, respect and territory”. This is certainly true for the ‘ndrangheta clans. Mafias in general are capable of “manipulating election and placing their men in administrative positions even far away from the territories they control” through the exploitation of legislative loopholes and corruption of professionals and administrators (Europol 2013: 3). However, “when operating outside their territory of origin, mafias modify their behaviours and modus operandi” (Europol 2013: 3).

This chapter will explore the main aspects of the globalisation of the Calabrian mafia both in Europe and outside of Europe. The reach of ‘ndrangheta has increased dramatically in recent decades, insofar as its economic activities—and their profitability—have been boosted by transport, communication, and other technological advances well captured by the transnationalist definition of globalisation (see Chap. 1). The dark side of globalisation is reflected in the purposive action of illegal and informal networks who can exploit to their advantage both the centrality of technological and communication transformations—including the increasing speediness of travels—and the inevitability of economic and social marginalisation. In fact, a central argument of this chapter will be that the globalisation of the Calabrian mafia clans certainly comes with increasingly local effects on both the communities of arrival and those in territories of departure. On one side, Calabria, a territory of departure, remains extremely challenged in its development and in the implementation of innovation strategies, and its marginalisation is the cause and effect of the mafia systemic presence. On the other side, the possibility for clans to reach and exploit migrant communities of Calabrians and Southern Italians abroad creates a risk of discrimination, and thus potential social exclusion, of these communities in the countries of migration.

The mobility of the 'ndrangheta clans, their affiliates, activities, and money poses a number of issues for global governance, security, and policing and indeed, represents a veritable dark side of globalisation, if built upon and deeply intertwined with a strong local dimension. Most issues are related to the difficulty to recognise the mafia phenomenon abroad, as this particular mafia is mostly active at the highest levels of the trafficking process as well as being embedded in certain territories abroad thanks to mass migration from Calabria abroad. This chapter will now present the 'ndrangheta clans in today's forms, by looking at some of their international activities and their sources of the economic power. It will become clear to the reader how the economic power of these mafia clans is enabled both by the technological underpinnings of globalisation and by transnational links in the form of permanent chain migration mechanisms that date back to a wave of outward migration from Calabria and in Italy in general that began during the first half of the century.

Mafia and 'ndrangheta: The Genus and the Species

Before detailing some of the research into criminal mobility, specifically of the 'ndrangheta, it is necessary to frame the concept of "mafia" and "mafia-type" criminal organisations within a larger body of literature on organised crime in a globalised world.

Mafia groups are manifestations of organised crime activity, usually linked to Italian Southern regions, that is, Sicily, Calabria, and Campania. Italian criminal law, in article 416-bis of the Penal Code, has criminalised unlawful associations employing the "mafia method"; the mafia method is exhibited when associations of criminals exploit the strength of their associative bond to intimidate communities and individuals for financial and political gains, protected by behaviours of omertà (silence instigated by fear or by consensus) within their own community. The three traditionally recognised mafia groups within this framework in Italy are the Sicilian mafia (also known as Cosa Nostra), the Calabrian 'ndrangheta, and the Campanian Camorra. Other mafia groups in the South of the country—such as Apulian criminal groups (from the Puglia region) or the Famiglia Basilischi (from the Basilicata region)—have also been judicially recognised, but are normally considered less prominent and less stable.

Phenomena and manifestations of organised crime, including mafias, have been approached from various points of view across a number of disciplines and generally split into studies that privilege both an understanding of criminal structures and analyses of criminal activities (Sergi 2017b). In the latter group are certainly socio-economic studies. These understand organised crime as a product of the liberal market (Mattina 2011; Ardizzi et al. 2012; Shapland and Ponsaers 2009); a market approach to organised crime means that policies that affect trade, commerce, and the market in general will influence organised crime actors, intended as underground providers of goods and products. Similarly, the criminal enterprise approach (Smith 1980) understands organised crime as the product of both the entrepreneurial capacity of criminals and the organisational capacity—business-like—of the criminal group. In these socio-economic perspectives, mafias are opportunistic groups, which read and exploit the market through functional business structures. A classic example of these studies is Diego Gambetta's analysis of the Sicilian mafia as an industry of protection (Gambetta 1993), endorsed by studies of the "entrepreneurial characters" of mafia groups (Arlacchi 1986). In the first group—studies that focus more on criminal structures—are both socio-cultural studies and network-based ones. The former have looked at the cultural elements of mafia groups as qualifying elements of the criminal phenomenon, independently from the activities these groups and individuals carry out. These are historical studies that have stressed the importance of understanding mafias within the culture and the socio-psychological traits of their territories of origin, through analyses of families, communities, trust, and ethnic solidarity (Hess and Osers 1973; Ianni and Reuss-Ianni 1972; Schneider and Schneider 2005; Von Lampe and Johansen 2004). Analyses of structures are central to criminal network approaches through methods like social network analysis (SNA). Criminal network analysis has the advantage of understanding the fluidity of relationships across mafia groups, often family oriented but certainly characterised by secrecy and dynamism of connections beyond their own communities (Morselli 2009; Calderoni et al. 2017). This chapter considers the validity and intersections of these theoretical frameworks, by privileging a model that reads mafias as sets of socio-cultural behaviours, heavily affected by their culture of origin—which they exploit—but also consistently aiming at financial and political gains (Sergi 2017b). In particular, seeing mafias as sets of behaviours—very much in line with the legal understanding of the "mafia method" by the Italian state—allows the understanding of mafias as both cultural phenomena and opportunistic actors able to adapt to legal and illegal markets. This approach facilitates the study of mafia groups and mafia activities that move across regional and national boundaries. In fact, studies of mafia mobility cannot be constrained by an understanding of mafias as "solely" criminal organisations—because often it is difficult to recognise criminal groupings abroad—or mafias—as "solely" criminal actors engaging in specific (serious) criminal activities. Mafia groups usually engage in different sets of activities, interconnected, long term, and not necessarily "serious" or even criminal at times.

Within this framework, the name 'ndrangheta indicates first and foremost a consortium of autonomous clans acting through alliances and strategic coordination structures from the southern part of Calabria, in the hinterland of the capital city Reggio Calabria. The name also indicates a set of behaviours, whereby, through the exploitation of Calabrian cultural codes, the use of intimidation, violence, arrogance, and usurpation, and the availability of substantial sums of money, the clans in all parts of Calabria, their affiliates in the North and Centre of Italy, and those abroad can effectively spread a successful way of committing (organised) crime (Sergi and Lavorgna 2016). There is therefore both a 'ndrangheta as behaviour and an "organised" mafia group, both indicated with the word 'ndrangheta in Calabria. In 2010, with the trial ending in 2016, a major Antimafia Operation—Il Crimine—brought the arrest of over 300 members of the 'ndrangheta across different territories outside Calabria, including the North of Italy, Germany, Switzerland, Australia, and Canada, and since then the clans belonging to the 'ndrangheta, both *stricto sensu* (from the hinterland of Reggio Calabria) and *lato sensu* (from everywhere else in Calabria adopting the 'ndrangheta set of behaviours), have been the object of relentless investigative efforts, both in Italy and abroad, and have been found to be active in the most disparate criminal markets nationally and internationally, especially drugs (Calderoni et al. 2016).

The birth of the Calabrian mafia is usually placed before or during the unification of Italy in 1861. It is not only a Calabrian discourse that links the phenomenon of mafia with the dissolution of the feudal system and the introduction of capitalism in the rural areas of the South of Italy

(Arlacchi 1986). Calabrian anthropologist Lombardi Satriani maintains that the "peculiar socio-historical concretisation, which we call mafia" is a product of a "dependent capitalism" that the Italian state has fostered in the South of Italy, especially in Calabria since the unification of Italy. This is paired with the absence of other private forms of entrepreneurship and with the presence of a subculture based on certain family and social values (Pitaro 1996: 50). As argued elsewhere (Sergi and Lavorgna 2016), if one had to choose among the relevant factors that in the history of Calabria have been significant for the evolution of the 'ndrangheta clans, one needs to highlight the following:

- The extensive migration from the region, especially in the aftermath of the Second World War
- The political turmoil surrounding the politics of the region around the 1960s and 1970s
- The failures of industrialisation in the region and the socio-economic difficulties of the region compared to the rest of the country

While the first point is fundamentally linked to the topic of this chapter—the globalisation of the clans—the last two points need to be mentioned, even though not developed here, as they suggest how the clans are embedded in the Calabrian region, in its politics, and in its economic struggles. When looking at how the 'ndrangheta—as a mafia organisation and subsequently as *a behavioural model* and *brand*—evolved in a territory like the Calabrian region at the dawn of the 1900, obviously the answer is a complex one. Both the accumulation of money, later on invested in criminal activities, and the increasing ability to govern the territory of certain families and individuals, later organised in small criminal structures, contribute to answer this complex question. The financial wealth of the clans, in fact, came from both legal and illegal sources in the form of preliminary capital accumulation (Dalla Chiesa 2010). First, men affiliated to 'ndrangheta clans operated a strategic infiltration and participation in the entrepreneurial soul of the region since the 1970s, by "stealing" away—hijacking—public funds destined to the development of the territory (e.g. the funds for the Motorway A3 from Salerno to Reggio Calabria or the funds for building the port of Gioia Tauro). Second, impressive amount of money was stored during the kidnapping season throughout the 1980s, when over 200 people were kidnapped and brought to the mountain Aspromonte in Calabria from various areas in Italy. In between mafia wars, family feuds that counted hundreds of lives, and profound changes to the settings of the region, the 'ndrangheta clans started investing in different businesses, from cigarette smuggling to the drug trade, specifically cocaine. The clans of the 'ndrangheta are certainly traditional but yet innovative—in their cultural traits, their fundamentally family-oriented model, and their horizontal business organisation (each clan is autonomous but structures of higher power exist to solve conflict). They also are the product of the liberal market, both legal and illegal; the entrepreneurial character of the clans, in fact, has been rewarded by successful entry and partial monopoly (DNA 2017) of the most promising illegal global market, the one of drugs.

Moreover, thanks to the money from drug trade, the Calabrian clans have been able to infiltrate different criminal, legitimate, and semi-legitimate businesses in Italy, also in some foreign countries (Calderoni et al. 2016), exploiting existing family ties with the high number of migrants from Calabria that have moved to different territories within and beyond Europe (Sergi and Lavorgna 2016). In the past years, therefore, there has been a compelling need to understand the dynamics of mafia migration. With stronger and stronger structures and effectively invested in a number of activities, in Italy and elsewhere, the 'ndrangheta clans today represent a very complex threat for the global governance of security in which the globalisation of markets, communication, and transports has played a huge role.

Mafia Mobility

Studies on the mobility of Italian mafias have increased recently due to a number of factors that range from a better understanding of the dark sides of globalisation (Robertson von-Trotha and Flörchinger 2012), together with an increased focus on international cooperation (Hufnagel 2013), to the (perceived) growth of networked serious and transnational crimes (Obokata 2010). Studies on mafia mobility essentially focus on activities and structures of criminal groups and networks, following what is essentially a spectrum of manifestations from *delocalisation* of criminal activities (when groups carry out whole or part of their criminal activities elsewhere/abroad) to *colonisation* of territories (where groups replicate criminal structures similar to those of origin abroad) with various hybrid positions in the middle (Sciarrone and Storti 2014; Sergi and Lavorgna 2016). This spectrum will be used also as a framework in this chapter.

Studies on all the three main Italian mafia groups abroad have been carried out—starting from the highly popularised and certainly prominent history of the Sicilian mafia, Cosa Nostra, in the USA (Finckenauer 2001; Jacobs 2006) to the reticular activities of Neapolitan/Campanian mafia clans, the Camorra, across different European countries (Allum 2016; Campana 2011) and obviously to the 'ndrangheta, in countries as diverse as Germany, Canada, Australia, and the USA (Sergi 2015a, 2017a; Sciarrone and Storti 2014; Varese 2011; Calderoni et al. 2016). In particular, Varese (2011) has explored the factors that lead to the successful or unsuccessful transplantation of 'ndrangheta clans in the North of Italy. Sciarrone and Storti (2014) have discussed models of hybridisation and settlements of Calabrian mafia clans in Germany and Switzerland. Other research classifies Australia and Canada as examples of 'ndrangheta colonisation (Sergi 2015a, 2017a)

The relationship between migration and crime is not an easy one, even more so when it comes to movements of groups and collective criminal behaviours (Pakes 2013). Apart from discourses that link migration and crime to the rise of national security concerns (Bigo 2001), it is necessary to look specifically at Italian migration and the way this has overlapped with—or has facilitated—mafia mobility. Mafia mobility—as it is always concerned with activities and choices of individuals and groups of individuals—can be understood as a distinct type of migration, albeit for criminal purposes.

It is easy to recognise that the volume of what we call permanent migration (Ramirez 2002)—with reference to the stable emigration of people who settled abroad permanently, especially in the aftermath of the Second World War—is numbers that prominently place the regions of South of Italy, and especially Sicily, Calabria, Puglia, and Campania, as the geographical areas of historical mass emigration (ISTAT 2010). Argentina, Brazil, the USA, Canada, and Australia, together with European countries such as France, Germany, Switzerland, and Belgium, experienced the arrival of more Southerners than Northerners, organised around families and personal networks (chain migration) (Fondazione Migrantes 2016). There is a clear link between these countries and mafia mobility, for what concerns today's reach of the 'ndrangheta. According to DNA, the Italian National Antimafia Prosecutor, the 'ndrangheta is today present in Canada, Australia, Germany, Switzerland, Netherlands, Belgium, and the USA and engages with local criminal groups in Latin America for the transportation and trafficking of drugs, especially cocaine (DNA 2017; Sergi and Lavorgna 2016).

In an attempt to map Italian mafia presence abroad within patterns of Italian emigration more generally, the recurring primary issue is related to the Southern character of both the phenomenon of mafia and Italian migration. Cultural and ethnic studies help questioning both "why" and "what" it is about Calabria that is linked to the birth and the development of its mafia groups, activities, behaviours, and mobility. Cultural studies alone, however, do not necessarily explain the perseverance and reproduction of mafias in countries where the state is normally considered "strong", such as in the USA, Canada, or Australia. The culture of origin travels with migrants (Franzina 1998), and this requires a consideration of the interaction of actors, networks, and opportunities across markets, international governance structures, and certainly global drives of migration of both people and capitals.

The European Reach

The National Antimafia Directorate (DNA) has identified the unique ability of the Calabrian clans to move around the globe and to create different types of bonds with Calabrian migrants as well as with other local organised crime groups (DNA 2017). As said, according to Europol, 'ndrangheta clans are today present in Spain, France, Belgium, the Netherlands, Germany, Switzerland, Canada, the USA, Colombia, and Australia (Europol 2013: 3). Europol (2013: 11) notices how "consolidated and better integrated immigrant communities of Calabrians all over the world provided fertile ground for external offshoots of the criminal organisation". There is, however, no clear overlap between the geography of '*ndrine* (clans) or *locali* (geographical coordination structures of the clans) of the 'ndrangheta with the destinations of Calabrian migrants abroad. There is "no automatic link" between the presence of "migrants arriving from areas with a strong mafia presence and criminal settlements" (DNA 2012: 109). There is, nevertheless, a link that needs to be explored further when among Calabrian or mixed Southern Italian communities abroad, 'ndrangheta clans have settled and prosper, forming at times stable criminal networks and units that replicate those of origin in Calabria (colonisation) or reinforcing their criminal networks for transits and criminal activities (delocalisation).

In 2012, the DNA (2012: 109) noticed that of the overall presence of Calabrian migrants abroad, around 50 per cent are in Europe the other 50 per cent outside of Europe. The countries of destination and residency in Europe are (in order) Germany, Switzerland, France, and Belgium. When it comes to the main countries where the 'ndrangheta operates in Europe, we find Germany, Switzerland, Spain, the Netherlands, Belgium, France, and also some areas in Eastern Europe in line with the study by Europol. Some years after, the situation has not necessarily changed even though the clans' presence seems to have increased (DNA 2017). The overlapping between migration routes and mafia migration in Europe seems only partial. While for Germany and Switzerland there seems to be a more stable and incisive proliferation of the clans—in forms closer to the colonisation model—in Spain, France, the Netherlands, Belgium, and Eastern Europe—the pattern seems to be mostly one of delocalisation, where the clans outsource some activities to local groups and interact with them for activities linked to other illicit trafficking, especially, but not only, drugs.

A number of Antimafia Operations in the recent years have confirmed the existence of various manifestations of 'ndrangheta presence across Europe. In terms of criminal activities, certainly drug trade and money laundering are paired with legal investments as well, such as restaurants, food supply stores, real estate, and hotels (Caneppele and Sarno 2013). The Investigative Antimafia Directorate (DIA) in Imperia (Liguria) in May 2011[1] explained how 'ndrangheta members had opened a number of channels among Spain, France, Milano in Lombardia, Torino in Piemonte, and Calabria, through Liguria, to make sure they had access to the best and the cheapest cocaine on the market. Operation Mauser in late 2000s had proved the existence of a trafficking ring in Rosarno (in the West Coast of Reggio Calabria, near Vibo Valentia) and individuals in the Netherlands and Germany (Sergi and Lavorgna 2016). In the course of this operation, the authorities of the three countries arrested 16 people, also charging members for kidnapping, slavery, and murder. Among others, Antimafia Operations Acero in Reggio Calabria and Krupy in Rome in September 2015, together with Operation Levinius in the Netherlands (carried out by the Dutch National Crime Squad) in October 2014, have demonstrated the ability of clans from Siderno, in the East Coast of the Reggio Calabria province, in diversifying their activities abroad through

[1] Investigative Antimafia Directorate (DIA), I Rep., No.125/I/IIIDiv/H14, Prot. 020464 Roma 17.05.2011.

the flower industry (Sergi and Lavorgna 2016). Members of the Crupi clan from Siderno were operative in Latina, near Roma, through the firm KRUPI s.r.l. They also controlled Fresh B.V., a firm operating in the flower business in Aalsmeer, in North Holland. The clan collected cash in Calabria, Sicilia, and Campania, sent it to Latina, in the Lazio region in Italy, and from there to the Netherlands hidden in flower trucks; in the Netherlands they collected cocaine to be distributed in the Italian market (in Milano and Roma) hidden in the same trucks together with flowers, which were therefore used both for camouflage and for money laundering. The court orders for these operations paint a picture of highly organised and stable networks of Calabrians and other Southern Italian partners carrying out systematic and very frequent (daily) operations. In the same investigations, the authorities have also uncovered a business related to the possession and selling of stolen Lindt chocolate, also orchestrated in between the Netherlands, Canada, Siderno in Calabria, and in the hinterland of Milano and Roma. The chocolate (approximately 250 tonnes, for a value of 7.5 million euros) had been stolen in 2014 from the premises of the company Lindt Italia in Lodi, near Milano, fenced by those affiliated to the clan, and then sold to third parties. This shows that, beyond the mechanisms of drug trade, which will be detailed further later in this chapter, the 'ndrangheta clans outside of Italy still maintain the same entrepreneurial creativity they are known for in Calabria and in Italy.

Together with the delocalisation of different criminal activities, the analysis of the clans of the 'ndrangheta in Europe also needs to consider that in Germany and Switzerland the clans seem to have a much stronger and more stable stronghold than elsewhere in the continent. Settlements are in Rielasingen, Radolfzell, Ravensburg, Engen, and Frankfurt in Germany, while clans in Switzerland are in Fravenfeld, in the canton of Thurgau, and are often in conflict with the ones in Germany. Noticeably, Germany and Switzerland have been—and still are—preferential destinations of high numbers of Calabrian immigrants throughout the last century, due to the proximity with Italy. It is today common knowledge that there is 'ndrangheta presence in Germany, especially after the massacre of Duisburg on 15 August 2007, when six men were shot by a rival group in front of a restaurant. The event was linked to a feud in Calabria, in San Luca—the heart of the Aspromonte mountain in the Reggio Calabria hinterland. The Duisburg massacre revealed to the greater public not only the violence and reach of the 'ndrangheta abroad, but also the limits of international cooperation to fight the mafia (Europol 2013; Caneppele and

Sarno 2013). After the events in Duisburg, the question of penetration of the 'ndrangheta in Germany became of interest to the German authorities as well, under the direction of the prosecutors in Konstanz. The main issue was the extent of the infiltration of the clans and their connection with Calabrian migrants. Sciarrone and Storti (2014) have already noticed how more than strategically moving to Germany, the clans have rather exploited the possibility to make effective use of the immigrant community. Furthermore, the geopolitical situation of Germany, its strategic position towards both Eastern Europe and Northern Europe, and the robustness of its economy were (and still are) all factors attracting the clans.

Even though many investigations such as operations Patriarca, Helvetia, and Rheinbrücke have recently uncovered the activities of the clans between Germany and Switzerland, the most relevant one is still Operation Crimine when it comes to shedding light on the structure of the clans in this part of Europe, their strategic placement across the continent, and their continuous links with Calabria (Sergi and Lavorgna 2016). The most recent operations have shown how the dependence from Calabria relates to new affiliations, the ranking of the affiliates, the solution of controversies between the clans in Germany and those in Switzerland, general directives in criminal activities, and the development of vote-buying capability to build political influence in European elections (Sciarrone and Storti 2014).

Outside of Europe

Most of what we know about the presence and movements of the '*ndrine* in the rest of the world comes from Antimafia Operations in Italy investigating drug trafficking networks pivoting around various 'ndrangheta clans. Italian prosecutors assert a real hegemony of the Calabrian clans over cocaine trafficking from Latin America to Europe, and they argue that other criminal organisations refer to the 'ndrangheta clans to buy cocaine, making Calabrian clans the "most reputable wholesaler" in Italy and in Europe (DNA 2015: 14). Especially for drug trade, certain countries are origin or transit points for international trafficking; thus, they do necessitate a specific type of attention *in loco* by the 'ndrangheta clans. These are namely Peru, Colombia, Mexico, Brazil, and Morocco. Similarly, the USA, with its historical presence of mafia groups of Sicilian origin and with Calabrian individuals supporting Cosa Nostra (Critchley 2009), has in the past years attracted more 'ndrangheta members attempting to consolidate their reach in the US drug market. In particular, after Operation Buongustaio, Operation New Bridge, and Operations Columbus I and II, between 2013 and 2016, the geography of the clans in the USA—mostly operating in New York City (NYC)—has emerged more clearly. These operations have targeted criminal syndicates operating in the city and state of New York, with connections to Canada, Latin America, and Europe, and are organised across alliances between existing American La Cosa Nostra clans, Italian clans based in Toronto and Montreal, as well as brokers for the Calabrian clans operational in NYC with links across continents. In particular, Operations Columbus I and II revealed an international drug ring scheme run in partnerships between the Schirripa family clan in New York City and in the East Coast in the province of Reggio Calabria and the Gulf Cartel in Mexico. These operations have confirmed the crucial role of brokers working for the Calabrian clans in Mexico, Costa Rica, Bolivia, and Peru as well as the existence of the family-run business model at the core of the networks in NYC. Operations Solares, before Operation Columbus, had mapped the links between Calabrian clans, the Schirripa clan, and the La Cosa Nostra Genovese clan in New York City and to a lesser extent the Lucchese and Gambino families too. The owner of an Italian restaurant in Queens, NYC, together with ‘ndranghetisti from clans in Siderno, Sinopoli, and Taurianova (near Reggio Calabria), had been considered as the main broker of several cocaine importations between the USA and Italy through shipments of fresh fruits and dairies organised through fictitious import-export companies intercepted in various European ports. Certainly, the events emerged in the latest investigations have brought to the surface the existence of different partnerships in North America and Europe, that not only keep changing and adapting to the criminal markets as well as eluding means of international policing.

To complicate matters further, two countries outside of Europe, Canada and Australia, exhibit more concerning traits. The stable and historical presence of the ‘ndrangheta in these two countries places them under different lights when it comes to international trafficking and mobility of this mafia’s money, activities, and affiliates (Sergi and Lavorgna 2016). Not only Canada and Australia represent forms closer to a colonisation process with long-lasting settlements of clans of Calabrian origins, but the fate of these two countries has often been linked to one another directly across the globe; in the middle between them is always Calabria, where everything starts and everything ends.

In both Canada and Australia, migration from Calabria has been constantly growing, at different speeds, since before the two world wars and especially after the Second World War. In both countries, settlements from different areas of the Calabrian region followed chain migration routes, but—differently from what has happened in some European countries for example—the distance from Italy and the costs of travels have made migration more permanent with lower numbers of returns to the country of origin (Ramirez 2002). Strong for their closeness to the USA, particularly New York, and with a mixed structure that sees both Calabrian and Sicilian affiliates, the 'ndrangheta clans in Canada today have a concrete possibility of participating in international drug trafficking in that part of the world, but they still engage in extortions to the Italian community, in the selling of counterfeit materials, and in illegal gambling, especially in the area of Woodbridge in Toronto and more recently in Hamilton (DNA 2012, 2017). The main investigations involving Canada also confirm the importance of the Canadian clans for the structure and reputation of the '*ndrine* in Calabria. In fact, thanks to communication technology and much more frequent flying, the clans in Canada, while still autonomous in their reach and activities, never cease to be organic to the structure of the 'ndrangheta in Calabria. As Operation Acero ("Maple") has identified in 2015, what happens in Canada among the clans—their disagreements, their feuds—affects equilibrium in Calabria and creates tensions on the daily business as well as on how to handle different structures of power.

Operation Siderno Group, between 1992 and 1994, in Reggio Calabria had already established that since the 1950s, a coordination structure exists between Canada and Calabria among the clans from the area of Siderno in the province of Reggio Calabria. This structure was initiated by Albert Anastasia and Frank Costello, members of La Cosa Nostra in the USA but of Calabrian origin. The Siderno Group of Crime, especially active in Greater Toronto, not only is known to the authorities in both countries, but it is still active today, as confirmed by Operation Crimine. Particularly, Operation Crimine confirmed that in Canada there is a "chamber of control" of the 'ndrangheta tasked to solve conflict and report back to Calabria.

Operation Siderno Group had also warned that the clans from Siderno active in Toronto are also well connected to those in Perth, Western Australia, where Calabrian '*ndranghetisti* (members) from Siderno have been settling since before the wars. Australia as well is an example of colonisation: there are both an historical settlement of Calabrian criminals organised locally since the 1950s throughout the 1980s and a rekindling of illegal activities in connection with Calabrian clans since the 2000s (Sergi 2015a, 2017b).

The presence of Calabrian mafia clans, their structures, affiliates, and activities, in Australia has been an object of both national and international attention (Sergi 2017b; Bennetts 2016). The history of the 'ndrangheta in Australia is made of a series of events, some extremely popular, some more obscure and hidden to the general public. Most importantly, the history and resilience of the clans in Australia are linked to Australian history, the evolution of Australian policies and social changes, as well financial opportunities. Even though most of what we know of the Calabrian clans in Australia is linked to drug operations, money laundering investigations, and journalistic exposes of corruption, the criminal dimension is by far not the most revealing feature of the 'ndrangheta phenomenon in the country. Research in Australia shows (Sergi 2017a, b) that though Calabrian ethnicity is not what makes the 'ndrangheta prosper in the country—as arguably structural traits of the Australian society and policing shortcomings play a part in this—it is via Calabrian communities and their traditions that cultural norms of the 'ndrangheta are preserved and transmitted and still give the mafia flavour to an otherwise much less coherent groups of criminals. Research has also showed how Australia has been the first country to actually identify the differences between the Calabrian and the Sicilian mafia and called the 'ndrangheta as such through reference to its historical name "the Honoured Society". However, as Australian authorities have been struggling with activities more or less connected to groups of Calabrian criminals' organised crime according to the traditional 'ndrangheta rules, the fighting of these networks has not been easy. Generally speaking, crimes that are more or less linked to the 'ndrangheta—or more specifically to Calabrian-Australian criminals—are difficult to map across Australia. The size of the territory, in fact, makes it extremely complex to link activities across territories. Interests in the topic have re-emerged fiercely after a large ecstasy bust in 2008 in Melbourne, organised by Calabrian clans in Victoria with drugs coming from Italy, following political scandals linked to political donations and dangerous connections and influence of some (alleged) members of the clans with political parties (McKenzie et al. 2015; Bennetts and Sergi 2015).

The Drug Trade and Wealth

Certainly, what said above confirms that drug trafficking is the main revenue of ‘ndrangheta clans in their international networks. When looking at the connections, the operations, and the presence of members of the ‘ndrangheta in the drug market around the world, one of the most useful indicators is to look at the routes from and to the port of Gioia Tauro, the so-called ‘ndrangheta port, which establishes the hegemony of the Calabrian clans in the business. According to the National Antimafia Directorate, “through the Port of Gioia Tauro goes at least half of the cocaine imported to Italy” (DNA 2014: 128).

According to Italian authorities and Europol (Sergi 2015b) to and from Gioia Tauro at least three established routes are of interest and recurrently exploited by ‘ndrangheta clans. The first one is the “California Express” route: shipments from Northern America, through California and Mexico, arrive in Panama where they collect smaller cargos from Chile, Peru, Colombia, and Northern Brazil, before leaving towards Gioia Tauro. The second route is known as “Medusa” with shipments that cruise the ports in the Gulf of Mexico, stopping in Freeport, in the Bahamas, where they collect containers from South America, leaving afterwards towards Gioia Tauro with a previous stop in Valencia, Spain. Shipments in the third route, instead, leave from Argentina towards Montevideo and Southern Brazil before leaving for Gioia Tauro. The system used to traffic drugs through these routes is the most efficient. Neither the sender nor the receiver knows about the cocaine in the containers. The clans arrange for someone they trust in the various ports to place the drugs in the various shipments; considering the amount of shipments arriving every day at Gioia Tauro, most of them with destinations in small cargos towards Northern Europe, it is virtually impossible to check them all. The routes of drugs and the rip-off system used represent the quintessential exploitation of the weaknesses of a globalised world.

On the other side of Gioia Tauro and the strength of the clans in their own territory are the relationships between Calabrian clans and drug producers. The oldness of certain relationships between members of clans of the ‘ndrangheta and drug traffickers in Colombia, Mexico, Perù, and Bolivia has reinforced the reputation of the ‘ndrangheta in drug trade in the countries where the ‘ndrangheta clans have their own brokers. These are people who work for various clans at the same time and who are established in the country where they work closely with producers and traffickers.

These brokerage activities of the Calabrian clans have been established since the 1980s and during the 1990s and 2000s through Antimafia Operation Decollo. Today, as has been declared by an investigator in Reggio Calabria, "there is no need for the men of the 'ndrangheta to go to Bolivia in person; the agreements are made on the phone, from anywhere in the world, the payments are made through foreign banks and money transfers. There are frontmen, for sure, but primarily there are brokers, based in Santa Cruz and linked to Mexican or Colombian cartels" (Sergi 2015b: 47). Today, cocaine travels almost on "a rolling contract" to Calabria, Europe, and North America as directed by 'ndrangheta bosses; seizure from the authorities, arrests, and/or losses are counted in the risk of the massive proceeds that these alliances bring. The reputation of the 'ndrangheta clans, their money, and their brokers are enough to maintain the restock of cocaine ongoing (Sergi and Lavorgna 2016). Today, the strongest clans prefer cocaine as their first market because it allows them to invest almost safely in a highly lucrative product.

As cocaine is a very lucrative business, the 'ndrangheta clans—for whom cocaine is the first source of revenue—are willing to acquire a monopoly in the trade and establish connections and alliances with those in the territories of production. In fact, according to the DNA (2015: 402) any mafia economy is characterised by a "very high return of investment": for cocaine trafficking only, for example, "to an investment of 100,000 Euros in purchases correspond a return of at least 300,000 in sale after distribution".

According to the analysts of the Central Service for Organised Crime Investigations, within the Italian fiscal police, the 'ndrangheta clans need to resort to very complex money laundering schemes to clean all the money from cocaine trafficking (Magliocco 2012). The clans use both banks and financial intermediaries to proceed with their investments in order to clean drug money. As consistently indicated by the most recent reports of the National Antimafia Directorate (DNA 2011, 2012, 2014, 2015) and the fiscal police (Magliocco 2012), 'ndrangheta clans tend to adapt to business trends through specialisation, growth, expansion within the national and international markets, and relationships with other clans. Over the years the 'ndrangheta clans have invested in a variety of sectors, such as hotels, restaurants, import-export companies, food companies, tourist activities and services, and real estate (Calderoni 2011; Calderoni et al. 2016). Their investments and the movement of funds around the world for both legal and illegal activities are facilitated by tools typical of the globalised world's economy, such as virtual currencies and virtual channels (e.g. gambling online), other online communication (i.e. encrypted apps), online banking, remote investments, and so on.

Mafia Mobility and Globalisation

The clans of the ‘ndrangheta are well connected, wealthy, and most of all hidden across different criminal markets. As they manage their affairs mostly indirectly, it is very difficult, especially for "non-expert" authorities abroad, to miss them especially in their involvement in drug trade. First and foremost, the strength of this mafia-type organisation lies definitely in the power they enjoy at the local level. Calabria is their dominion and at the same time, their shelter. In the ‘ndrangheta's business plans, essentially, everything starts where it ends. However, considering migration from Calabria, the entrepreneurial abilities of the clans and the possibilities and opportunities offered by global economy, technology, and communication advancements, the clans have expanded their businesses way beyond the local dimension.

As said, the globalisation of the ‘ndrangheta happens in two main ways. One is the *colonisation* model where the clans have a Calabrian counterpart in the foreign territory. This counterpart is Calabrian in origin, linked through bloodlines to the clans and, most of all, is found in the existence of entire groups of Calabrians organised to "reproduce" the activities of the clans abroad. This is the case of Germany, Canada, and Australia, countries that have historically received Calabrian migrants and that today have *locali* (consortia) of clans that systematically arrange criminal activities across the ocean and that, most of all, endure and survive different types of police interventions. Another model of globalisation is the *delocalisation* model, which is the one seen in many other countries, where the clans operate indirectly, through brokers and through occasional contacts with the locals. This is usually the case in those countries with a more established underworld, where the ‘ndrangheta men become partners in crime. In this framework, the case of the USA seems to be in the middle. In fact, this country has historically been the destination of Calabrians, and Calabrian criminals have also historically liaised with La Cosa Nostra families, especially in New York, in their escalation to power and money. On the other side, New York today represents the perfect platform for the clans to use the links and the established routes from the past to launch a more flexible and more efficient money-making machine through drug trade. This strategy, therefore, includes both the employment of traditional contacts (such as pizzerias in Queens in Operation Columbus) and the use of more hidden ones, like the brokers in Latin America. The risks of this strategy are various: on one side, the visible contacts are easier to trace by authorities, but they often are only fronts of much larger operations, and on the other side, the ability of the clans to go unnoticed, the use of brokers, and the extent of their reputation in the producer countries make it unlikely for authorities worldwide to be able to understand the involvement of Calabrians when dealing with "visible" crimes and seized drugs. Indeed, the risk posed by the 'ndrangheta today, apart from the obvious harms linked to drugs, is in their chameleon ability to spread their tentacles through in profitable markets through others and a complex network of contacts. At the same time, the Calabrian clans have another characteristic—their bloodline requirement for affiliation—that makes them even stronger. It is necessary to understand that the blood ties are the cement of the clans; they guarantee trust, and they guarantee longevity and endurance. It follows that, while on one side, we need to be very careful and avoid ethnic stereotypes—Calabrians are definitely not all mafiosi—on the other side, a proper strategy to combat the 'ndrangheta and the globalisation of their activities cannot do without a proper understanding of the structure of this mafia group. In fact, the globalisation of the 'ndrangheta happens thanks to two key elements characterising this mafia: first, the nature of the ethnic element in 'ndrangheta which necessarily links migration routes with potential routes for business, and second, the opportunity-based decision-making also in the choices of destination of funds and activities of the clans, their entrepreneurialism, what calls agency factors of mafia expansion. Whereas the former clearly predates the globalisation examined in this volume, the latter and more specifically the possible avenues for investment and the benefits to be gained have increased substantially, exactly as a result of the technological transformations underpinning globalisation. Indeed, even in cases of colonisation, blood ties and Calabrian birth still are one of the reasons why the clans are successful abroad, but at the same time the ability of the clans to identify opportunities in existing and new illegal markets is indispensable. Both their structure, so deeply rooted to Calabria, and their business acumen in seizing profitable opportunities, therefore, allow for successful colonisation and settlement abroad.

However, this does not mean that whenever criminal opportunities emerge abroad there will always be an attempt to recreate and replicate the Calabrian criminal structure. In the case of the Netherlands, France, Spain, or the UK, for example, while we do have some indicators of a significant presence, the presence of the clans is fluid and does not congregate in cloned structures of the '*ndrine* in Calabria. Also, we do not know whether this depends on the types of illegal activities carried out in these areas, the ability of the '*ndrine* in Calabria to control other clans or affiliates in these countries directly from Calabria, or only blindness of the authorities so far. Certainly, if a smaller number of individuals linked to the clans are resident on a stable basis in certain territories, the clans might choose to keep contacts through increased travelling and movements of their own affiliates from Italy as needed, depending on the activity as well. This does not seem to be a very problematic choice given today's fast transport system and encrypted online communication mechanisms that become safer every day.

In conclusion, globalisation has provided the clans of the Calabrian 'ndrangheta with many opportunities for exporting their wealth and their modus operandi elsewhere, thanks to easier migration, communication techniques, and technological advancement. The capitalist economy ruling the drug business has placed the clans in a unique position, as they hold a foot in both producer countries and recipient ones. Essentially, successful entrepreneurship is the effect that globalisation has had on the traditionally strong and well-oiled modus operandi of the clans, where family ties, wealth accumulation, and use of violence and corruption make this mafia effectively *glocal*.

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CHAPTER 6

Placing Austerity in Context: The Greek Case Between Neo-Liberal Globalisation and an Ordoliberal EU

Vassilis K. Fouskas

Introduction

Austerity, Mark Blyth (2013: 1–21) argued, is a form of deflation in which the economy attempts to adjust through policies and legislation that reduce wages and welfare spending while increasing taxation, the rate of unemployment and precarious employment. It is part and parcel of a supply-side policy arrangement, the aim being the restoration of competitiveness or the improvement of it (Streeck 2016: 73–164). In particular, austerity comes to the fore in times of crisis, because, under capitalism, the costs and losses from the crisis should be borne by the working classes and the deprived, not the rich and the prosperous. Yet, austerity does not manifest itself the same way in the core and the periphery. Peripheral states and societies within the Euro-zone, such as Portugal and Greece, experience much harsher austerity regimes than the wealthier core, such as Germany or Holland.

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Improvement of competitiveness (and of the balance of payments) can also be assisted by currency (external) devaluation and a controlled rise in domestic inflation. However, this option does not exist within the European monetary union. The Euro-zone states do not have monetary independence, the issuing institution of currency being the European Central Bank (ECB). Effectively, the Euro-zone is a fixed exchange rates system. Thus, austerity can only take the form of internal devaluation, given the no-bailout clause of the EU Treaties, in case an indebted Euro-zone member is on the brink of default. The core argument I develop here is that the EU is not a state with a fiscal capacity and by virtue of it not being a state it disables all its members, especially Euro-zone members, from being able to act as states with monetary sovereignty. This is, in my view, the darkest side of the European project and this is at the root of what calls "the state of enduring austerity" in times of crisis.

But austerity is not just a form of public policy that dominates the EU/ Euro-zone. Austerity, by and large, is a neo-liberal policy linked to globalisation and the crisis of it.

The aim of this chapter, therefore, is to place austerity in a comparative public policy context that connects globalisation and its crisis with the process of European integration and its crisis. The concept of "new authoritarianism" I introduce here corresponds to the crisis of both neo-liberal globalisation and the crisis of ordoliberalism at the EU level. In this respect, austerity is consubstantial with "new authoritarianism".

To achieve these aims, I will first shed light on Greece, by far the worst victim of the crisis. I will be looking at the social and economic consequences of the bailout austerity agreements imposed by the creditors. I will then show that this is a form of rather formal, institutionalised imperialism. Second, I will offer some reflections as to why the EU/Euro-zone, far from representing a democratic aggregation of political agencies, is an ordoliberal construction operating under the disciplinarian-ordoliberal hegemony of Germany and, as such, it can never be expected to evolve into a democratic federal union. This, if at all, can be possible only as an outcome of social and political struggle. In this context, I shed light on two stylised and overlapping authoritarian policies, that of neo-liberal globalisation led by Anglo-American capitalist agencies and ordoliberalism, led by the German state. The aim is to achieve a deeper understanding of the German economic model and the extent to which it is being transplanted into the EU/Euro-zone in an effort to compete globally with other regional assemblages in Asia and North America.

Given the extraordinary amount of scholarly information we already have on the causes of the Greek/Euro-zone crisis and the proposed ways out of it, I believe that this type of discussion is useful and moves the debate forwards.

The State of Enduring Austerity/"New Authoritarianism" and Its Consequences

Neo-liberal austerity regimes correspond to the crisis of neo-liberal globalisation set off in 2007–2008 and, as such, are deeply authoritarian and undemocratic. From May 2010 to August 2015, Greece was forced to sign up to receive three bailout funds from its creditors corresponding to three "economic adjustment" programmes. Whereas the programmes were and are being implemented without any major deviation creating very high primary surpluses at the expense of an impoverished Greek society, almost none of the funds disbursed trickled down to the real economic sector or contributed to any decrease of the public debt. Just a year before the first bailout, the debt-GDP ratio was at 126.7%. After six years of harsh austerity, it soared up to 177.4% in 2015.

The first programme (2010) pushed the ratio of debt to GDP even higher at 172.1%, whereas by 2013, that is after the second programme, it went further up to 177.4%. From 2009 to 2015 the country lost 26% of its GDP, effectively losing in less than 6 years all what it gained in the previous 12 years. Despite the fact that public expenditure was reduced up to almost 16% of GDP during 2008–2013, the fiscal deficit remained well above the benchmarks set at the Maastricht and Stability and Growth Pact Treaties.

I will proceed by looking first at the impact of austerity/"new authoritarianism" on subaltern social classes, followed by an examination of the impact of austerity on dominant classes.

Impact of Austerity on Subaltern Classes

The bailout agreements forced the Greek cabinets to a number of authoritarian measures: poll-tax and "solidarity tax" were introduced and VAT went up to 23%–24%, including the islands which enjoyed a lower VAT regime in order to encourage tourism (tourism's contribution to Greece's GDP stands at 18%). The underground economy also increased from 27% to 37% with some 6000 firms owing to the Greek state more than 30bn euros.[1] Overdue debts of private firms and households is nearly 150bn euros in 2016 of which 60bn are non-performing loans, 58.5bn overdue taxes, 27.4bn overdue social contributions, 3.7bn overdue customs and duties and 60bn overdue mortgage repayments. Evading paying VAT amounted to 6.5bn euros per year. The real disposable income of Greek households has been deteriorating steadily since 2009, whereas the minimum wage was dropped down to the level of 2004. This represents a reduction by 22%, although, to those under 25 the minimum wage is reduced by 32%. Also, the effects of the crisis and the bailout programmes induced capital flight. In 2012 alone, wealthy individuals expatriated some 280bn euros either placing it in foreign banks, mainly German, Austrian, Swiss and British banks, or investing in housing and financial assets. Law 4024 of 2011 reduced the personal tax allowance from 12,000 euros a year to 5000 euros with no effect as tax evasion continued becoming, effectively, a matter of survival for the impoverished.

The "new authoritarianism" of austerity decimated the middle classes drawing onto society clear demarcation lines of class polarisation with immediate effects on the political and party system (Fouskas and Dimoulas 2012; Kazamias 2018). The rise of Syriza to prominence is mainly related to this social transformation, which is typical of a crisis of this magnitude and the social impoverishment and inequality it causes. In addition, a permanent fissure within Greek class structures is between those inside and outside of the workforce. Out of a total population of 10,920,000 in 2015, the economically active population, that is, those participating in workforce, is less than 40% (4,038,676 people), whereas the pensioners were more than 2,700,000 (Chart 6.1).

Having committed to the austerity of the bailout agreements, all Greek cabinets since 2010 engaged in pension cuts and other measures, such as gradually increasing the pensionable age to 70 years and complicating the eligibility criteria. However, due to GDP contraction, Greek pensions are still the higher in the EU as percentage of GDP, despite the fact that the minimum national pension has been reduced to 392 euros per month.

Law 3863 of 2010 introduced a new method in calculating the new pension: whereas before the final pension was defined by the best five years

[1] *To Vima*, 28 March 2016 and *Kathimerini*, 7 December 2015 and 2 February 2016.

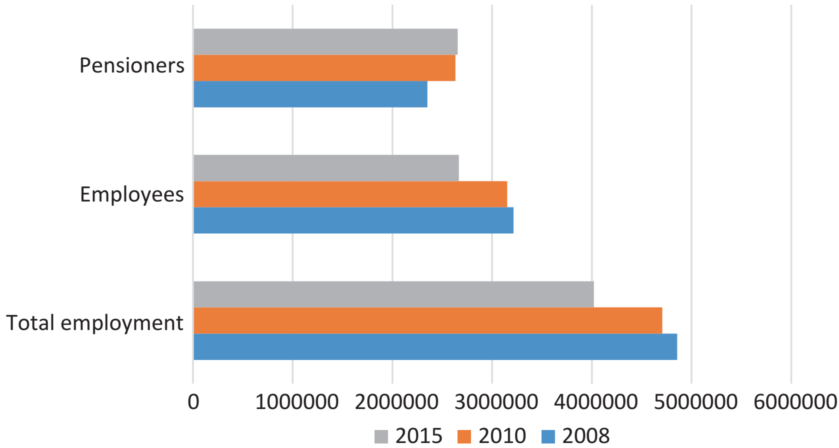

Chart 6.1 Total employment, employees and pensioners in Greece. Source: Own compilation of data from ELSTAT (Hellenic Statistical Authority)

of contributions, the new law stipulated that the final pension results from the average sum of all contributions.

Unemployment rate has always been below 12% since 1998 but it skyrocketed to 27.5% in 2013. Youth (up to 24 years old) unemployment was the highest at 53% during 2012–2015. Long-term unemployment also increased from 34.7% in 2007 to 41.9% in 2012, 70.5% in 2013 and 73.1% in 2014. Part-time, casual and precarious employment also increased, especially after the conversion of contracts from full-time to part-time and rotation work. Greek cabinets, acting under their creditors' diktat, introduced Law 4093 of 2012 in which annual leave became compartmentalised and the costs of hiring and firing workers were minimised. Experts estimate that there is an increase of 44.8% in the conversion of full-time into part-time contracts and an increase of 85.5% in the conversion of full-time contracts into rotation work (Kouzis 2012). In 2013, youth involuntary part-time employment was over 64% (Fig. 6.1).

Further, Law 4046 of 2012 dismantled the structure of national collective bargaining by introducing agreements at the level of enterprise. Already in 2010, some 200 sectoral agreements had been signed, covering 80% of employees. By 2015, even sectoral agreements ceased to be the norm: in 2015, there were only 19 sectoral agreements, no national collective agreement, the rest being in-firm agreements, most of which were

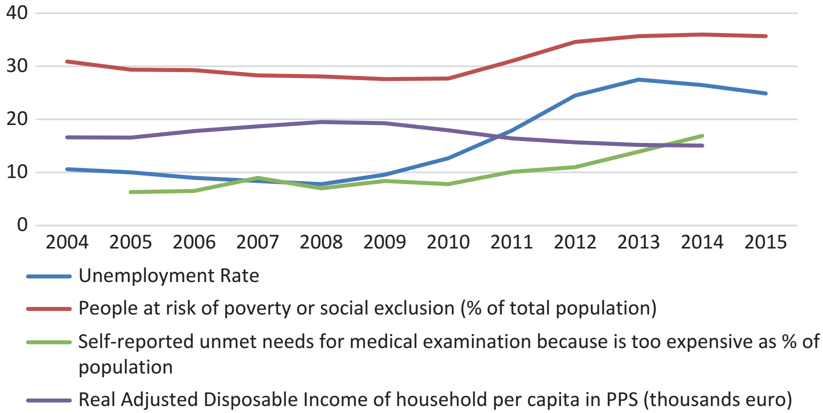

Fig. 6.1 Evolution of main indicators concerning living standards in Greece, 2004–2015. Source: Our elaboration of data from Eurostat

between "group of workers" and the employer (the trade union was absent).

The institutionalisation of the devaluation of labour power via the deregulation of the labour market is a substantial part of Greece's undemocratic "adjustment programme". In these circumstances, informal employment and unemployment rose to over 30%. Due to high unemployment rate and precarious work, health insurance fees became unaffordable. Free health care for all was provided only by the second Syriza government in August 2015.[2] Greece has now a distinct social group, that of the "new poor", a social phenomenon quite common in Northern capitalist countries, which first appeared in Europe, in Britain, in the wake of Thatcher's neo-liberal reforms. A substantial number of Greeks, especially pensioners, cannot afford to pay for a full meal a day and barter was widespread between 2011 and 2014, although it has now receded. More than 4000 people committed suicide for reasons related to personal financial difficulties. Researchers note that the rate of extreme deprivation peaked in 2013 at 20% (it was 2.2% in 2009). The standard poverty rate increased from

[2] The creditors pushed for the reform of Greece's fragmented health care system. All health care funds came under a new supervisory agency, the so-called National Organisation for Primary Health Care (EOPYY) whose beneficiaries, according to its president, in 2011, were 9 million people (the number was reduced to 6.2 million in 2013). The reform included initial payment of 25% of all medical costs (medicine, diagnostics tests, etc.).

19.1% in 2009 to 44.3% in 2013, affecting mainly the unemployed, children and the pensioner (Baloudros and Petraki 2012; Matsaganis and Levendi 2013).

Last but not least, the creditors pushed for reduction in public employment. They succeeded on that front too. In 2009, total employment in the broader public sector numbered 1,066,729 civil servants. By February 2013 it decreased to 776,954, and this despite the fact that employment in Greece's public sector as a percentage of economically active population is below the average of OECD countries (Ministry of Interior 2016). Flexibility has also entered the domain of the public sector. Seasonal employment in health, education, local administration and various community services was abolished. Arguably, austerity in Greece has created unsustainable social conditions.

Impact of Austerity/"New Authoritarianism" on Dominant Classes and Foreign Capital

The structural reform aspect of all three adjustment programmes was not so disastrous for the dominant classes within Greece. It had had some strong *class* polarisation effects within the "historic bloc" ruling Greece since the fall of the Colonels in 1974 supporting some class fractions against others, but it did not destroy capital nor did it damage the process of accumulation. It led to further concentration/centralisation of capital and intensified the rate of exploitation through deflation and punitive legislation.

During the expansion period of 1995–2007, housing, transport, metal products, machinery and construction were the sectors that augmented most, whereas capital formation in agriculture remained rather stable. It can be seen from the evolution of gross capital formation (Fig. 6.2) that investments after 2007 began falling. By 2015, the gross capital formation was reduced by two-thirds reaching the level of 1995, losing all the gains it achieved during the expansion years of 1995–2007. The value of lost capital was nearly 80% in housing, metal products and machinery, whereas agriculture stagnated (see below). In Chart 6.2, we can see all the main macro-economic indicators over the eight-year period, 2006–2014. All of them, with the sole exception of fixed capital consumption which remained rather stable, have since 2008 deteriorated.

The real net profits grew throughout the expansion period, reaching their peak in 2007; although, if we trace the data back to 1980 we discern

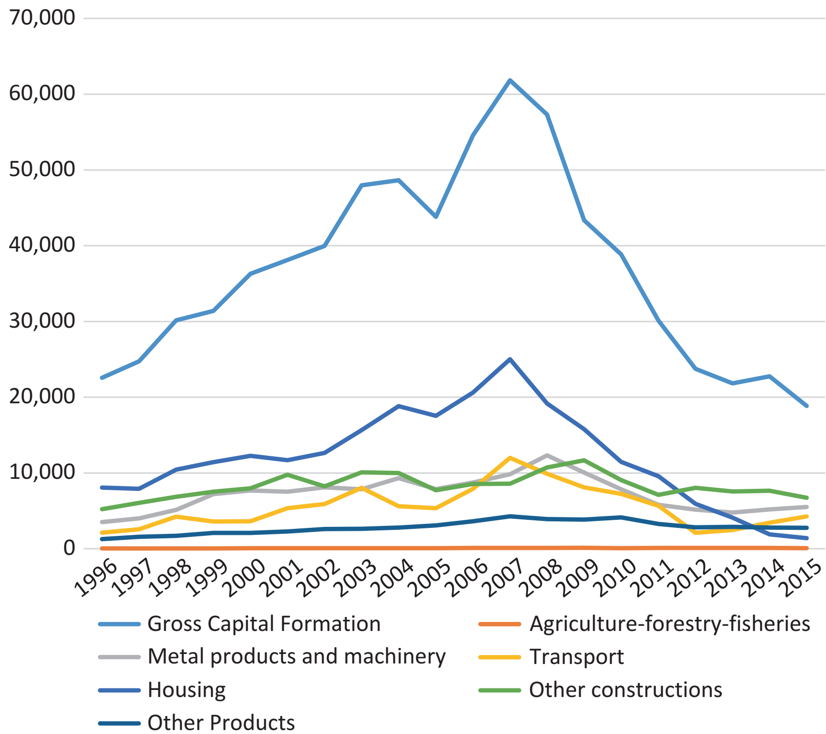

Fig. 6.2 Evolution of gross capital formation in Greece, 1996–2015. Source: Own elaboration of data from ELSTAT

some fluctuations for short periods of time. The economic expansion led to further concentration/centralisation of capital, especially in banking, shipping, construction, the media sector and tourism. This trend was further intensified after 2010, that is, when Greece entered the era of permanent austerity. Infrastructural work, such as the Rio-Antirio Bridge, the construction of the new Athens airport and works for the 2004 Athens Olympics, had been financed by heavy external and domestic borrowing. When the crisis hit the Greek economy and hot speculation attacked the Greek bond and repo markets, the shaky foundations of the Greek expansion unravelled. All the main macro-economic indicators contracted, the sole exception being that of fixed capital, leaving no space for recovery under this type of deflationary/authoritarian policy.

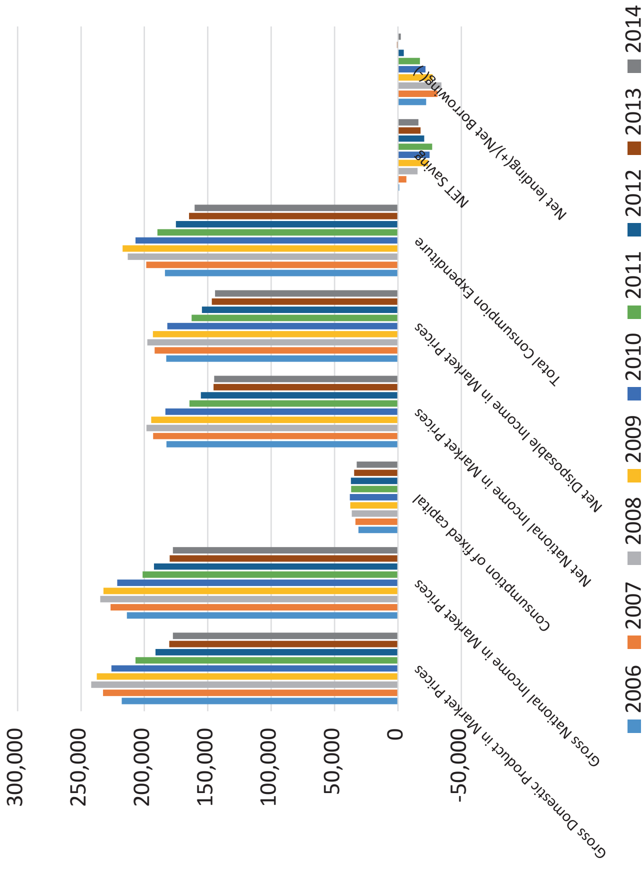

Chart 6.2 Main macro-economic indicators in Greece, 2006–2014. Source: Our elaboration of data from ELSTAT

Interestingly, however, only 18 out of 500 leading enterprises in Greece in 2013 registered losses. The rest continued to register profits throughout the heavy austerity years of 2012–2014, especially the banks (Frangakis 2014; Tolios 2016; Tsouflidis and Zoumboulakis 2016). Twenty profitable conglomerates represented 67.6% of all profits in 2013 and controlled 43.8% of the annual payroll of those 500 enterprises. Profits in the banking sector alone totalled 63.5% of all profits recorded, whereas tourism registered 36%. Greece's small manufacturing sector recorded 13% profit, but this covered only 166 firms. In retail, 99 firms covered 8.6% of all profits, although the number of the firms was reduced in 2014 due to bankruptcies and acquisitions.

According to data gathered from Greek national accounts, the sectors affected most from the crisis were the most dynamic ones, simply because they had borrowed heavily. Small family enterprises lost 58.2% of their added value, constructions 52%, social work 45.9%, communication and information services 40.3% and transport and warehousing 38.5%.[3] Other authors also report that large, long-established firms, such as Nutriat ABEE, declared bankruptcy in 2013. Greece's largest furniture company, NEOSET, employing over 1000 workers, declared bankruptcy in 2012, as did SATO, another furniture manufacturer (Frangakis 2015). It should be noted that Greece's private sector is dominated by SMEs of which 98% employ less than ten workers.

Lastly, we can see from Chart 6.3 that FDI inflows in Greece were dominated by German capital (from the late 1940s to early 1980s, Greece was dominated by US capital). Before the crisis, the rate of investment was satisfactory. The amount of foreign capital invested in Greece during 2003–2008 was 28.4bn euros of which one-third was German (9.1bn euros). The average annual investment ranged from 3.4bn to 7bn, but in 2012 it was only 2bn. Unsurprisingly, FDI inflows decreased after 2009. But the most interesting feature had to do with the *type* of FDI Greece experienced since the country entered neo-liberal financialisation/globalisation in the mid-1990s.

According to "Enterprise Greece", a key professional agency recording FDI in Greece, during 2003–2008, 71% (19.9bn) of FDI went to the tertiary sector of the economy, more specifically, to finance (33%) and telecommunications (41%). Investment in agriculture, forestry, fisheries

[3] See www.statistics.gr (accessed on 28 December 2017).

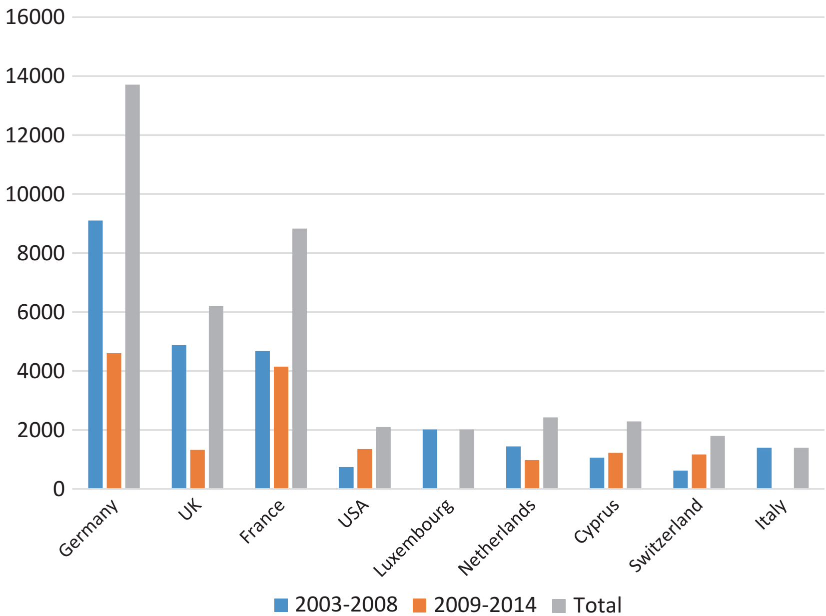

Chart 6.3 Origin of inward FDI, Greece (2003–2014). Source: Own elaboration of data from the Bank of Greece

and manufacturing was almost zero.[4] From 2009 to 2014, FDI was also directed to services (70% or 11.9bn), with the breakdown now being 29% to telecommunications, 24% to finance, 18% to the devalued real estate and 155 to the retail sector. All in all, FDI did not contribute to the development of the real economic sector in Greece. Its business concentrated in the acquisition of equities and shares and the floating assets of Greece's privatising companies (portfolio investment).

As far as the agricultural sector is concerned, it shrank from 8% of GDP in 1995 to 3.1% in 2009 and it began a gentle pick up with the advent of the crisis, when some internal migration took place as people, due to the crisis, were forced to leave the urban centres, returning to their provinces of origin. Remarkably, though, the EU's Common Agricultural Policy (CAP) did not manage to offset any of the chronic problems of the Greek

[4] See Enterprise Greece http://www.enterprisegreece.gov.gr/gr/h-ellada-shmera/giati-ellada/ksenes-ameses-ependyseis (accessed on 26 December 2017).

agricultural sector, namely its labour-intensive character and uncompetitive position (Greece's agricultural sector is dominated by small, family-based farms). If at all, its financing mechanism widened the gap between small and large firms and increased relatively the number of seasonal workers. The overall number of farms, nevertheless, declined from 860,154 in 2007 to 709,449 in 2013 (Sakellaropoulos 2014: 123).

Preliminary Discussion and Context

On the basis of the above factual analysis, one may rush to conclude that the harsh austerity regime described represents the dark, indeed the darkest, side of the European project as it applies to the case of Greece. After all, as the creditors along with all sorts of neo-liberals have argued, austerity in Greece is the necessary outcome of state profligacy, recklessness and the low labour productivity of the real economic sector. The German Minister of Finance from 28 October 2009 to 24 October 2017, Wolfgang Schäuble, put it as follows: "It is an undisputable fact that excessive state spending has led to unsustainable levels of debt and deficits (…). Governments in and beyond the Euro-zone need not just to commit to fiscal consolidation and improved competitiveness: they need to start delivering now". Schäuble argued that this is the only way to achieve sustainable development and took a clear position against a fiscal union at the European level because, as he wrote, it would make the crisis worse by "removing a key incentive for the weaker members to forge ahead with much-needed reforms". After all, he continued, the fiscal union is "against the very nature of European integration".[5]

The Minister's analysis is wrong. As we have shown elsewhere, the Euro-zone crisis is not a fiscal crisis. It is a balance of payments *cum* profitability crisis and, as such, its roots go back to the breakdown of the Keynesian compromise in the 1970s and the end of the fixed exchange rate system centred on the primacy of the dollar in global currency markets (Gowan 1999; Brenner 2006; Fouskas and Gökay 2012; Fouskas and Dimoulas 2013). The profitability crisis in the real economic sector that began in the 1970s in the Anglo-American world failed to be restored via the policy of neo-liberal financialisation/globalisation and when the latter imploded in 2007–2008 it immediately trickled down to the Euro-zone

[5] Wolfgang Schäuble (2011) 'Why austerity is the only cure for the Euro-zone', *Financial Times*, 5 September.

via the banking sector. The first banks that failed were German and French banks.

The Minister is also wrong in saying that a fiscal union is impossible because it constitutes a bad example for the "weaker members" to implement the "much-needed reforms", whose consequences I have described above. One of the reasons why the former Minister does not wish a fiscal union is because such an event would force the rich countries of the core, and first and foremost Germany, to cancel the debt of the periphery and then pay for it. But debt forgiveness is impossible not just because the Treaties disallow this but because such a move would destabilise the political and fiscal systems of the core countries, leading to major social upheavals and, eventually, a break-up of the EU. The interesting part of the lecture, however, is when Schäuble says that, after all, the fiscal union is against the "very nature" of the European project. This begs the question: which is the *very nature* of European integration?

I argue that the "very nature" of European integration is the guiding principles of it. These are premised upon German-Austrian ordoliberal principles, which have been inserted in the institutional materiality of European Treaties, reflecting more or less the German model of a peculiar capitalist-imperial rule. As a form of public policy, ordoliberalism dominated the process of European integration, dictating rules and norms across Europe in a typical *imperialist* fashion. As such, it does not aim at *politically* and *fiscally* uniting Europe and, after all, the "political" unification of Europe is provided by the USA under the security umbrella of the NATO.

It is in this respect that Schäuble is correct: fiscal union is "against the very nature of European integration". However, we now need to have a closer look at the main ingredients of ordoliberalism and the way in which it overlaps with Anglo-American globalisation, another key imperialist policy. Thus, from this broader perspective, I would argue that austerity in Greece and elsewhere in Europe, including Germany itself, is not the dark side of European integration. It is, nevertheless, the result and the epiphenomenon of a deep historical crisis of the Western imperial system that began in the late 1960s and has become more visible and manifest after the collapse of the Soviet Union and the failure of the USA to control the Russian and Chinese states in the 1990s. In other words, it is connected to the power shift to Asia and the new emerging economies centred on Chinese imperialism.

Two Overlapping, Yet Stylised, Authoritarianisms: Anglo-American Neo-Liberalism and German Ordoliberalism

On the one hand, the "success" of Anglo-American neo-liberalism, its financial sites being the Wall Street and the City of London as off-shore money hubs *par excellence*, rested on excessive financial operations at home and abroad, excessive speculative arbitrage, excessive re-cycling of fictitious capital appropriating international value creating the "debt-driven" growth of the 1990s and early 2000s and excessive production of legislation and norms at both national and global levels aiming, among others, at transplanting their politico-economic and ideational models of neo-liberal policies across the globe. In the relevant codified jargon, the names given to these imperial processes were (and are) "structural adjustment programmes", "rule of law" and, in the case of embattled peripheries and war zones, "transitional justice" or "Washington consensus". The aim was and remains the transformation of the domestic orders of all capitalist states in the world and the appropriation of international value: these are the two key features of any imperialist project in modern capitalist history. These activities, it should be said, coupled with military interventions in key neuralgic areas of the globe, have spectacularly failed to regulate the structural contradictions of capital despite the indisputable defeat of the labour movement in the 1980s. In addition, they failed to arrest the slow and protracted decline of the Western economies as a whole.

On the other hand, the "success" of German-Austrian ordoliberalism rested on the victory of the economic model of "social market economy", which Germany managed to transpose onto the EEC/EC/EU and even beyond, and after having prevailed over France, especially after Francois Mitterrand's famous U-turn in 1983. The (secret and open) negotiations between French and German delegations from the 1960s onwards, over the thorny issue of EMU and the monetarist-ordoliberal criteria firmly enshrined in the Maastricht Treaty, secured Germany's hegemony in the EU. This negotiating process, so vividly described by Kevin Featherstone and Ken Dyson in their classic, *The Road to Maastricht* (1999), tells us how Germany's economic model came to prevail, defining the process and the principles upon which Europe's economic constitution and institutional rules should be built. Time and again, as with the Anglo-American neo-imperial design, the aim of German-Austrian ordoliberalism is the transformation of the domestic environment of European states, making it conform to their own ordoliberal socio-economic model.

This brief sketch alone suffices to define both public policies as inherently authoritarian and imperial, two dimensions that unfolded during their crisis that set off in 2007–2008. But there are more reasons militating in favour of such a characterisation. As we saw earlier, the global financial crisis of 2007–2008 penetrated the Euro-zone via the banking sector. Neo-liberal globalisation and the ordoliberal integration process of the EU are strictly intertwined. German and French banks, exposed to toxic financial commodities from the USA and Britain, were the first to fail. Germany's economy has one of the highest degrees of financialisation/globalisation in the EU. But Germany, having frozen wages from the mid-to-late 1990s, became the top exporting country in the Euro-zone amassing and re-cycling large surpluses at the expense of the periphery. Thus, she was in a position to displace the crisis of its failing banking sector and impose an austerity agenda especially on the indebted periphery of the Euro-zone, effectively bailing out its failing banks (Varoufakis 2017). Thus, in the wake of the bailout agreements that passed the debt from the private onto public institutions, it is now the Greek, Spanish and Portuguese taxpayer bailing out the banks of the core.

Three issues are important here. First, the crisis in the Euro-zone spread from the Anglo-American financial core as a crisis of the imperialism of neo-liberal financialisation: this was a crisis of the function of core-core interpenetrative transatlantic financial transactions. Second, Germany's deflationist agenda, inspired by an ordoliberal public policy, failed to protect its own economy, and that of the EU/Euro-zone, from this Anglo-American-driven global financial crisis, indicating the failure of ordoliberal public policy to insulate the Euro-zone. Third, and given the nonchalant growth rates of the Euro-zone and the EU as a whole from the 1980s onwards, German "social market" principles failed to deliver sustainable growth, especially under EMU conditions. Austerity and growth are two irreconcilable magnitudes (Fouskas and Roy-Mukherjee 2016). However, what is of relevance for our purposes here is also *the extent* to which Germany's ordoliberal public policy is imperialist. To answer this question, we must understand the profound policy meaning and determinants of ordoliberalism and how it operates in the EU/Euro-zone and beyond.

Ordoliberalism is what others call "social market economy" or "The Freiburg School". Effectively, it is the German-Austrian version of neo-liberal economics. It emanated from academic circles during the inter-war period and influenced policymaking after the war. Ordoliberal Alfred Müller-Armack, a member of the Nazi party during the inter-war period, was Germany's chief negotiator for the Treaty of Rome (1957). The literature that examines the way in which ordoliberal principles and rules have dominated the process of European integration becoming Treaty-bound norms and legal obligations for all member-states, especially Euro-zone members, is now vast (Foucault 1979/2010; Gamble 1988; Dale and El-Enany 2013; Wilkinson 2013). As we saw earlier, the argument advanced is that Germany, following decades of (secret and open) negotiations primarily with France, has managed to transplant into the institutional architecture of the EU key policy tenets of its economic-institutional model, creating a pan-European system of supranational governance that resembles Germany's model of capitalism. This model is based on the following inter-related principles:

1. Anti-inflation bias, balanced budgets and a monetary policy protecting the Euro
2. Central bank independence
3. De-politicisation of economic policymaking and technocratic quantifications of it
4. Anti-trust legislation and a rigid rule-making economic constitution inserted in Treaties and buttressed by an ensemble of "federated executives" (Bonefeld 2012, 2017)

This last point, in many respects, resembles the design of Friedrich Hayek in his rather forgotten essay, "The Economic Conditions of Inter-State Federalism" (1939/1947). Wolfgang Streeck (2015) goes as far as to say that all major European institutions, such as the European Central Bank, the European Commission, the Council of Europe and even the European Court of Justice, are forms of authoritarian governance protecting European free markets from democratic interference. A similar point of view from a juridical-philosophical perspective is developed by William E. Scheuerman (2015). From this perspective, the very meaning of the *rule of law* in conditions of ordoliberal (and neo-liberal) financialisation, in both the metropolises and the peripheries of capitalism, has nothing to do with justice, democracy, rights and civilisation as liberals theorising in the field of international politics want us to believe. "Rule of law" (for the core) and ideologies of "transitional justice" (for the embattled peripheries of the Global South) are embodiments of the technocratic rules that the individual of a fragmenting neo-liberal society, at home and abroad, must internalise so that it can be inserted without any resistance to the supreme rule and disciplinarian realm of capital accumulation, expansion, coercion and "free" global markets. Working-class family units and, with them, the Fordist wage have to be undermined because they are not conducive to the devaluation of labour power through the market mechanism, whereas they over-burden the fiscal component of the state. The "new citizen" in the West and the East, North and South, must feel co-responsible with the "entrepreneur" in a society in which the workers-consumers of both sexes are no longer defined contractually as *employees* but as *associates*, with no rights whatsoever while accepting ridiculously low wages and harsh working conditions.[6] This is what Michel Foucault, who tackled the ordoliberal/neo-liberal phenomenon as early as the late 1970s and somewhat juxtaposed it with the Anglo-American neo-liberalism of the "Chicago School", called *bio-politics*, after what ordoliberals called *Vitalpolitik*. According to Foucault (1979/2010), without this bio-political dimension, which effectively summarises a new lifestyle and a way of life, the ordoliberal project may not succeed.

These analyses should be read in tandem with contemporary events in various EU states and the impact of the Euro-zone crisis. In order to crack down on acts of terror, EU states impose, one after the other, "states of emergency" reinforcing the executive-authoritarian arm of the state, which acts already in an authoritarian manner by way of imposing austerity and welfare retrenchment. Whereas Anglo-American neo-liberalism is consubstantial with globalisation and the dominance of American-led finance since the 1980s in an increasingly securitised global environment after 9/11, ordoliberalism is consubstantial with the process of European "integration", the management of its current crisis and the hegemonic posture of Germany in those processes. Same as neo-liberalism, ordoliberalism, too, has an authoritarian core which is centred on the disciplinarian, de-politicised and technocratic rule-binding approach to the construction

[6] This started from the USA with the Walmart and expanded quickly to the UK and elsewhere. This is the very meaning of Tony Blair's "stakeholder society", launched in Britain in the late 1990s and embraced by the ideologues of "Third Way". In this respect, it could be argued that Tony Blair, as leader of the Labour Party, contributed far more than Thatcher's Tory party did in embedding ordoliberalism in the UK.

of the EU, a policy approach implemented by the federated executives of member-states in a completely undemocratic manner.[7]

All in all, the public policy of ordoliberal financialisation that guides the process of European "integration" and manages its crisis via harsh austerity regimes is a clear-cut imperialist policy. Apart from the single market mechanism, imperial arrangements of value transfer from the periphery to the core were institutionalised in the EU well before the current crisis and the launch of the euro in 1999 (2001 for Greece). Appropriation of value by the core became more pronounced during the crisis, especially in peripheral countries, such as Greece. The announcement by the European Central Bank in October 2017 that it has so far made 7.8bn euros in profits from its Greek bond holdings reveals the true imperial nature of the so-called bailouts of Greece that EU (read: German-Austrian ordoliberalism) and IMF (read: Anglo-Anglo-American neo-liberalism) policymakers organised in return for massive austerity measures from 2010 onwards.[8]

Discussion and Context

Since the 1980s, austerity has become the dominant form of socio-economic policy in the West.[9] At the European level, one can find it enshrined in the Maastricht Treaty (1992) and the Stability and Growth Pact, both of which aimed, among others, at streamlining the budgetary process of the member-states in order to optimise monetary integration by avoiding currency crises and minimising risk. Exchange rate stabilisation was paramount for all core European states and the USA as it facilitated trade and transatlantic integration under American primacy. Austerity was thus institutionalised in the EU policy regimes well before the onset of the global financial crisis and the Euro-zone crisis in 2008–2009. Austerity is enshrined as a key policy norm in the supply-side economics of both neo-liberalism and ordoliberalism. What happened

[7] Bonefeld's work cited above is very important in understanding this dimension of ordoliberalism.

[8] Mehreen Khan (2017) 'ECB made Euros 7.8bn profits from Greek bond holdings', *Financial Times*, 10 October.

[9] There are exceptions, such as the Scandinavian countries. But Greece, too, had not been served by austerity cabinets in the 1980s and early 1990s, although there were strong factions within the ruling parties of PASOK (left wing) and New Democracy (right wing) representing specific business groups calling for supply-side policy. See Fouskas and Dimoulas (2013: 109–133).

after the crisis, especially in the beleaguered periphery of the EU, was the severe intensification of austerity, intensification of operationalisation of existing ordoliberal rules and norms embedded in the Treaties and introduction of new rules and norms and intensification of their implementation. This was to be expected because the ruling financial and political elites of the West, contrary to the way their predecessors reacted in the aftermath of the global financial crisis in 1929, took the strategic decision not to alter the principle upon which globalisation and European integration has been developing since the 1980s, namely, that of continuous support for the supply side of the social economy and the embedded regime of austerity in it. In the wake of the Euro-zone crisis, new, stricter versions of the SGP came into force in the form of "European Semester" and "Fiscal Compact" programmes.

Austerity takes different forms and intensity levels in different countries. This is because capitalism, as a (global) social system, is developing in an uneven way. It is very important to recognise this, because it challenges head-on neo-liberal policy. This approach brushes aside uneven development and core-periphery dynamics in which public and private agencies of the core extract rents and profits from peripheral countries via value transfer mechanisms. Imperialism is the appropriation of international value and this can happen via a variety of means and methods. In the context of the EU/Euro-zone, this can take the form of re-cycling of the surpluses of the core and the financialisation of various commercial transactions. For neo-liberals, imbalances and asymmetries are seen at the state level alone and should be rectified at that level, because state profligacy is the culprit. External disequilibria, such as current account deficits reflecting developmental cleavages, are disregarded. In short, in order to use the state executive as an instrument of austerity *par excellence*, core states offload the debt resulting from structural asymmetries and monetary and trade interactions onto the peripheral state. Democracy and elections do not matter. The European Union is not a state and the member-states of the Euro-zone do not have the right to oppose austerity even if their electorates wished to do so. In this context, I argue that there is no state, whether at the European or national level, to host democracy and democratic procedures. Legitimisation comes via coercion. In the Greek case of summer 2015, the ECB stopped providing liquidity to the Greek banking system, forcing the left-wing, anti-bailout government of Syriza to capitulate.

Austerity in Greece took an unprecedented form. This is because Greece was the worst of all peripheral countries in terms of both internal (budget deficit) liabilities and external liabilities (current account deficit). As a result, the crisis took a very acute form. Under the treble discipline of the IMF, the ECB and the EU, Greek cabinets have since 2010 pursued a most peculiar and acute form of bondage, that of *internal devaluation*, and by way of accepting a direct *colonial* regime within Greece proper. The crisis in Greece revealed that even specific departments and branches of the Greek state are controlled *directly* by the creditors or the "troika" (ECB, IMF and EU). For example, when Yanis Varoufakis tried to test his "Plan B" when he was minister in January–July 2015, he found out that even the general secretariat for public revenue based in his Ministry of Finance was controlled by the creditors, who refused to provide him with the tax codes he wanted in case Greece's negotiations with the troika failed (Varoufakis 2017). This resembles aspects of *formal-colonial* imperialism of the nineteenth century.

Having said this, "dependency" may no longer be an adequate term to describe Greece's position in the international and European capitalist system. During the Cold War, core-periphery theories of international relations and political economy used the term to describe the political and economic control of the periphery by core imperial powers, chiefly the USA. The collapse of the Soviet bloc, the ordoliberal process of European integration and the relative decline of the USA have led to the advancement of new forms of governance and rule of the periphery by the core at the European level, effectively reducing to zero even the minimal relative autonomy they used to enjoy during the Cold War. Apart from the forms of political dependency that are clear and need no further explanation, one should consider the total loss of monetary sovereignty of all countries that are either members of the Euro-zone or have their currencies pegged to the Euro. Thus, in periods of crisis in which the terrain of structural contradictions sharpens dissipating any liberal ideological pretext of "equality" and "solidarity" and makes all actors appear in clearly defined *class* terms and roles, one can distinguish clearly the *imperial* from the *subaltern*. In this class equation, imperial forces forge a *subordinate merging* of the executive of the subaltern state with the *imperial-dictating* posture of the dominant state, creating a unique form of governance for which I would reserve the term of *symphysis*.

Concluding Remarks

I have examined the social and economic consequences of the "adjustment programmes" imposed on Greece by the EU, the ECB and the IMF. Subaltern classes in Greece were the main losers, the winners being select Greek business elites and the banking system of the core. Arguably, however, this is not the dark side of European integration but a symptom of broader historical and structural processes in Western capitalist economies. Austerity in Greece and everywhere should be placed in the context of the crisis of neo-liberal globalisation (led by the USA) and ordoliberal European integration (led by Germany). I have argued that what Bob Jessop calls "a state of enduring austerity" is an epiphenomenon of the neo-liberal, supply-side authoritarian turn of Western capitalist economies as a whole, a turn aimed at arresting the profitability crisis of the 1970s. However, the project failed in both of its dimensions, the Anglo-American neo-liberalism and the German-led ordoliberalism. Both public policies failed to advance long-term sustainable growth regimes, protect capitalism from crises and arrest and reverse the slow and protracted decline of Western economies as a whole that ushered in with the breakdown of the Bretton Woods system in the late 1960s.

I have also examined the key features of neo-liberal globalisation and ordoliberalism and argued that they are both authoritarian and imperialist policies. German-led ordoliberalism, in particular, constitutes an authoritarian regime of binding norms that become truly unbearable and undemocratic in times of crisis. Specific departments of the Greek state are controlled *directly* by the creditors depriving it of any meaningful (relative) autonomy. Democracy has become meaningless in Greece, and surely in many other parts of the EU/Euro-zone because the state policy is the result of the institutionalisation of the *merging* of the "national" (the Greek/X European government), the "European" (the EU and the ECB) and the "global" (IMF) into an executive committee, regardless of liberal-democratic processes taking place within Greece or any other member-state. But the EU is not a federal state and the Greek state cannot act as a democratic state under Euro-zone conditions. It cannot, for example, devalue its currency in order to improve competitiveness. *Thus, democracy does not exist not just because neo-liberalism is inherently authoritarian, but because there is nowhere a state to host it.*

The solution to this unique historical phenomenon created by global and European banking and financial interests are two: either an orderly break-up of the Euro-zone and return to the status quo ante or an orderly break-up of the ordoliberal rule and the advancement towards a *political* European Union. Both perspectives can only be the outcome of social struggle not just between the elites and the subaltern classes, but also among factions of the liberal-financial bourgeoisie themselves. Given the rise of China and the new assertive security positioning of Russia in key geo-strategic parts of Eurasia and the Middle East, both perspectives are pregnant with geopolitical risks about which this chapter reserves the right not to pass judgement.

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CHAPTER 7

The Italian Way to Globalisation: Moving to the Dark Side—Between Irregular Migration and the Underground Economy

Leila Simona Talani

The notion of globalisation adopted in this book implies structural transformations that make it necessary for the nation state to adapt its economic system, wittingly or unwittingly.

The limitations posed by globalisation on the effectiveness of national macroeconomic policy action are indeed very significant. On the one hand, the globalisation of financial markets leads to an increase in the sensitivity of capital to interest rates, reducing, in the long run, the ability of nation states to adopt differentiated monetary and, consequently, macroeconomic policies. This decreases the state's capacity to control the national economy.

On the other hand, because of the transformations induced to the productive structure by technological transformations, a new Global Division of Labour and Power (GDLP) has emerged. This is characterised by the geographical displacement of production alongside regional patterns to exploit, thanks to technological progress,

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cost-reduction opportunities. This development is accompanied by a parallel, dramatic increase of brain drain and mass migration, often of an irregular nature as seen in a previous chapter, from regions not included in the globalisation and regionalisation processes. States need to reposition themselves within this new GDLP to be able to effectively compete in the global political economy, thus identifying a new "competitive" advantage.

The roots of the crisis of authority experienced by nation states both in the developed and in the less-developed world can be found in these phenomena. In the minds of transnationalists, the loss of the national level of economic governance is not compensated by the creation of multilayered systems of economic governance spanning from the local to the supranational level, if not partially and only in certain regions of the world, such as, most evidently, the European Union (EU). In this way, the crisis of authority and legitimacy of the nation state induced by the loss of economic sovereignty within globalisation is recognised as one of the most dangerous developments of this phase of capitalist development.

Within this context, Italy, instead of managing to increase its productivity, moved further and further towards the dark side of globalisation. This was the consequence of an increasingly thriving underground economy, partially fuelled by the proceedings of illegal activities, especially after the sovereign debt crisis, which acted more and more as a powerful "pull" factor for irregular migration. Thus, the "competitive" advantage of Italy in the global political economy is increasingly represented by, first, importing cheap labour from the Global South through irregular migration attracted to the underground economy and, second, increasing the size of the underground economy. Overall, the dark side of globalisation is deeply influencing the Italian trajectory towards (under) development.

In this chapter both phenomena will be addressed with an eye on the impact the Eurozone crisis had on them. The first section will try to quantify the dimensions of the Italian underground economy and assess to what extent the recent events of the Eurozone have worsened the situation. In the following section, the focus will be on the relationship between the shadow and underground economy, on the one hand, and inflows of irregular migrants, on the other. This section will point out the extent to which irregular migration may actually be a consequence of both the salience of the underground economy and the adoption of ever-stricter migration policies. Finally, conclusions will be drawn on the challenges and risks that both phenomena present to the restructuring of the Italian economy within globalisation.

The Size of the Underground Economy in Italy

Quantifying the size of the Italian shadow or underground economy is not an easy task for the evident sensitivity of the issue. Despite this, in the Italian debate, different tables float around. Perhaps, it would suffice to say that in 2014, Renzi felt the need to change the composition of the official Italian GDP to include the wealth produced by prostitution and smuggling, and before moving to the different estimates of the phenomenon, it is worth trying to define what is meant in the literature by underground economy.

Schneider and Williams (2013: 23) report that the term “underground economy” usually refers to “currently unregistered economic activities that would contribute to the officially calculated gross national product if the activities were recorded”. According to Smith (1994: 18) the shadow economy comprises “market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP”. So, broadly speaking, the terms “underground” and “shadow” economy could be used interchangeably. Box 7.1 provides for a more or less consensual list of the activities usually included in the broadest definition of the underground (or shadow) economy.

However, for the sake of clarity, and following Schneider and Williams (2013), in this chapter, we will distinguish between the underground economy, understood as fitting the broad definition above, and the shadow economy, which excludes illegal or criminal activities. According to the conceptualisation of Schneider and Williams (2013: 25) (similarly Bühn et al. 2010: 444), the term “shadow economy” has a narrower meaning than “underground economy”:

> The shadow economy (…) includes all market-based production of legal goods and services that are deliberately concealed from public authorities. (Schneider and Williams 2013: 25)

Moving to the quantification of the phenomenon in Italy, Bühn et al. (2010) consider the size of the shadow economy, which does *not* include illegal and criminal activities, to have represented around 27% of yearly national income on average between 1999 and 2007.[1]

Euripses, a private but reputable Italian research institute,[2] has traditionally estimated the dimension of the Italian underground economy to be very substantial. In its 2016 report on Italy, Euripses noted that the official Italian GDP of around 1500bn euros would need to be raised by around one-third again to account for a shadow economy GDP estimated at 540bn euros. However, this does not include another 200bn euros produced by criminal activities, increasing from the 175bn euros estimated in 2008. Thus, overall the underground economy would amount to half of the national income, that is, 740bn euros, and cost the Italian state some 370bn euros lost for tax evasion, based on a tax rate of around 50%. In its conclusion, indeed, the research institute talks about tax evasion and the underground economy as a "mass phenomenon" in Italy.

In such a context, irregular labour is thriving. It can, however, take various forms and is incredibly difficult to quantify. Irregular work could be represented by extra jobs outside or even during regular working hours. Irregular work may also be performed by people who are outside the official labour markets. Finally irregular workers can also be those who are not allowed to work in official labour markets, such as illegal immigrants.

Moreover, shadow economy work can constitute full time, part time, or self-employed workers without paying taxes or any working activities without contract when contract is required, from childminding to bartending (Schneider and Williams 2013: Chapter 2). According to Euripses, the categories of workers most often employed irregularly are childminders and babysitters (80%); tutors and educators (78.7%); and private household workers (72.5%). These are followed by carers, gardeners, builders, plumbers, electricians, wood workers and others. Even medical doctors in Italy have an estimated percentage of irregularity of around 50%. Moreover, after the adoption of the Jobs Act, the situation, instead of improving, has worsened. According to Euripses, 28.1% of people they interviewed in 2015 admitted to having accepted an irregular job, as compared to only 18.6% in the previous year.

[1] Source: Bühn, A., C. Montenegro, and F. Schneider (2010), 'New estimates for the shadow economies all over the world', International Economic Journal, 24(4): 443–461.

[2] See http://www.euripses.eu/content/listituto-di-ricerca-degli-italiani as accessed on May 5, 2016.

As far as the Italian Institute of Statistics (ISTAT) is concerned, being a governmental institution, its estimates have generally been more conservative. It is worth noticing that ISTAT has recently adopted a new estimation system, the SEC 2010, which allows for a lowering of the estimates of the overall weight of the underground economy. This, however, does not mean that the phenomenon actually decreased.[3] As Schneider and Williams (2013: 144) note, because the size of the shadow economy in terms of value added has increased in recent years, this prompted a number of countries to adjust their national accounts in a way as to include the shadow and, in the Italian case from 2014, also some segments of the illegal economy. In the case of Italy, Schneider and Williams (2013: 144) refer that the adjustment made to the official accounts has been between 14.8% and 16.7% of national income, and this is BEFORE incorporating the value added of illegal activities, such as drug dealing, prostitution and smuggling, into the official numbers (similarly OECD 2011).[4] This, in turn, means, that the estimates of the shadow and underground economy have decreased by more or less the same percentage, without, however, meaning that they have actually contracted, quite the contrary!

The incorporation of the "Non Observed Economy (NOE)"[5] into national accounts was actually supported by the OECD, which suggested (OECD 2011: 14) seven activities that would allow for proper adjustments to be made to national accounts. These are detailed in Box 7.1 (OECD 2011: 14).

Box 7.1 Underground Economy Activities to Be Incorporated in the Official National Accounts

1. Not registered

- Producer deliberately not registering—underground (N1): The producer deliberately does not register to avoid tax and social security obligations.

[3] See http://www.istat.it/it/archivio/175791 as accessed on May 5, 2016.

[4] See OECD (2011), 'Towards a better understanding of the informal economy', by D. Andrews, A. Caldera Sánchez and A. Johansson, OECD Economics Department Working Papers no. 873, Paris: OECD.

[5] See ISTAT (2015).

- Producers deliberately not registering—illegal (N2): The producer deliberately does not register as a legal entity or as an entrepreneur because it is involved in illegal activities. Type N2 excludes illegal activities by registered legal entities or entrepreneurs that report (or misreport) their activities under legal activity codes.
- Producers not required to register (N3): The producer is not required to register because it has no market output (e.g. non-market household producers that engage in the production of goods for own consumption, for own fixed capital formation and for construction of and repairs to dwellings).

2. Not surveyed

- Legal persons not surveyed (N4): Legal persons are not surveyed due to the following reasons: the business register is out of date or updating procedures are inadequate; the classification data (activity, size or geographic codes) are incorrect; the legal person is excluded from the survey because its size is below a certain threshold and so on.
- Registered entrepreneurs not surveyed (N5): Registered entrepreneurs may not be surveyed due to the following reasons: the statistical office does not conduct a survey of registered entrepreneurs; the registered entrepreneur is not in the list of firms available to the statistical office, or is systematically excluded from it; and the registered entrepreneur is not in the survey because the classification data (activity code, size code and geographic code) are incorrect.

3. Misreporting

- Producers deliberately misreporting (N6): Gross output is under-reported and/or intermediate consumption is overstated, in order to evade income tax, value added tax (VAT), other taxes or social security contributions.

4. Other

- Other statistical deficiencies (N7): This includes data that are incomplete, not collected or not directly collectable, and data that are incorrectly handled, processed or compiled by statisticians.

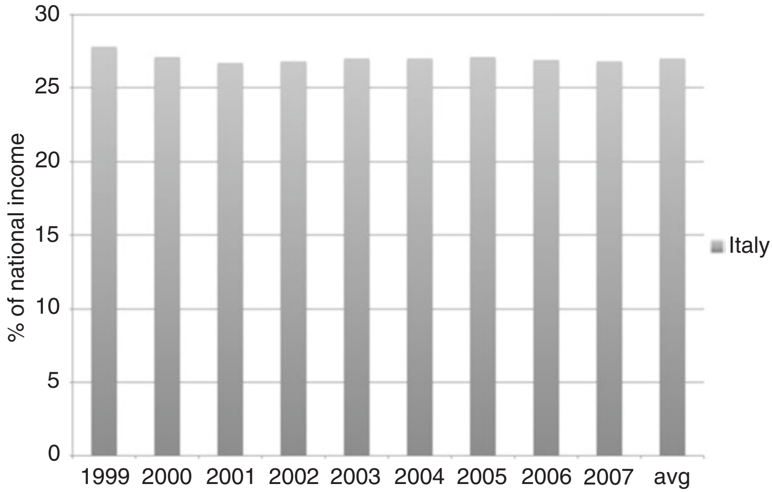

Fig. 7.1 Italy: Size of the shadow economy, 1999–2007. Source: Bühn et al. (2010: 455–461); elaboration of the author

Thus, if until the new measurement system was introduced in 2010, the value added of the whole underground economy in Italy, as estimated by the ISTAT, had always been around 20% of the GDP (see Fig. 7.1), in 2013, the value added of the shadow economy was estimated to be around 190bn euros, equivalent to 11.9% of GDP. This increased to 11.7% in 2012 from 11.4% in 2011. To this, one needs to add the value added of illegal activities, which in 2013 was estimated to be around 16bn, that is, 1% of the GDP also growing from previous years. Overall, the total amount of "NOE" in the national accounts, which is the shadow plus the illegal economy, was estimated to be, in 2013, equivalent to 206bn euros, that is, 12.9% of the Italian GDP. It must be noted that this is only what the ISTAT included as an estimate of the "NOE" in the national accounts, and by no means comprises all of the Italian underground economy.

In terms of composition, in 2013, 47.9% of the value added of the underground economy derived from undeclared economic activity. The rest was composed by the value added of irregular work (34.7%), by other components such as undeclared rents, tips and sales (9.4%) and by straightforward illegal activities (8%).[6] In some sectors the shadow economy is

[6] See http://www.istat.it/it/archivio/175791 as accessed on May 5, 2016.

more established than in others. According to ISTAT, the shadow economy accounted for 32.9% of "other activities and services" in 2013; 26.2% of trade, transport, hotels and catering; and 23.4% of the construction sector. The weight of non-declared value added for each sector was particularly high in professional services, with a share of 17.5% in 2013. In building and construction this was 14.2% and in trade, transport, hotels and catering it was 13.9%. Within the industrial sector, the share of undeclared value added was higher in food processing and the manufacturing of consumption goods (8.3%) and less relevant for investment goods (2.7%).

The economic crisis seems to have increased the size of the underground economy. Already in 2008 the ratio of the underground economy to GDP had increased with respect to 2007. This is particularly evident by looking at the trends of irregular work. In 2008, the irregularity rate of work, measured as "standard units" (ULA) full-time equivalent employment, was 11.8% of total employment, that is, 2,942,000 ULA over 24.9 millions. However, since 2010, the loss of employment concentrated in the regular labour market, while the irregular ULA remained stable at 2,959,000. This led to an increase in the rate of irregularity by half a point, to 12.3% (ISTAT 2015).

In the years following the Eurozone crisis, and after the various labour market liberalisation policies, those numbers kept on increasing, reaching the quota of 3,513,000 irregular ULA in 2013. This represented around 15% of the labour force with an increase of 0.5% from 2011. Most irregular workers were dependent ones (2 million and 438 thousand ULAs).

The dimensions and dynamics of irregular work are influenced not only by the economic business cycle, but also by the legislative context and by the regularisation of irregular migrant workers from third countries. The regular component of work collapsed in the period between 2011 and 2013 to the levels of 2000 and 2001: regular ULA moved from 20.6 million in 2011 to 19.8 million in 2013, representing a total fall of 4.3%. At the same time, the irregularity rate increased, raising the incidence of irregular ULA over total ULA from 14.5% in 2011 to 15% in 2013 (ISTAT 2015). For dependent workers, the irregularity rate went from 14.8% in 2011 to 15.2% in 2013. In the case of self-employment, the rate went from 13.9% to 14.5% (ISTAT 2015).

The highest irregularity rate was registered in the sector of personal and domestic services (45.0% in 2013). However very high rates of irregularity were identified by ISTAT in the agricultural sector (17.6%), in commercial activities such as transport, hotels and catering (15.6%) and in construction (15.4%) (ISTAT 2015).

As for the value added deriving from irregular work, this turned out to be especially high in the sector of "other personal services" (32.9% in 2013), trade, transport, hotels and catering (26.2% in 2013) and construction (23.4%) (ISTAT 2015). No significant variation was reported with respect to previous years.

The clearest way to assess the extent to which the underground economy has been vital for the survival of the Italian economy, especially after the Eurozone crisis, is to look at the contribution to the value added of the underground economy as compared to the regular economy sector by sector (Table 7.1).

Table 7.1 Immigrant distribution per educational level (%), 2010

	Immigrants			*Comparison with locals*		
	Low	*Medium*	*High*	*Low*	*Medium*	*High*
Austria	28	53	20	13	−14	1
Belgium	32	32	36	12	−8	−4
Denmark	26	38	36	0	−4	4
Estonia	3	55	41	−7	0	7
Finland	25	49	27	10	2	−11
France	40	32	28	19	−14	−4
Germany	32	48	21	21	−15	−6
Greece	49	38	13	19	−3	−16
Italy	42	45	12	7	−2	−5
The Netherlands	33	37	30	7	−6	−2
Poland	–	50	46	–	−16	20
Portugal	48	32	20	−18	14	4
United Kingdom	14	47	39	−5	2	3
Czech Republic	12	64	24	6	−13	7
Spain	43	34	23	0	12	−12
Sweden	26	37	37	10	−15	5
Hungary	14	52	34	0	−12	12
Average EU27	25	44	31	3	−5	3
Average OECD	25	42	32	4	−6	2

Source: OECD (2014: 70)

In 2012 the growth of the underground economy counterbalanced in a significant way the negative patterns of total value added in some sectors. In food processing and manufacturing of consumption goods, the underground economy contributed positively to the total value added by 1.2%, while the regular economy lost 5.9% of value added. In the production of investment goods, the values are respectively +1% for the underground and −4.5% for the regular economy. In professional services, the underground economy increased the value added by 1.7%, while the regular economy decreased by 3.1%. In the sectors of agriculture and fishery and in the production of intermediate goods, the increase to the total value added due to irregular activities added to the increase coming from regular ones.

In the following year, the contribution to the value added by the underground economy compensated the loss of regular economy in trade, transport, hotels and catering. It also contributed positively by 1.1% to the growth of the value added in agriculture (total +5.9%), while it was modest (0.1%) and could not compensate the total loss in construction (total −4.8%) (ISTAT 2015: 7).[7]

The size of the underground economy may also be inferred through an examination of the percentage of illegal immigrants in the labour market. This is because, for obvious reasons, illegal migrants are more likely to be employed as undeclared or irregular workers (Reyneri 2003).[8] The OECD publishes estimates of illegally employed migrants for Italy, which is a sizable phenomenon: illegal migrants are estimated to account for 2% of total employment, with higher figures recorded only in Greece and the US (OECD 2011: 42).

We now move to exploring the relationship between the underground economy and illegal migration in Italy.

[7] ISTAT (2015), L'Economia non osservata nei conti nazionali-Anni 2011–2013, Rome ISTAT.

[8] Reyneri, E. (2003), "Illegal Immigration and the Underground Economy", ANU National Europe Centre Paper No. 68, paper presented to the conference The Challenges of Immigration and Integration in the European Union and Australia, 18–20 February 2003, University of Sydney (www.anu.edu.au/NEC/reyneri.pdf).

The Dark Side of Italy: Between the Underground Economy and Irregular Migration

Various studies, especially by Reyneri (1999a, b, 2003, 2007),[9] have underlined the relation between migration and a thriving underground economy[10] in Southern European countries, in general, and, in particular, in Italy. Looking at the project "Migrants' insertion in the informal economy, deviant behaviour and the impact on receiving societies" (Reyneri 1999a) in particular, it is possible to assess the impact of these dynamics on host societies.

Thanks to the adoption of an interdisciplinary approach, overcoming the sometimes rigid disciplinary boundaries between the different theoretical approaches to the challenges of migration (Talani 2014), the project mentioned above allowed researchers to reach important conclusions with respect to the following aspects of migration.

The motivations behind the migrants' decisions to move to Southern European countries are as follows.

1. The role of the underground/informal economy in offering both nationals and non-nationals irregular jobs
2. The characteristics of Southern European countries as countries of destination
3. The relevance of irregular jobs available to both nationals and non-nationals
4. The identification of specific pull factors in Southern European countries attracting both legal and illegal migrants
5. The modalities of irregular migration to Southern European countries

[9] Reyneri, E. (2007), IMMIGRATION IN ITALY: TRENDS AND PERSPECTIVES IOM – Argo, 2007 (in print) Web-site: http://www.portalecnel.it/portale/indlavdocumenti.nsf/0/466486C57FF3FF42C125737F0050A9EC/$FILE/Reyneri-%20Immigration%20in%20Italy.pdf as accessed on May 20, 2016.

[10] They consider an informal or underground economy as "all incoming earning activities not regulated by the state in social environments where similar activities are regulated". The illegal economy is instead represented by those activities which are against the law. See Reyneri, E. (1999a) Immigration And The Underground Economy In New Receiving South European Countries: Manifold Negative Effects, Manifold Deep-Rooted Causes, Final Report Of The Project "Migrants' Insertion In The Informal Economy, Deviant Behaviour And The Impact On Receiving Societies" – CE/DGXII-Science, Research And Development, Tsr Program, Contract No. Soe2-Ct95-3005, Mimeo, p. 16.

6. The existence of job competition between national and non-nationals for the same jobs
7. The ethnification of illegal activities, meaning the existence of an over-representation of migrants in criminal activities
8. The tendency of migrants to adopt deviant behaviours and the motivations behind it (Reyneri 1999a: 1)

All of these aspects are particularly important for the case of Italy and will be discussed more in detail below.

The approach adopted by the authors of the study viewed the migratory process as not a merely rationalistic and economic one. Migration is not merely understood as the outcome of a cost-benefit analysis, and especially not only an economic one. Instead, a holistic perspective to the migratory process is adopted, recognising migration as a life-changing event. This means that the process of migrating is understood as an experience involving the whole personality and identity of the migrant, as well as the system of relations and values in which their personality and identity take shape (Reyneri 1999a). However, there is no relativism in this approach, as the rationalisation of the migratory process is assumed to take place after it happened. It is therefore crucial to identify the conditions in which migrants find themselves in receiving societies, to verify whether the migrant conceptualises ex-post its migratory experience as a positive or a painful one. This is important not only, obviously, for the migrant, but also for the host society, because the outcome of the rationalisation process is very likely to influence the behaviour of the migrant and in particular its involvement in the labour market.

To clarify, if migrants are marginalised from receiving societies and need to survive by working in the informal if not in the illegal economy, they are more likely to adopt deviant if not criminal behaviour. The importance of these findings is that the conditions in which migrants find themselves in receiving societies deeply influence their behaviour. This makes host societies co-responsible for their attitudes, actions and reactions (Reyneri 1999a: 2).

Starting from these assumptions, the surveys implemented by the project asked migrants living in the host society for a more or less long time what their motivations for migration were, what their project when they left their countries was and what their experience in the receiving ones was. As the answers were ex-post reconstructions of migratory projects, they could be used to derive interesting insights into the future inclinations and behaviours of migrants.

The adoption of this methodology made it possible to overcome traditional distinctions between temporary and permanent migration, short- or long-distance migration or economic and non-economic motivations. Indeed, if it is assumed that the migrants' orientation to action, their future behaviour, depends on the way they rationalise their experience ex-post, and this, in turn, is a function of how they have been treated by host societies, then it is possible that more than a single life project or a set of intentions coexist in the same person and these can exert contradictory influences on the migrant's behaviour (Reyneri 1999a: 2).

Empirically the project focused on the integration of migrants to the economies and societies of Southern European countries, notably Italy, Spain, Greece and Portugal. The emphasis was on the insertion of migrants in the underground economy and its consequences on the host societies. Indeed, as documented above, Italy presents a very well-established underground economy, which the economic crisis has made even more relevant. Moreover, migration to Italy is a relatively new phenomenon, which makes it easier to assess the reaction of its society to people who are still to a very large extent considered as "aliens" (Reyneri and Baganha 1999).[11]

Finally, as we have already discussed, Italy can be classified as a Mediterranean model of a welfare state, where the irregular labour market occupies a prominent role. Based on statistical data and on the insights of Iniziative e Studi Sulla Multietnicita (ISMU) reports (ISMU 2015),[12] it is possible to draw some conclusions for the case of Italy with respect to some important areas on migration in the country. In particular, we are interested in (a) the inclusion of migrants in the regular and irregular labour markets, in order to verify the extent to which migrants pose a competitive threat for local workers; (b) the role of migrant workers in the informal economy and of the informal economy as a pull factor for migration; (c) the relationship between the insertion of mainly irregular migrants in the underground economy and both their deviant behaviour and their social exclusion; (d) the impact of these phenomena on the Italian productive structure; and (e) finally the perception of migrants in the receiving society, as well as its reaction to them.

[11] See Reyneri, E., and Baganha, M. (1999), New Migrants in South European Countries and Their Insertion in the Underground Economy, Mimeo, pp. 5–7.

[12] ISMU (2015), Ventunesimo Rapporto sulle migrazioni 2015, Milano: Franco Angelo.

With respect to these issues, it is worth noticing that during the years of the global financial crisis and the crisis of the Eurozone, the number of migrants who were active in the Italian labour market has increased dramatically (Zanfrini 2015a: 103[13]). Looking at the manufacturing sector, for example, migrants have had a very relevant role in the generational turnover of the labour force. They have also allowed for the survival of a number of companies which had lost competitiveness, because of the lower levels of skills and related costs of the migrant workers. This can contribute to explaining why, in the years immediately before the crisis, the Italian manufacturing sector saw a higher increase in value added than the service sector, which requires more skilled personnel (De Arcangelis et al. 2015[14]).

From this point of view, there was no competition between the Italian workforce and the migrant one. However, these dynamics did accentuate one of the most detrimental characteristics of the Italian productive model, namely the substantial demand for low-skilled labour.

Looking at the figures relating to the educational level attained by immigrants in comparison with the local population (Table 7.1), it appears clearly how, despite the fact that the educational level of the Italian workforce is not particularly high, certainly not in comparison with other EU and OECD countries, the educational level of the migrant population is even lower. Indeed, Italian immigrant distribution per level of education shows that the share of immigrants with low education is 7% higher than that of the local population.

In contrast, Italy fails to attract highly educated migrants (−5% than the local population). This dynamic inhibits improvements in terms of innovation and competitiveness (Zanfrini 2015a: 103), which are crucial factors in order to compete in the global political economy in the medium and long term. It is a fact that precisely the sectors which had more commonly employed migrant workers were hit harder by the economic crisis, resulting in a phenomenon of selective dismissals. In fact the OECD stated that there was an estimated 10% more dismissals for third countries' workers than for Italians (OECD 2015).[15]

[13] Zanfrini, L. (2015a), Il Lavoro, in ISMU (2015), Ventunesimo Rapporto sulle migrazioni 2015, Milano: Franco Angelo, pp. 103–119.

[14] De arcangelis G., Di Porto E., and Santoni, G. (2015), Migration, Labor Tasks and Production structure, Centre for Studies in Economics and Finance, Working Paper N. 390, February.

[15] OECD (2015), International Migration Outlook 2014, OECD Publishing.

Although irregular migrant employment, as we have seen above, does exist in the Italian manufacturing sector (unlike in the manufacturing sectors of the other Southern European countries, Reyneri 2003), it is in the personal and domestic service sector where irregular migrant workers are most commonly employed (Zanfrini 2015a: 104). Unfortunately, it is precisely the irregular status of third countries' nationals employed in these activities which makes it more likely for them to adopt deviant behaviours vis-à-vis the people they care for, especially the elderly, who are often totally dependent on them. This is also one of the sectors where the economic crisis has had less of an impact, due to the growing difficulties faced by Italian families and the related need for them to rely on low-cost solutions for their domestic and personal services (Zanfrini 2015a: 104). However, at the same time, it is also interesting to notice an increasing number of Italians also being employed, regularly and irregularly, in these domestic support roles. This testifies to the increasingly dire situation of the Italian economy.

In the agricultural sector, during the economic crisis migrants came to constitute more than 14% of the total work force. This is three times the level that they occupied before the crisis. Furthermore, although it is true that a small number of native workers have since moved to the agricultural sector, it is very likely that the number of immigrants employed in it will continue to be substantial. This is especially the case where seasonal heavy or low-skilled activities are concerned. The estimates of Unioncamere put the percentage of required immigrants in the sector between 23% and 32% of permanent workers. However, it is in seasonal activities that migrants are mostly required, with an estimate of 300,000 considered necessary during 2014. It is worth underlying that, especially in Southern Italy, where migrant labour is mostly involved in the gathering of fruit and other agricultural products (49% of the total), they are overwhelmingly employed irregularly and their working conditions are extremely poor (Zanfrini 2015b).[16] This in itself is a guarantee that competition with the local working force is pretty limited.

Moreover, these poor working conditions can often be coupled with the activities of organised crime. This is the case not only in the employment of irregular workers, but also in the smuggling and trafficking of

[16] Zanfrini, L. (2015a), Tra cibo e Terra. Il lavoro immigrate nella filiera alimentare, XXIV Rapporto immigrazione 2014. Speciale Expo, Tan editrice, Todi (PG), 2015, pp. 329–358.

irregular migrants. It surely exacerbates the problems of coexistence within interethnic communities.

As far as independent employment is concerned, it was only thanks to ethnic entrepreneurs that Italy's entrepreneurial communities could grow during the crisis years. In 2014, the number of companies with at least one owner born outside the EU reached 335,452. This trend reinforced one of the most detrimental characteristics of the Italian productive system, which keeps companies at a micro-level and lowers costs but also profits and skills. Indeed, eight out of ten companies owned by migrants are individual ones, benefitting from low access barriers for sectors with problems in generational turnover (Zanfrini 2015a: 105). For these reasons, again, competition with local workers is not an issue, although the lack of a strong entrepreneurial culture among migrant communities and the low-cost/low-skill model of their individual companies do constitute a real problem for the future (and present) competitiveness of the country.

Summing up, the insertion of third-country nationals in the Italian labour market did not seem to bring about competition with the native working force. However, it did reinforce the most embedded tendencies of the Italian labour market, in particular, the dualism between the North and the South of the country and porousness between the formal and the informal economy.

With respect to the North-South divide, foreign-born workers in Northern regions face similar labour conditions as the native population, as the majority of regular migrants (two-thirds) are employed in Emilia Romagna, Tuscany and Lombardy. In the South, on the contrary, foreign-born workers, both regular and irregular, both EU citizens and third-country nationals, are all almost invariably employed in the underground economy, especially in the agricultural sector. Here they face working conditions far below the norm and the threshold of acceptability (Zanfrini 2015a: 106).

This does not mean, however, that irregular work exists only in the South of Italy. Everywhere in Italy immigrant workers are employed irregularly, thus not only degrading the life and working experience of migrants, but also limiting the capacity of the country to innovate and become more productive in the long run. That said, although irregular immigrants and immigrants in general are more likely to be inserted in the irregular labour market, this is not only a prerogative of foreign-born workers, as we have seen above in this chapter (Zanfrini 2015a: 106).

Thus, the modalities of inclusion of immigrants in the Italian labour markets do not seem to pose a competitive threat to the local labour force but do seem to exacerbate a pattern of discrimination, exclusion and marginalisation of foreign communities. Moreover, they make the problems of the Italian labour markets and productive structure more ingrained and difficult to eradicate (De Arcangelis et al. 2015). This is the result of the low-productivity/low-skill content of the Italian productive model, the North-South divide, the very limited size of Italian companies, the preponderance of the underground economy and the connection between immigration and the presence of new migrants in the informal labour market.[17]

Regarding the latter point, a number of studies show the importance of the underground economy in defining the dynamics of migratory flows to Southern European countries.[18] As we have seen above, a very high number of foreign-born workers have been employed in the underground economy in Italy. However, by no means was the informal economy in the country created by migrants (Reyneri 1999b).[19] Instead, the opposite is true. It is precisely the fact that because the underground economy provides a wealth of employment opportunities, there is a strong incentive for migrants to access Southern European countries, especially Italy, despite the difficulties in gaining a regular migration status (Reyneri 1999a: 21).[20]

As a consequence, it is possible to claim that there is a vicious cycle between irregular entry and permanence in a country and employment in the irregular labour market (Reyneri 1999a: 20–22).[21] With reference to the case of Italy, it is widely recognised that the overwhelming majority of labour immigrants entered Italy without a valid working permit and outside the quota system (Reyneri 2007). Various regularisation schemes have

[17] See Wilpert, C., and Laacher, S. (1999) New Forms Of Immigration And The Informal Labour Market In Old Receiving Countries: France And Germany, mimeo.

[18] Baldwin-Edwards, M., and Arango, J. (1999), Immigrants and the informal economy in southern Europe, London: Frank Cass; See also Reyneri, E. (1999b), "The mass legalisation of migrants in Italy: Permanent or temporary emergence from the underground economy?", in Baldwin-Edwards, M., and Arango, J. (1999), Immigrants and the informal economy in southern Europe, London: Frank Cass, p. 84.

[19] See also Reyneri, E. (1999b), "The mass legalisation of migrants in Italy: Permanent or temporary emergence from the underground economy?", in Baldwin-Edwards, M., and Arango, J. (1999), Immigrants and the informal economy in southern Europe, London: Frank Cass, p. 84.

[20] Reyneri (1999a), p. 21.

[21] Ibid., pp. 20–22.

allowed irregular migrant workers to regularise their status, with almost 1,500,000 migrants being able to apply to five regularisations from 1986 to 2002.[22] However, in 2004, two-thirds of documented immigrants were estimated to have spent a more or less long period as unauthorised residence (Blangiardo 2005). And despite the regularisation drives, figures show that just a few years later the pool of irregular workers had grown again, mainly due to more entries (Reyneri 2007).

The modalities of entry into the country in turn are very complicated (Talani and McMahon 2015). In the lack of a valid working permit, entry can happen by clandestine means, with or without the help of organised crime, or legally, with a tourist or a student visa. These visas, however, usually have a very short time limit and do not entitle the holder to work in the destination country. Thus, people overstaying may look for a job after entry, but their status would not be regular. Finally, entry is allowed for family re-unification purposes.

So, gaining a regular residence status in Italy is very difficult, but what is most important to stress is that unauthorised residence and irregular work very often go together.[23]

The existence and size of the underground economy act as a catalyst to promote unauthorised immigration. The mechanism enabling this to happen has been detailed clearly in the literature (Reyneri 1999a, b, 2003, 2007). If the modalities of entry into a country which has adopted strict migration policies require the acceptance of very high costs and risks, migrants who generally want to improve their living standards will be more likely to choose countries offering more opportunities to employ them despite their irregular residence status. This means that unauthorised migrants are more likely to choose countries which can offer them the opportunity to easily access the irregular labour market, as in any case they would not be allowed to enter the formal one. Consequently, the bigger the irregular labour market and the stronger the underground economy are, the higher will be the incentives for an undocumented migrant to enter the country. Various studies report that Italy has been widely per-

[22] See also Reyneri, E. (1999b), "The mass legalisation of migrants in Italy: Permanent or temporary emergence from the underground economy?", in Baldwin-Edwards, M., and Arango, J. (1999), Immigrants and the informal economy in southern Europe, London: Frank Cass, p. 88.

[23] See also Zincone, G. (1999), "Illegality, enlightenment and ambiguity: a Hot Italian Recipe", in Baldwin-Edwards, M., and Arango, J. (1999), Immigrants and the informal economy in southern Europe, London: Frank Cass, pp. 43–83.

ceived by migrants as a place where it is easy to find a job even without a proper permit (Reyneri 1999a; Kosic and Triandafyllidou 2004). Some migrants even declared to have been more motivated to enter Italy instead of, for example, Greece, because the amount of money to be earned in the Italian underground economy was higher and it was easier to be involved in. The opportunity for irregular jobs was cited as a reason to go to Italy by many Moroccans, who often enter Europe through Spain but leave that country to find jobs in Italy's thriving underground sector (Reyneri 1999a: 24).[24]

Entering a country illegally and being inserted in the underground economy easily, as it happens in Italy, do not necessarily ensure that the migration experience fulfils their expectations in terms of living standards and conditions. Most often, as reported above, the conditions of migrant workers, especially those employed in informal agricultural work in the Italian Mezzogiorno, truly are below the standards of decency and acceptability and sometimes even physical safety.

However, this does not seem to dissuade migrants from moving to Italy. Evidence gathered through interviews has underlined how migrants finding themselves in a difficult situation in the host country rarely consider the option of returning to their home countries, despite the dire conditions in which they may live and work abroad. Moreover, they often seemed convinced that their negative experience would hardly make their friends and relatives change their mind about migrating themselves (Reyneri 1999a: 24).[25]

This is consistent with theories of migration as a social process (Talani 2010). According to this theoretical approach, in the first phase of the migration process, the *Homo Oeconomicus* phase, the immigrant is not interested in the standards of life in his host country because the stay is viewed as temporary and mainly aimed at achieving economic advantages. Moreover, the *Homo Oeconomicus* is very unlikely to go back to the home country without money if their migration experience results in failure. These conditions make it more likely for the migrants to accept being involved in illicit, if not even illegal, activities in the host country. Doing so would allow them to prolong their stay in the country despite having to face uncomfortable or dangerous situations.

[24] See Reyneri (1999a), p. 24.

[25] Ibid.

Migrants are likely to never disclose the dire conditions the may live in to their relatives and friends at home, thus inducing them to follow their path. However, a bulk of relevant research shows that even if the migrants were sanguine about their difficulties, this would not discourage others from following suit (Reyneri 1999a: 25).[26] In fact, even if returning migrants will usually communicate contradictory messages, their negative experiences would be considered irrelevant by the locals determined to abandon their country anyway. The migration process is a self-fulfilling one; migration leads to more migration regardless of whether the migratory process was successful or not and whether returning migrants communicate their experience to their peers.

As noticed above, the case of new migration to Italy is rarely a success story. And yet this does not stop other migrants from undergoing dangerous and expensive journeys, entering or staying irregularly in a country where they may well be involved in irregular if not in illegal activities; they will be criminalised and thus further incentivised to behave in a deviant way.

The examination of this chapter supports the idea that the underground economy is a pull factor for irregular migration to the EU, especially in the context of strict limits to migration from third countries within the framework of "Fortress Europe" (Talani 2010). In a nutshell, readily available employment in the underground economy, where no documents are required, promotes undocumented immigration (Reyneri 1999a: 21).[27] There is a feedback loop between the underground economy and irregular migration: without the first, the second would hardly be possible or, at least, it would acquire a much less significant dimension.

This conclusion is further strengthened by the evidence that the majority of migrants do not come from the poorest countries, but from those with an intermediate level of development and have therefore enough information and resources to go looking for a better life abroad (Rowlands 1998).[28] This means that, more than finding a way to survive, they are looking for better living standards, closer to the idea of the West perpetuated by the media. That these expectations are not necessarily met, if ever,

[26] Ibid., p. 25.

[27] Ibid., p. 21.

[28] See Rowlands, D. (1998) "Poverty And Environmental Degradation As Root Causes Of International Migration: A Critical Assessment", In Un-Iom, *Technical Symposium On International Migration And Development*, The Hague, 29 June–3 July 1998, Mimeo.

Table 7.2 Immigration as a threat for Italy (% values)

	Percentage
Yes, it is a threat and it is connected to terrorism	38
Yes, it is a threat but it is not connected to terrorism	29
No, it is not a threat, it is a positive thing	2
No, it is not a threat and it is inevitable	28
Don't know	3

Source: ISPI, RaiNews, Ipsos (2015)

is beside the point. What counts is that their motivations to migrate are based on them.

Finally, the insertion of the vast majority of immigrants into the underground economy might have contributed to the negative attitude of Italians towards not only economic migrants but also asylum seekers and refugees. From a survey by ISPI-RaiNews, carried out by Ipsos (ISPI, RaiNews, Ipsos 2015), an alarming picture of the attitude of Italians vis-à-vis immigrants emerges: 25% of the interviewees considered immigration the biggest threat for the country, even more than Islamic terrorism (21%) (Valtolina 2015).[29] Regarding the value of migration for Italians, only 2% of the interviewees believed it to be positive, whereas a staggering 67% believed immigration to be a threat. Only less than 30% believed that it was an inevitable phenomenon, which needs to be managed properly (Table 7.2).

According to the Italians interviewed by the survey, the best way to deal with migration would be a strong intervention to repatriate migrants, even if it means using the military (39%). A similar percentage considered it best to negotiate with transit countries to prevent migrants from entering Italy. It should be noted that only 16% of Italians considered it necessary to host refugees, although this attitude has changed slightly after the intervention of Pope Francis, who summoned each Parish in Italy to host a family of refugees (Table 7.3).

Another survey by Demos and Pi, of June 2015, confirmed that Italians were generally very worried about migration, especially in terms of security (42%). This percentage is the same as in 2007. Moreover, around 35% thought that immigrants were a threat to employment (Valtolina 2015:

[29] Valtolina, G.G. (2015), Gli Italiani e l'Immigrazione: atteggiamenti ed orientamenti, in ISMU (2015), p. 151.

Table 7.3 The best way to address immigration

	Percentage
Military intervention	17
Repatriation	22
Negotiations with transit countries	39
Host refugees	16
Do not know	6

Source: ISPI, RaiNews, Ipsos (2015)

Table 7.4 Assessment of Pope Francis' request for each Parish to host a family of refugees

	Percentage
Very positive, this could be an example for the government	25
Positive, the Catholic Church cannot be indifferent	45
Negative, it is not the role of the Catholic Church	9
Very negative, it is instrumental and does not solve the problem	15
Do not know	6

Source: ISPI, RaiNews, Ipsos (2015)

156). Finally, a survey from Swg in April 2015 pointed out that a majority of Italians interviewed would like to see the flow of immigrants drastically reduced.

As Tables 7.4 and 7.5 clearly demonstrate, Italians have had a constant attitude of mistrust with respect to immigrants, especially in terms of security, but also regarding their role in limiting the employment opportunities of local workers. Of course, entering the country irregularly as well as having to go underground to support their stay in the country can only hugely increase both their marginalisation from the host society and the emergence of a negative attitude towards them by local people.

The analysis by Reyneri (1999a) traces back the reasons why this happens. *In primis*, insertion in the underground economy makes the immigrants appear to be criminals and limits the possibility for them to be recognised as positively contributing to the general welfare of the host society. This is exacerbated by the fact that, due to being irregular workers, they do not have a chance to pay taxes and social contributions but they do have access to public goods such as schools, hospitals or even water and the streets. Furthermore, despite the fact that Italians share a general

Table 7.5 How should migrant flows be regulated in Italy?

	Percentage
Drastically reduced	57
Slightly reduced	18
Maintained as they are	10
Slightly increased	3
Drastically increased	2
Do not know	10

Source: Swg (2015)

acceptance of irregular labour markets, particularly because they are themselves often employed in them, immigrants are highly stigmatised if they do the same. This is the case on the one hand because in-group free riders are more tolerated than out-group free riders. On the other hand, there is the belief that migrants already involved in the underground economy are more likely to become criminals.[30]

But is this true? Do immigrants really adopt deviant behaviours more than the local population? Carefully analysing how criminal statistics are constructed and the proceedings of police activities and penal trials allows for a more nuanced understanding of the extent to which migrants are discriminated against (Palidda et al. 1999: 123–183).[31] Especially in Italy, where the law introduced a crime of illegal migration, there was a short circuit of securisation (Reyneri 1999a: 26),[32] which made it more likely for the authorities to privilege repressive actions at the expense of support to migrants.[33] In statistical terms, though the jailed population has increased in general, this is particularly true for foreigners. This gave rise to what is called in the literature a phenomenon of "ethnification" of the jailed population, which conceals an ethnification of crimes (Reyneri 1999a: 27).[34]

Indeed, Table 7.6 shows how foreigners represent 33.6% of the total jailed population in Italy, with some regions, such as Trentino alto Adige, having more than 70%.

[30] Ibid., p. 26.

[31] See Palidda et al. (1999), pp. 123–183.

[32] See Reyneri (1999a), p. 26.

[33] See Latest Developments With Alemanno In Rome And New Proposals About Romanians And Roms. Corriere Romano (2008), Immigrazione e campi Rom, 30 Aprile 2008.

[34] See Reyneri (1999a), p. 27.

Table 7.6 Jailed population in Italy including foreigners—30 April 2016

	No. of institutes	*Total places*	*Total jailed*	*Women*
Abruzzo	8	1587	1717	74
Basilicata	3	470	485	7
Calabria	12	2657	2554	55
Campania	15	6106	6755	344
Emilia Romagna	11	2.8	3094	131
Friuli Venezia Giulia	5	484	631	13
Lazio	14	5.26	5889	381
Liguria	6	1109	1374	77
Lombardy	18	6125	8077	388
Marche	7	853	867	19
Molise	3	263	310	0
Piedmont	13	3842	3665	129
Apulia	11	2358	3103	141
Sardenia	10	2632	2051	55
Sicily	23	5.9	5789	117
Tuscany	18	3406	3320	121
Trentino Alto Adige	2	506	450	15
Umbria	4	1336	1304	36
Valle d'Aosta	1	181	185	0
Veneto	9	1704	2105	110
Total Italy	193	49,579	53,725	2213

Source: Justice Ministry web-site: https://www.giustizia.it/giustizia/it/mg_1_14_1.wp?previsiousPage=mg_1_14&contentId=SST1232346

Although many explanations can be found for this trend, the fact that undocumented migrants end up working in the underground economy may indirectly contribute to an increase in deviant behaviour among migrants.

Overall it is possible to hypothesise that employment in the underground economy impacts in a contradictory way on the migrants' tendency to adopt deviant behaviours. On the one hand, migrants might be more cautious about misbehaving to avoid being caught by the authorities, given their irregular status and employment. On the other hand, being already irregular and not being able to rely on any form of official public support might give strong incentives to engaging in criminal activities, as the migrants have little to lose. There is some evidence that the second effect generally prevails (Reyneri 1999a: 27).[35]

[35] Ibid.

There is also a self-selection process linking deviant behaviour and employment in the shadow or illegal economy. Clearly, people who engage in risky and illegal ways of entering a country without the proper documents and who then are willing to make a life in the underground economy are generally more prone to misbehave. This might also include engaging in straightforward illegal activities, as eventually these are the activities that pay the most. Another element that should not be underestimated is that sometimes migrants are induced to commit crimes by the same people who smuggle them in the receiving country, maybe with the aim of repaying the debt they have incurred to migrate. Finally, the fact that the receiving country, Italy in this case, offers easy unauthorised entry and easy irregular work may give migrants the impression that, in the receiving society, it is not necessary to respect the rules (Reyneri 1999a: 27).[36]

Thus, we can conclude that the characteristics of migration processes in Italy are such that they tend to pre-select migrants who are willing to enter the country irregularly and work in a well-established and thriving underground economy. In turn, the existence of such a flourishing non-emerged sector acts as a catalyst for illegal migration, representing a significant pull factor for migrants in general and undocumented ones in particular. However, the downside of this easy access to irregular or even illegal activities is the difficulty for migrants to really integrate in the host society and their increasing marginalisation, which may incentivise them to increase their deviant tendencies. Of course one solution to all this could be curbing the underground sector in Italy, but, as we have noticed in this chapter, even assuming that the various Italian administrations have been willing to do so, they do not seem to have been particularly successful.

Conclusion

Concluding, it seems increasingly clear that the Italian way to globalisation is moving further towards the dark side. Italy seems to have adopted a path towards its new "competitive advantage" in the global political economy which is relying more and more on the irregularity of both national and non-national labour. Furthermore, a thriving underground economy, which emerged even healthier from the crisis of the Eurozone, is actually acting as a powerful "pull factor" for irregular migration. This

[36] Ibid.

leads to a number of consequences in terms of worsening the perception of migration amongst the local population as well as possibly also increasing the criminalisation of migrants, real or perceived (see Rosina, Chap. 4 in this book).

But does this really resolve the problems of competitiveness of the Italian economy?

Overall, it seems that rather the opposite is true. Relying on cheap, irregular labour de facto exacerbates the detrimental characteristics of the Italian productive structure, such as the very small dimensions of its companies, the lack of innovation and the low-skill and low-technology content of its production. Thus, by choosing the "dark side" Italy might actually be moving further towards "underdevelopment" as a way to react to globalisation.

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CHAPTER 8

The Shadow of Violence and Intervention: Balkan Wars as an Extralegal Deal

Francesco Strazzari

This chapter explores the extent to which the relation between organised crime on the one hand and war and state making on the other hand have experienced a remarkable transformation during the latest wave of globalisation, which can be understood as yet another dark side of this structural process, in line with the approach characterising this volume. With reference to former Yugoslavia, globalisation as a qualitative transformation of a structural nature has had major implications on the scope for agency, which can be seen throughout the three decades under consideration. During the 1980s, global forces were central to the substantial weakening of the fiscal capacity of the Yugoslav state, which in turn was a key component of the nationalist demands advanced by the net contributors to the federal budget (Slovenia especially, but also Croatia). During the 1990s, as the conflict unfolded, the war economy, and especially its extralegal components and actors, were significantly boosted by access to global sources of both financing and arming. Once a number of formally independent states were established in the wake of the war, the decade of

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reconstruction was characterised by the emergence and consolidation of networks of patronage, often around strongmen who rose to prominence during the war. This chapter argues that globalisation played a structuring role in this phase, too, as the new states were characterised by a financially weak central government. Combined with the neo-liberal economic offensive, this led to a preference for policies of privatisation and decentralisation that shored up local strongmen, in turn, giving a new lease of life to extralegal activities, despite the transition from war to peace economy. Hence, globalisation played a substantial role in all these transitions characterising the Yugoslavia after Tito.

A growing body of literature addressing the question of war economies, state formation and transformation focuses on the role of illicit and criminal activities in the global era.[1] While a significant strand of literature focuses on the role that bandits and outlaws have historically played during the making of Balkan states,[2] fewer studies have attempted to look into how different forms of organised crime interact with changing forms of foreign assistance and international intervention. This chapter reflects on the geopolitical reconfiguration of the Balkan region over a decade of crisis (1981–1991), a decade of war (1991–2001), and a decade of reconstruction (2001–2011).[3] It holds that the argument about the existence of a nexus between war making, state making, and organised crime, first put forward by Charles Tilly,[4] while remaining important, needs to be reconsidered in light of the effect of globalisation, that alters the cost of central control over the means of coercion and finance. As Anna Leander demon-

[1] See, for example, Mats Berdal and Achim Wennmann (eds.), Ending War, Consolidating Peace: Economic Perspectives (London: Routledge, 2010); Neil Cooper, Jonathan Goodhand, and Michael Pugh, War Economies in a Regional Context: Challenges of Transformation (Boulder: Lynne Rienner Publishers, 2004); Roger Mac Ginty, International Peacebuilding and Local Resistance: Hybrid Forms of Peace (Basingstoke: Palgrave Macmillan, 2011).

[2] Karen Barkey, Bandits and Bureaucrats: The Ottoman Route to Centralisation (New York: Cornell University Press, 1994); Sappho Xenakis, The Challenge of Organised Crime to State Sovereignty in the Balkans. An Historical Approach. Paper presented at Kokkalis workshop, Harvard University, 7 February 2001.

[3] For example, N. Miletitch, Trafics et crimes dans les Balkans (Paris: PUF, 1998); Francesco Strazzari, Notte Balcanica. Guerre, Crimine, Stati Falliti alle Soglie d'Europa (Bologna: Il Mulino, 2008); Ekavi Athanassaopolou, Organised crime in Southeast Europe (London: Routledge, 2005).

[4] Charles Tilly and Gabriel Ardant. *The formation of national states in Western Europe*. Vol. 8 (Princeton University Press, 1975); Charles Tilly, "War Making and State Making as Organized Crime" in Peter B. Evans, Dietrich Rueschemeyer & Theda Skocpol (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

strates, taking Tilly seriously in the globalisation age means understanding the growing salience of external factors in providing resources and legitimacy for state formation, resulting in less monopolisation and more strongmen-led privatisation and decentralisation.[5]

While there is little doubt about the fact that transnational organised crime plays a role in the violent fragmentation and post-war governance challenges in the Balkan region, less attention was given to how the international community—caught as it was in an obsessive attention to identity dynamic, clashes of civilisations, and ethnic wars—overlooked an unprecedented decade of economic crisis, and initially failed to understand the criminal nature of ongoing violent disintegration dynamics, eventually coming to define the fight against organised crime and the rule of law as the top priority for stabilisation. Yet in a peripheral region where foreign intervention stands out, in historical terms, as the main state-making factor, the nexus between the criminal and the international cannot and should not be overlooked. In particular, not only a ground view of post-war economies (booming forms of criminality and corruption, strong focus on dismantling parallel and criminal power structures),[6] but also economic research bears witness to the significant resilience of the extralegal economy.[7] How should we make sense of such persistence in spite of evermore intrusive forms of intervention geared towards the building of states and the reform of national economies?

Wheeling and Dealing with Derailed Transitions

Perhaps unsurprisingly, as the winds of war started to blow over an economically bankrupt Yugoslavia, the distinctions between the legal, the informal, and the criminal became increasingly evanescent. The act that marks the *grande entrée* of transnational organised crime onto the Yugoslav

[5] Anna Leander, Wars and the Un-Making of States: Taking Tilly Seriously in the Contemporary World, in Stefano Guzzini and Dietrich Jung (eds.), Copenhagen Peace Research: Conceptual Innovations and Contemporary Security Analysis (London and New York: Spon Press, 2004), pp. 69–80.

[6] Phil Williams and John Picarelli, "Combating Organized Crime in Armed Conflict," in Karen Ballentine and Heiko Nitzsche, *Profiting from Peace: Managing the Resource Dimension of Civil War* (London: Lynne Rienner, 2005), pp. 123–152.

[7] Yair Eilat and Clifford Zinnes, "The Shadow Economy in Transition Countries: Friend or Foe? A Policy Perspective," *World Development* 30, no. 7 (2002): 1233–1254; and Friedrich Schneider, "Size and Measurement of the Informal Economy in 110 Countries around the World," paper presented at Workshop of Australian National Tax Centre, Canberra, 17 July 2002.

stage is the imposition of the arms embargo on the Yugoslav republics in 1991.[8] The embargo meant demand for logistics and appropriate know-how, while the political fluidity and volatility that was identified by international financial institutions to deny further credits to the Federal Government, meant that the time to make the risky bets had come. At the beginning of 1991, Yugoslav customs officers drew a clear conclusion from the observation of the weapons that drug trafficking organisations were exporting to Yugoslavia: "all this makes one suppose that war will be of unprecedented violence."[9] Formal and informal smuggling channels (above all narcotics)[10] revived the "Balkan Route," through which the supply of illicit commodities from Asia and the Middle East would meet their demand and reach Western markets.[11] Throughout the years of war, organised crime moulded violent dynamics. Big and small self-styled republics systematically enacted predatory measures to ensure territorial control: that meant rapacious attentions to family savings, humanitarian aid, productive resources, and smuggling activities. Through the fog of war and (para-)military warfare, elite collusion and systemic forms of extortion soon became discernible behind the rhetorical smokescreen of ethno-national collision.

A cacophony among different sources of social legitimacy (i.e., local, ethnic, national, federal) grew as the economic crisis spiralled, and came to a peak during wartime. The aftermath of the military interventions that brought hostilities to an end were years of externally assisted state-building

[8] Michele Gambino and Luigi Grimaldi, Traffico d'armi. Il crocevia Jugoslavo (Roma: Editori Riuniti, 1995).

[9] Pascal Auchlin, "Per favore; mi incarti quarantanove kalashnikov," Narcomafie 1, no. 4 (1993): 27–28.

[10] According to the Vienna-based United Nations Office on Drugs and Crime (UNODC), the flow of heroin directed to Europe that goes through the Balkan route has an estimated value at retail level of US$25–30 billion. See UNODC, Crime and its impact on the Balkans and affected countries (Vienna: 2008): www.unodc.org/documents/data-and-analysis/Balkan_study.pdf (accessed October 2011). For a critique of such data on illicit flows, see Peter Andreas, "The Politics of Measuring Illicit Flows and Policy Effectiveness," in Peter Andreas and Kelly M. Greenhill (eds.), Sex, Drugs, and Body Counts: The Politics of Numbers in Global Crime and Conflict (New York: Cornell University Press, 2010).

[11] For an account of the historical roots and modifications of the Route, from Ottoman times to Yugoslavia, see Philippe Chassagne, "Opiacés et routes des Balkans: facteurs géographiques, historiques et politiques du phénomène," Hérodote 112 (2004). See also Francesco Strazzari, "The Decade Horribilis. Organised Violence and Organised Crime along the Balkan Peripheries: 1991–2001," Mediterranean Politics 12 (2007): 185–209.

aligned with an effort at orchestrating regional integration strategies: in this phase, the normative standards and the administrative practices that characterised the newly emerged states were made to converge with those that were championed by the international community: the landscape of reconstruction was dominated by linear assumptions about the social engineering of liberal peace through an unprecedented international effort.

Contemporary armed conflict is often characterised by the absence of a clear-cut watershed between normalcy and rubble: order and anarchy intersect with one another, while war can be seen as the emergence of new and alternative forms of power, protection, and profit, while that the transition to peace comes with “a realignment of political interests and a readjustment of economic strategies.”[12] If decades ago the term war economy may have evoked an imagery constituted by full-steam and disciplined industrial production and low unemployment, from the Balkan wars onwards, it conjures up images of fragmentation, full-scale unemployment, zero production, and high predation. The routes that were initially opened for cigarettes and petrol smuggling soon saw the flow of drugs and weapons, and then the expansion to all sorts of other goods, from stolen vehicles to human beings. The Balkans are a peninsula whose morphology makes communications and transports historically difficult: however, the spreading of new means of private transportation changed this situation. Actors investing in illicit activities know the terrain well, and besides having a long experience of collaboration along informal, adaptive networks, they proved to have a stronger stake in the process than officers serving states that were presented as obsolescent and illegitimate. The proliferation of borders means an increased need for skilled entrepreneurs, a rise in prices of smuggled commodities, the dynamisation of the illicit sector, and—more generally—the empowerment of those groups that take part in the criminal chain, be that by providing logistical services or by controlling mobility and taxing/protecting economic activities. The systematic looting of civilians and humanitarian aid is just part of this scheme.

In this context, war economy in the Balkans can be an arena that illuminates the mutation of armed conflict under conditions of sustained economic globalisation. Such wars did not follow conventional time-intensity patterns, and could not simply “burn themselves out,” because they, and their protagonists, continued to find alternative sources of funding from

[12] David Keen, The Economic Functions of Violence in Civil War, Oxford 1998 (Adelphi Paper 320), 32.

without, facilitated by the dark side of globalisation.[13] Before, during, and after the war, resources available to pay administrators were increasingly reduced by international financial institutions. Finance and capital were not even remotely under reach: as they were in no way under the control of central administrations, the type of sovereign state that emerged often looked more like a broker between competing groups and strongmen, than as ruling them from a centre.[14] Bribes, predatory privatisation, and illicit smuggling activities thrived everywhere, with the state apparatus no longer just turning a blind eye, but taking instead active part in them, and eventually identifying with them in a new form of authoritarian kleptocracy. The so-called post-conflict phase, therefore, is replete with elites controlling patronage networks, which often continued to benefit from some form of integration in transnational illicit flows, and thought about the future of the "newly independent" polities in terms of tax havens and offshore economies.

The emerging geopolitical landscape in the Balkans induced researchers to reflect on the meaning of the change they observed in the way illicit activities permeated the prevailing forms of contemporary armed conflict: they saw victory in battlefield become less and less a defining aspect, while war was increasingly characterised by dynamics of economic and political connivance among state-backed and non-state militias. Various forms of informal and criminal activities permeated economies that were marked by the survival of the many and the enrichment of the few.[15] Tracing violent processes during cycle of wars that swept West Africa and the Balkans in the 1990s, therefore, meant studying an illicit economic dimension oiled by new forms of long-distance smuggling and trafficking: this study helped researchers understand how peacebuilding and state-building agendas

[13] H. Muenkler, *The New Wars* (Cambridge: Polity Press, 2005).

[14] Anna Leander, *Wars and the Un-Making of States*, cit., p. 14.

[15] François Jean and Jean-Christophe Rufin (eds.), Economie des guerres civiles (Paris: Hachette, 1996); Mary Kaldor, New and Old Wars. Organized Violence in the Global Era (Cambridge: Polity Press, 1999); Mark Duffield, Global Governance and the New Wars. The Merging of Development and Security (London, New York: Zed Books, 2001); Carolyn Nordstrom, Shadows of War. Violence, Power, and International Profiteering in the Twenty-First Century (Berkeley: University of California Press, 2004); Michael Pugh et al., War Economies in a Regional Context. Challenges of Transformation (Boulder: Lynne Rienner, 2004); Richard Devetak, Globalisation's Shadow, in: Richard Devetak and Christopher Hughes (eds.), The Globalisation of Political Violence (London: Routledge, 2008), pp. 1–25.

ended up merely stumbling ahead in spite of good intentions and significant amount of resources poured into engineering peace.

The Extralegal and the International

Thus, conflict and post-conflict patterns in the Balkan region have offered plenty of empirical evidence concerning the salience of *informal and criminal* dynamics (henceforth *extralegal*)[16] vis-à-vis formal institutions and institutionalisation dynamics. As with all stories of organised crime and informal politics, ethno-national conflict in the Balkans, too, is a story of actors and activities challenging the state's claim to regulatory monopoly; they do so by affecting the functioning of political institutions, by distorting market mechanisms, by reallocating wealth, and—an aspect that should not be overlooked—by creating new social models and new symbolic repertoires of success and failure. Nonetheless, this is also the story of the taking shape of new regulatory frameworks through massive international assistance programmes that have to reckon with the local—that is, with strong extralegal governance structures.

Development studies, as well as communist and post-communist studies, have long been focusing on distinctive dimensions of informal economies,[17] addressing everyday informal activities, that are often understood as survival strategies which depend on social networks. This conceptualisation has some limits, since it tends to direct attention towards the diffused, amorphous "black market," which is dominated by "plebeian traders" driven by survival imperatives, while it tends to deflect attention

[16] The term "extralegal" is useful, in that it is not heavily loaded with connotative nuances, while merging different degrees of informality and criminality. See Hernando de Soto, The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Elsewhere (London: Black Swan, 2001).

[17] To limit the focus to informal economies in socialist and post-socialist countries, one can mention, among others: Greg Grossman, The Second Economy of the USSR, Problems of Communism 26, no. 5 (1977); Sergio Alessandrini e Bruno Dallago (eds.), The Unofficial Economy (Aldershot: Gower, 1987); Marie Los (ed.), The second economy in Marxist states (London: Palgrave Macmillan, 1990); Katherine Verdery, What was Socialism? What Comes Next? (Princeton: Princeton University Press, 1996); Vesna Bojicic-Dzelilovic and Victor D. Bojkov, Informality in Post-communist Transition. Determinants and Consequences of the Privatization Process in Bulgaria, Southeast European and Black Sea studies 5, no. 1 (2005): 69–88; Claire Wallace and Rossalina Latcheva, Economic Transformation Outside the Law. Corruption, Trust in Public Institutions and the Informal Economy in Transition Countries of Central and Eastern Europe, Europe Asia Studies 58, no. 1 (2006): 81–102.

away from the rise, the consolidation, and the decline of relations among "patrician stakeholders." In other words, while new estimates on average incomes and economic networks become available, dynamics of elite reproduction and enrichment are often eclipsed, and mechanisms of domination and power are neglected.[18] Yet, as Susan Woodward recalls, "war itself is a contest among rival parties over the state. For these warring rivals, state-building does not begin after a ceasefire agreement. It is what the war is about. Whose interests and power will be represented, protected and institutionalized in the post-war order?"[19]

In this perspective, those political and economic activities that systematically avoid public scrutiny are extremely relevant. Warring parties seek to institutionalise and formally or informally protect their material and symbolic resources (i.e., what they have gained and accumulated during the war process) by seeking some form of compromise with the preferences of those external actors who have intervened and are intent on building new institutions. These external players have different interests and time perspectives. Although the liberal peace template emerged already in the 1980s, it is by the end of the Cold War that the (neo-liberal) conception of democracy and open market became *the* one game in town—that is, the legitimate model of government to which all international interventions would be aligned. After applying this notion with relative success to post-conflict settings, such as Namibia, El Salvador, and Nicaragua, the UN adopted it as a long-lasting model in spite of the fact that the 1990s saw no scarcity of outright failures.[20]

In studying how peacebuilding and stabilisation, that are typically conceived of in terms of state- and capacity-building, come to terms with informality, the resilience of extralegal economies and politics remains a core concern. The idea that war marks a radical discontinuity and resets social relations, clearing the ground from deep-rooted rent-seeking and bottlenecks, and therefore the post-war offers the opportunity for a fresh start through market-based structures underpinned strategies resting on

[18] Adrian Smith and Alison Stenning, Beyond household economies. Articulations and spaces of economic practice in postsocialism, Progress in Human Geography 30, no. 2 (2006): 208.

[19] Susan L. Woodward, State-Building for Peace-Building. What Theory and Whose Role?, in Richard Kozul-Wright and Piergiuseppe Fortunato (eds.), Securing Peace. State-building and Economic Development in Post-conflict Countries (Bloomsbury Academic, 2011).

[20] Roland Paris, International Peacebuilding and the "Mission Civilisatrice," Review of International Studies 28 (2002): 637–656.

orthodox economics and shock-therapy recipes in the first half of the 1990s. That idea generated the illusory expectation that high levels of extralegality would be reabsorbed as assisted liberal reforms, including rule of law reforms, kick in.[21]

The liberal peace perspective showed severe limitations well beyond running aground on test cases during the "global war on terror" phase (e.g., with the reconstruction of Afghanistan and Iraq).[22] While economic research itself drew attention on the remarkable resilience of the extralegal sphere,[23] satisfaction with the economic performance of liberal state-building became increasingly hard to find[24]: the decade that followed the onset of the global financial crisis in 2008 saw the worsening of economic performance indicators coupled with the reassertion of nationalist politics. Ten years on, there remains little sign not only of shock therapies, but also of those interim international administrations whose establishment characterised so deeply post-war transitions during the second half of the 1990s—from Kosovo to Timor Leste. A couple of decades after the first state-building missions were launched, the empirical record saw nearly everywhere externally sponsored liberal institutions challenged by patron-client networks, by various forms of corruption, and by mafia-like networks.[25] The Balkans stand out as a clear case in point.

Research on post-war recovery typically stresses the existence of broad areas of economic activity that take place outside of and beyond the state's legal framework. The challenge is by far not limited to economics: it stems from the observation of crime booms that accompany the end of armed

[21] Criminality does not feature in the analyses strictly inspired by neoclassical economics that inform mainstream approaches to economic reconstruction as part of liberal state-building.

[22] Oliver P. Richmond, "Becoming liberal, unbecoming liberalism: Liberal-local hybridity via the everyday as a response to the paradoxes of liberal peacebuilding." *Journal of Intervention and Statebuilding* 3, no. 3 (2009): 324–344.

[23] Yair Eilat and Clifford Zinnes, The Shadow Economy in Transition Countries. Friend or Foe? A Policy Perspective, World Development 30, no. 7 (2002): 1233–1254; Maria Los, Crime in Transition. The Post-communist State, Markets and Crime, Crime, Law & Social Change 40, no. 2–3 (2003): 158–159.

[24] The case of Kosovo, and the difficult legacy left by the EU-appointed economic pillar of United Nations Interim Administration Mission in Kosovo (UNMIK), is paradigmatic in this sense.

[25] Roberto Belloni and Francesco Strazzari. "Corruption in post-conflict Bosnia-Herzegovina and Kosovo: a deal among friends." *Third World Quarterly* 35, no. 5 (2014): 855–871.

hostilities and organised violence, and it takes the shape of dismantling "parallel" (often criminal) power structures that deeply affect the working of formal institutions in post-war transitions.[26] The question becomes particularly thorny when expectations about the post-war order are derived from a neo-liberal matrix, where the cornerstone is an idea of society resulting from the mechanistic agglutination of microeconomic behaviour of individuals. In this scheme, street sellers and factory owners in the counterfeiting sector are bound to become future entrepreneurs, once entry levels are lowered via liberalisation and deregulation. But, then, how to explain the persistence and the resilience of the extralegal when "the right path of liberal reforms" has been taken? Not surprisingly, divergence from expected performance has been interpreted as evidence of the persistence of endogenous problems, such as a deep-rooted culture of corruption and mafia-like pathologies, which are projected in a virtually omnipresent "governance problem" that bedevils "the locals." Thus, privatisation does not deliver expected result due to bad politicians that manipulate the process and capture companies and, ultimately, the state.

By contrast, in a political economy perspective, one can assume that extralegal economies do not really exist outside economic governance systems. They are not just the underside of formal economies: extralegal economies are intimately connected with them and with local/national authorities on the one hand, and international authorities and economic actors on the other. Not only "economies beyond-the-law" are not a transitory phenomenon: they are here to stay, in spite of (or because of) unprecedented efforts at checking them and aligning them with the liberal state-building effort.

Different terms have been used for defining the situation in which formal regulatory frameworks (e.g., the law by a sovereign state or its administrative units) whose key actors are to be found at various international and local levels develop alongside a significant degree of informal practices; Boege, Brown et al. refer to this situation as a "hybrid political order"—that is, as territories characterised by the coexistence of very different orders of governance and government. Diverse authority structures,

[26] For example: Phil Williams and John Picarelli, Combating Organized Crime in Armed Conflict, in: Karen Ballentine and Heiko Nitzsche (eds.), Profiting from Peace: Managing the Resource Dimension of Civil War (London: Lynne Rienner, 2005), pp. 123–152; Gilles Carbonnier, Undoing War Economies. A Prerequisite for Peace?, Refugee Survey Quarterly 22, no. 4 (2003): 165–177; Mats Berdal and Achim Wennmann (eds.), Ending War, Consolidating Peace: Economic Perspectives (London: Routledge, 2010).

logics of order, and power claims interact with each other, combining elements of Western models of governance.[27] The models of state that dominate peacebuilding and state-strengthening efforts often misconstrue the forms of societal governance and the source of legitimacy, which can be read as a form of local resistance against changes introduced by international actors.[28] This condition in which different rules of the games coexist has also been described in scholarly literature as "institutional multiplicity,"[29] "local-liberal hybrid,"[30] "the assimilation of orthodox peacebuilding and neopatrimony,"[31] "hybrid peace governance"[32] or—as Reno calls them in his work on illicit commerce in peripheral states—"fusion regimes"—namely, a situation where local actors and foreign policymakers, business managers, and other outsiders mutually manipulate the respective formal and informal agendas.[33]

The study of hybridity is not just the study of how liberal "modernity" negotiates with local "tradition"—whatever tradition is: the local itself, densely textured with extralegal dimensions as it is, is to a large extent a product of modernity. State-building interventions often add to these processes in politically more intense and intrusive ways.

[27] Volker Boege et al., States Emerging from Hybrid Political Orders – Pacific Experiences. The Australian Centre for Peace and Conflict Studies (Occasional Papers Series Number 11). Brisbane, September 2008; and also Anne Brown et al., Challenging State-building as Peacebuilding – Working with Hybrid Political Orders to Build Peace, in: Oliver P. Richmond (ed), Palgrave Advances in Peacebuilding. Critical Developments and Approaches (London: Palgrave Macmillan, 2010), pp. 99–115. See also Kevin P. Clements, et al., State Building Reconsidered. The Role of Hybridity in the Formation of Political Order, Political Science 59, no. 1 (2007): 45–56; Martina Fischer and Beatrix Schmelzle (eds.), Building Peace in the Absence of States. Challenging the Discourse on State Failure. Berlin 2009 (Berghof Handbook for Conflict Transformation, Dialogue Series no. 8).

[28] Roger Mac Ginty, International Peacebuilding and Local Resistance. Hybrid Forms of Peace (Basingstoke: Palgrave Macmillan, 2011).

[29] Jonathan Di John, Conceptualising the Causes and Consequences of Failed States. A Critical Review of the Literature. London 2008 (Crisis States Working Papers Series no. 2).

[30] Oliver P. Richmond, A Post-Liberal Peace. The Infrapolitics of Peacebuilding (London, New York: Routledge, 2011), p. 18.

[31] David Roberts, Liberal Peacebuilding and Global Governance. Beyond the Metropolis (London, New York: Routledge, 2011), p. 26.

[32] See Roberto Belloni and Anna K. Jarstand (eds.), Hybrid Peace Governance, special issue of Global Governance: Review of Multilateralism and International Organizations 18, no. 1 (2012).

[33] William Reno, "Illicit Commerce in Peripheral States," in H. Richard Friman (ed.), *Crime and the Global Political Economy* (Boulder: Lynne Rienner, 2009), p. 67.

Success Stories

In conditions of high post-conflict hybridity, organised crime is therefore intimately connected with the emergence and reproduction of formal relations and templates that globalisation-driven actors and organisations tend to impose. This state of affairs postulates the need for a political economy perspective that, while aiming to capture the transnational dimension of power constellations, departs from the analytical distinction between conflict and post-conflict. Such a perspective is geared to providing an account not so much for the existence of "survival economies and networks," but rather to explain upward mobility, success, and prominence—that is, how and where richness and power are generated.

The cycle of wars that swept the Balkans in the last decade of the twentieth century has produced a host of empirically rich local-level, country-based, and regional studies on those actors for whom armed conflict proved to be rewarding and profitable.[34] For example, one can find evidence of how, under circumstances of turbulent change, intermediaries in illicit transactions assert themselves. The rise of Albanian organised crime is a case in point, to some extent following the same scheme seen in parallel among the Italian *'ndranghetisti*, whose *'ndrine*—initially rooted in impervious mountains—carve out an intermediation role in wider global markets traditionally controlled by *Cosa Nostra*, acting as couriers first, then intermediaries, ending up making international prices in the narcotics markets and affecting local politics (Sergi in this book). Intermediaries provide long-distance services and articulate flexible, decentralised networks that absorb risks and respond to opportunity variations, thus mini-

[34] Limiting the examples to the Balkan region, one may mention, for example: Xavier Bougarel, Bosnie, Anatomie d'un Conflit (Paris: La Découverte, 1996); Nebojsa Bjelakovic and Francesco Strazzari, The Sack of Mostar, 1992–1994. The Politico-Military Connection, European Security 8 (1999): 73–10; Alessandro Leogrande, Le Male Vite. Storie di Contrabbando e di Multinazionali (Napoli: L'Ancora del Mediterraneo, 2003); Jovo Nikolov, Organized Crime in Bulgaria, East European Constitutional Review 6, no. 4 (1997): 85–90; Georgi Petrunov, Organized Crime and Social Tranformation in Bulgaria, European Journal of Sociology 46, no. 2 (2006): 297–325; Michael Pugh, Postwar Political Economy in Bosnia and Herzegovina. The Spoils of Peace, Global Governance 8, no. 4 (2002): 467–482; Peter Andreas, The Clandestine Economy of the War in Bosnia, International Studies Quarterly 48 (2004): 29–51; Jens Stilhoff Sörensen, The Shadow Economy, War and State Building. Social transformation and Re-stratification in an Illiberal Economy (Serbia and Kosovo), Journal of Contemporary European Studies 14, no. 3 (2006): 317–351.

mising vulnerability. Against networks, aggressive contrast strategies may bring about local tactical successes, but they have virtually no long-term general impact on the market other than operating a Darwinian selection: those actors who are able to better provide services and resources to local politicians and strongmen are in their turn protected and—to the extent to which putting them under prosecution would destabilise local-national politics—they dodge criminalisation and prosecution.

As a result, organised crime can take hostage the development of state structures (in small states) or local politics (when dealing with remote peripheries designed for remote governance via local strongmen). Historically, criminal groups have always acted as providers of (war) services, thus developing a vested interest in a role of *pompier*-arsonist in protracted, intractable conflicts. What emerges as relatively new during the 1990s in the Balkans (and will be magnified a decade later in another relatively impervious peripheral region that is equally important along the supply route of illicit activities to fuel the European demand, such as the Sahel-Sahara belt) is that profits become disproportionately high, thus tilting existing equilibria in the extralegal economies and in the funding of politics. In both cases, states are weak and withdrawn in terms of regulation, budget, and welfare: the Balkans (and the Sahel later on) are crossed by routes that are in part the product of a displacement caused by the global war on drugs: new mobilities, communications, and financial infrastructures, along with higher profitability fuelled by heavy criminalisation based on an idea of law that is disconnected from perceptions of social legitimacy, disclose new opportunities for social mobility in areas that were traditionally considered remote and hardly viable for illicit trade. As markups grow, criminal enterprises emerge and nurture new political landscapes. Drugs, fuel, migrants, tobacco, and arms flow across several borders and become typical tools by which mafias emancipate themselves from the role of mere provider and become able to intervene directly in the management of political violence and intimidation both before and after armed hostilities.

In the case of Southeastern Europe, the emergence of a body of literature focusing on organised crime and politics contrasts with a deep-seated modality of studying and representing the Balkans chiefly in terms of "national questions" and "methodological nationalism," through a fixation with an analytical scheme that sees the state as a container of national society. Wearing similar lenses is conducive to neglecting trans-state, transnational, and broader regional dimensions. The dominant way of discussing "ethnic conflicts in the Balkans" has long been rife with analytical distancing and othering,[35] while little attention was devoted to welfare-provision mechanisms or to existing links with the world economy. Those who wrote on the Balkans made large use of reductivist categories that represented international intervention and state-building as an effort at dealing with (unruly) peripheral regions where—it became almost a cliché—an insane, distinctive mix of hyper-rational criminal greed and irrational nationalist grievances raised the spectre of a threat to "the North." Once celebrated as embryos of freedom under Socialism, shadow economies and organised crime originating in former Socialist republics soon came to be represented as threats.[36]

Today, the standard representation of a large part of countries emerging from armed conflict, somehow endorsed by key actors in post-war reconstruction such as the World Bank, is that high levels of extralegality have to do with weak state capacity, weak rule of law standards, and poor governance, which result in macroeconomic instability, few public goods, and poor regulatory frameworks: in this situation, social and economic actors have virtually no incentive to go formal.[37] Mafia-like local structures and phenomena such as warlordism are represented as exogenous (f)actors that hijack the path of reforms, having a vested interest in keeping extralegal mechanisms well oiled, affecting rule of law and regulatory frameworks. The main problem with this understanding of the extralegal economy is that it is not exogenous at all: on the contrary, criminal profiles and practices are integrated, sometimes by design, in power positions at state and more often local level out of a political calculus based on stability and territorial stabilisation imperatives. The implications of the collusive and hybrid nature of such economic governance arrangements for state formation processes and for economic development remain highly problematic.[38]

[35] Maria Todorova, *Imagining the Balkans* (Oxford University Press, 2009).

[36] Merje Kuus, Something old, something new. Eastness in European Union Enlargement, Journal of International Relations and Development 10, no. 2 (2007): 150; Susan L. Woodward, The inequality of violence. On the discovery of civil war as a threat to 'the North' in the 1990s and the debate over causes and solutions. Conference on Difference on Inequality in Developing Societies, Charlotteville, VA, 2005, 1–35.

[37] A clear illustration is offered in World Bank (2005), *Afghanistan. State Building, Sustaining Growth and Reducing Poverty.*

[38] I have elaborated on this point in Francesco Strazzari and Bertine Kamphuis, Hybrid Economies and State-building. On the Resilience of the Extralegal, Global Governance 18, no. 1 (2012): 57–72.

An alternative perspective thus needs to incorporate an analysis of how international actors—by diffusing new norms, standards, and policies through direct intervention or conditionality—interact with underground economies and shadow political structures. How does the introduction and the enforcement of prohibitions strengthen (or weaken) the state? How does fighting organised criminals who enjoy forms of connivance with political leaders impact on state capacity?[39] Here, we need to distinguish between ability and willingness to implement and enforce new policies, considering the gap that exists between the ambition/rhetoric of regulation/prohibition and the actual capacity *and* willingness to do so: this is precisely where extralegal structures and actors nest in. Propelled by stabilisation priorities that are based on resource availability that tends to diminish over time, externally assisted reform efforts alter the incentive structure, thus enabling, constraining, and sometimes creating parallel governance structures that mirror the resilience of local actors' rapacity, and fuel rent-seeking economies and elusive commitments.

Deals that can be observed behind the scenes, away from the spotlight of official negotiating fora, often at local level and at night-time, can therefore be considered an important indication of how business—including power sharing—is done in reality. Often, this indication sits uncomfortably with the mainstream understanding of events that is derived from official declarations, unless some fortuitous case, literally by accident, makes the extralegal "storm" the official picture.[40] An important challenge in this regard is bridging the inductive nature of (war/crime) ethnography with the deductive nature of macrosocial theories. Linked to this is a methodological challenge: site-intense study and ethnography often need to proceed in unsystematic way, protecting sources and facing dilemmas about risk and ethics. Still, fieldwork research remains better suited than other methods of inquiry to grasp the unpronounced and the uncertain[41]—that is, the domain of the informal and the criminal.

[39] For example, Sappho Xenakis, International Norm Diffusion and Organised Crime Policy. The Case of Greece, Global Crime 6, no. 4 (2004): 345–373.

[40] A famous example, the Susurluk car accident in Turkey: see Frank Bovenkerk and Yücel Yesilgöz, The Turkish mafia and the state, in: Cyrille Fijnaut and Letizia Paoli (eds.), Organized Crime in Europe. Concepts, Patterns and Control Policies in the EU and Beyond (Dordrecht: Springer, 2004), pp. 585–602.

[41] Jevgenia Viktorova Milne, Method, Theory and Ethnography in Peace and Conflict Studies, in: Richmond, Palgrave Advances in Peacebuilding, 74–98.

Conclusions

Black market, clandestine economy, irregular economy, informal sector, shadow economy, and criminal underground are all labels that, by laying emphasis on different aspects, are used to denote and connote the elusive extralegal field that encompasses criminal, illegal, unreported, and informal activities.

When a social order is precariously based on different sources of authority, encompassing diverging values (as is the case in hybrid orders, be them in times of conflict or peace), one witnesses the emergence of different perceptions of criminality. Empirical evidence suggests that when this happens, two other factors are likely to facilitate the striking of a deal that brings political elites and extralegal structures to connive: that criminal activity is visibly remunerative, and that it brings votes.[42]

The extralegal as a field where one finds evidence of power relations, zone of collusion and silence, where the existence of "public secrets" transpires from street conversations, but no sign of them hits official declarations. The key aspect of the problem, therefore, is not informality or crime but the role that (parallel, shadow) extralegal governance structures have in moulding and reproducing extralegal economies and political practices.

So, if the rise and the resilience of parallel power structures that grow alongside and against a new order linked to violence are a problematic dimension for state-building, how to best understand them? Should we understand organised crime as an actor or as an activity?[43] Not all illegal activities are criminal, and not all criminal activities are run by organised criminals. What is more, not all activities run by criminals are illegal or criminal. To make things even more complex, one can recall that terms such as illegal, illicit, or illegitimate are not synonyms. What falls into the extralegal field is often not considered socially illegitimate, and the prototypical Mafioso typically enjoys a wide and deep degree of local legitimacy.

Taken alone, neither the explanatory model centred on the idea of the *mafia as security provider* nor the image of *mafia entrepreneur* fully capture

[42] Annelise Anderson, Organized Crime, Mafia, and Governments, in: Gianluca Fiorentini and Sam Peltzman (eds.), *The Economics of Organized Crime* (Cambridge: Cambridge University Press, 1997), p. 44.

[43] Letizia Paoli, The Paradoxes of Organized Crime, Crime, Law and Social Change, no. 37 (2002): 51–97.

the complexity of the problem in times of globalisation.[44] In a post-conflict setting, such as the Balkans, such structures have roots in the war context (e.g., embargo busting); they are often clad in the patriotic flag, as they made deals with the political elite they served and to a varying degree may have come to control; as the war winds cease to blow, they typically introduce themselves to external sponsors and intervening parties as reliable actors, namely actors who "deliver"; they help stabilisation by instilling social docility vis-à-vis opaque waves of privatisation, and they guarantee that nothing will spill out of control, and that intervening partners' strategic interests will be respected as long as they commit resources. Thus, broader, perhaps less parsimonious, explanatory schemes centred on a deep understanding of *relationships systems* seem to be more appropriate to guide the analysis.[45] The underlying question, also from a historical point of view, seems to be the emergence—in times and space of protracted uncertainty about what is legal and legitimate of business elites who gain a political role as protagonists in the phase of a "stateness gap" (or "leap") between different political orders, and whose main revenue source was, and in a significant way remains, linked to coercion. Marginalising them, making them gradually irrelevant to political processes, freeing political and economic space from intimidation while setting the basis for the punishment of serious crimes, is probably the main challenge for orders emerging from armed conflict.

For all their emphasis on national and ethnic identity as either a reaction to the flattening effect of globalisation or its territorial drag, explanatory frameworks driven by ethnic belonging fail to capture the shadow dimension of globalisation. Territorially based, mafia-style organisations cannot be spotted easily: one regularly observes that after a period of alarming gang-fighting—which is often neglected by disoriented experts of "ethnic violence," who apparently see such violence as not "ethnically motivated" enough—the homicide rate falls below the rates recorded in areas of no mafia presence. This signals that control mechanisms have been consolidated. At the same time, the Mafioso typically introduces himself to central-state power wielders (and thus foreign actors) as a man

[44] See, respectively, Diego Gambetta, La mafia siciliana. Un'industria della protezione privata (Torino: Einaudi, 1992); and Pino Arlacchi, La mafia imprenditrice. L'etica mafiosa e lo spirito del capitalismo (Bologna: Il Mulino, 1983).

[45] See, for example, Vincenzo Scalia, "I fenomeni mafiosi nelle ricerche del Centro Impastato." 2006. (Available at http://www.centroimpastato.it).

of order, a solution to the problem of disorder in critical political junctures, a conduit for peace: he guarantees services, agreements, dispute-resolution, alliances, cheap access to capital and labour markets, distribution channels, and a safe environment for foreign direct investment that would otherwise be extremely risky. As the era of liberal interventionism and state-building seems to leave way to an era of selective war on terror and stabilisation, the lesson learnt seems to be clear: better have strongmen on our side, to minimise extra costs caused by turbulence. In this sense, the categories of extraction and protection that characterise much of the historical sociology literature on state formation remain highly pertinent, once one considers the intrusiveness of external actors' intent on state-building, and does not forget the constraints and opportunities brought by globalisation.

Following the deployment of international initiatives, emerging relationship systems tend to orient and channel local activities by aligning them, at least superficially, with the desiderata of international actors: in this context, organised crime parasitically ensures compliance of contract obligations and informal understandings by making use of forms of extortion on legal activities. Thus, ex-combatants are given a taxi driver patent and paramilitaries become formal private security companies.[46]

As Woodward suggests, international policies of state-building and their consequences are better understood and analysed as a part of its longer historical process of state formation and transformation.[47] Outlaws and the fight against them had a significant role in state formation, interacting with broader market dynamics and state stability discourses.[48] Tillean arguments on "state making as organized crime,"[49] which rest on the experience of modern European states, may find a limit here: the main

[46] Francesco Strazzari and Simone Tholens, The Private Security Industry in the Post-War Balkans. A Blank in Security Sector Reform Strategies, in: Giampiero Giacomello and Craig R. Nation (eds.), Security in the West: Evolution of a Concept (Milan, Ithaca, NY: Cornell University Press, 2009), pp. 134–139.

[47] Woodward, State-building for Peace-building.

[48] Thomas Gallant, Brigandage, Piracy, Capitalism, and State-Formation. Transnational Crime from a Historical World Systems Perspective, in: Josiah McC. Heyman (ed.), States and Illegal Practices (Oxford: Berg, 1999), pp. 25–61.

[49] Charles Tilly, War Making and State Making as Organized Crime, in: Peter B. Evans et al., Bringing the State Back In (Cambridge: Cambridge University Press, 1985), pp. 169–191.

question for state (de)formation today is how stateness (and state-building projects) is changed by ongoing transformations of the global economy.

State-building in the Balkans took place under conditions in which time is, in historical-comparative terms, scarce, but also where both local and international actors understand that complete failure would be politically too disruptive for the international system to be acceptable. In its most literal sense, legality emanates from the concept of law, which incarnates the idea of formally institutionalised relations within a given state jurisdiction; however, although the power to criminalise (and therefore shape the realm of the extralegal) that states have remains, there are limits today to the extent to which a sovereign state in the Balkans is free to discriminate between activity that is legal and what is not. Montenegro for some years ventured into defending tobacco smuggling into the European Union as legal by its own law, but it had to make a U-turn when its top officials and politicians were incriminated under charges of mafia affiliation. The ruthless and systematic elimination of competing political authorities experienced during the rise of modern Western states became less and less an option. The economic sphere is, at the end, where less intractable, more negotiable interests can be traded, where formal and informal deals can be struck, thus consolidating hybridity over time, and illustrating the political nature of "the market." It is a fact that the type of war making that marks most twenty-first-century armed conflicts does not make/shape states that are larger, stronger, and more cohesive. To understand why this is so, one has to look into the configuration of today's war and post-war economies, into their interaction with the apparatus of external intervention, and into how they are connected with the legal and extralegal dimensions of the global economy.

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