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### Editors

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Exchange

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## Convenors' column

*Dina Bowman, Peta Freestone and Lee Glezos*

Welcome to the third edition of *Exchange*!

In this issue we continue to feature research that examines the connections between economic and social relations.

In our Q & A Dina asks Portuguese sociologist **Rafael Marques** about the state of play of economic sociology in Europe. Rafael is co-chair of the European Sociology Association's Economic Sociology Research Network.

**Supriya Singh** of RMIT university features in our Research Snapshot. Supriya is well known for her work on the social shaping of economic relations. Her book *Marriage Money: the social shaping of money in marriage* examined the different forms of money in marriage. Our 'research snapshot' focuses on her work on informal flows of money between the Indian diasporic communities and their relatives.

The post-graduate profiles again illustrate the intersection between market and social life.

**Bagus Aryo** discusses his doctoral research on microfinance: 'The Politics of Microfinance: Is there any hidden agenda? A case study of BMT Kube Sejahtera, Indonesia'. His analysis highlights the role that spirituality in micro-entrepreneurship plays in countering state control and surveillance.

**Eve Bodsworth** discusses her research on single mothers and the welfare to work policy. Her analysis highlights the gendered nature of current economic and social policy which rests on the assumption of individual economic rationality and independence rather than interdependence.

In 'Everyday Exchanges' we feature the work of the newly formed organisation Social Traders. Their

policy and development manager, **Mark Daniels**, explains social enterprise and considers how social enterprises address the challenge of balancing social and economic objectives.

In our books section, courtesy of Scribe publishing, we feature an extract from *Filthy Lucre*, a new book by **Joseph Heath**, an associate professor in the Department of Philosophy at the University of Toronto. This extract chronicles the 'suppression' of Kelvin Lancaster and Richard Lipsey's challenge to the doctrine laissez-faire capitalism.

We hope you enjoy this issue of *Exchange*!

## TASA business

In the two years since our appointment as convenors we have developed a website that attracts steady traffic from Australia and overseas. We also have developed this newsletter which has a growing subscription list.

The next twelve months will be the last for Lee and Dina as convenors. Peta Freestone has indicated that she will step down as co-convenor at this year's TASA conference, due to her study and travel commitments (she was awarded a Commonwealth scholarship and is currently based in Edinburgh).

At the TASA national conference in December we will meet with members to discuss plans for the coming year and beyond. We look forward to seeing you there. If you can't make it to the conference please send us your suggestions and feedback [info@economicsociology.org.au](mailto:info@economicsociology.org.au)

Best wishes,

Dina Bowman, Peta Freestone, Lee Glezos, *Editors*

## Q & A with Rafael Marques

Portuguese sociologist **Rafael Marques** is co-chair of the European Sociology Association's Economic Sociology Research Network. In this Q & A, Dina asks him about economic sociology in Europe.



You can contact Rafael at [rmarques@iseg.utl.pt](mailto:rmarques@iseg.utl.pt)

**Q.** What sparked your interest in economic sociology?

**A.** Back in 1981, when choosing my undergraduate programme, I hesitated a lot between economics and sociology. The two domains encompassed most of my areas of interest and their intersections were certainly among the themes I was willing to study. Since there were no socio-economic courses available and after some deliberation I eventually decided to pick sociology, but I kept my readings wide open and I followed optional courses in macroeconomics, development studies, and urban planning. At the same time, I started following the evolution of financial markets and stock exchange, being mainly interested in how agents deviated from fully rational behaviour.

In 1987, while working on the Portuguese agency for employment and vocational training I started my MBA, thus reorienting some of my previous research. At that time, I conducted some investigation on Change Management modelling and the rhetorical constructions used by management gurus to pave the way to the acceptance of change inside organizations.

After finishing my MBA programme. I entered the university and started teaching introductory courses in sociology to economics undergraduates. At that particular time (beginning of the 90s), Economic sociology was basically nonexistent in Portugal and a small group inside my Institute saw that as a huge opportunity to develop new research streams and develop new approaches. So, for me, economic sociology was both an old interest and a career opportunity

**Q.** Is there Portuguese approach to economic sociology? If so, can you describe its features?

**A.** Economic sociology in Portugal is still in its early phases. You'll have to understand that sociology in Portugal was almost fully banned

during the dictatorship (1926-1974) because it sounded a bit like socialism, thus being reputed as a source of "dangerous ideas". From 1974 onwards, sociology gained momentum, but mainly in more traditional areas like the study of education, family, organizations, labour relations or culture. Taking the formal institutional side, the Institute of Economic and Business Administration (ISEG), from the Technical University of Lisbon, can be considered the stronghold of economic sociology in Portugal. It created PhD and Master Degrees in economic sociology and the sociology of organisations in 1991 and 1992; and launched the Research Centre on Economic Sociology and the Sociology of Organisations (SOCIOUS) in 1991.

Other institutions promoting this new field comprise the School of Economics of the University of Coimbra, where the PhD in Sociology includes a speciality in economic sociology; and the Institute of Social Sciences (ICS), from the University of Lisbon, where economic and development sociology is one of the strongest research lines. Outside these institutions, the economic sociology label is rarely used. Furthermore, we should emphasise that the institutionalisation of the field in some of the leading schools of economics and management does not mean that a fruitful dialogue or collaborative research between sociology and economics emerged. So, there is no integrating approach to economic sociology and even less a national school or a project that could be called Portuguese Economic Sociology. The current situation is still defined by individual research interests and disparate moves by each investigator.

**Q.** Your previous work has focussed on ethics. How do you understand the relationship of ethics with economics and economic activity?

The social sciences' tradition is clearly linked with moral reasoning and theorization on Ethics. If we dedicate some attention to the corpus of works published by the moralists of the seventeenth and eighteenth century both in France and in the UK (mainly in Scotland), it is easy to find out the inter-linkages between the economic themes and the moral subjects. Unfortunately, the trend towards disciplinary autonomy led to a cut between the two areas. This unhappy situation has been a hindrance to a satisfying explanation of economic action. Economic action is limited and conducted by social values and economic value itself depends on the ups and downs of social valuations, prohibitions, moral condemnations, encomiastic assessments of social behaviour, etc. It is impossible to account for the social uses of

money without paying attention to moral appropriations; it is unreasonable to think that budgetary constraints and utility maximization are the sole criteria for choice. Religious frameworks and changing morality patterns either limit or enable economic action. The power mechanisms and the prevalent moral values are, without any doubt, factors that structure choices and direct decisions. Some of my recent research has been dedicated to establish how disgust and other moral categories have either promoted or limited markets and industries throughout history. Needs, desires, aspirations, attitudes are much more than economic subjects, they are morally conditioned categories.

**Q.** You visited the USA recently, what is your assessment of the differences and similarities in economic sociology in the USA and in Europe?

The New Economic Sociology developed in the USA for the past 25 years has achieved a level of internal consonance that is clearly absent from the Economic Sociology in Europe. In Europe, it still makes sense talking about different and conflictual research programmes. In Europe we have not only different national strands of research but also some different affiliations. To begin with, part of the European economic sociologists of today (especially in Italy or in Eastern Europe) are clearly the children of a tradition of Political Economy (mainly Marxist), still using the lenses and the lexicon common to this research avenue. Others arrived at Economic Sociology coming from a tradition of Industrial and Work Sociology. Only a limited number of researchers, especially in Germany and in Scandinavia can be said to be closer to the American strand of Economic Sociology.

At the same time, there is an obvious difference of scale. The Economic Sociology section of the American Sociological Association has been growing steadily and has a solid core of researchers participating on a regular basis in the Association encounters, while in Europe; the number of researchers that habitually take part in the European Sociological Association meetings is limited and varies deeply from conference to conference.

The New Economic Sociology in the USA was born as a double epistemological rupture – against the immobilism and the impasses of the Parsonian project in Sociology and as a reaction against the Beckerian economic imperialism. This double rupture assured a sort of common ground to a new generation of sociologists who wished to dedicate their efforts to the study of economic life under the lenses of sociology. Centred on the study of

markets and industries they found epistemological agreement over a set of important concepts – social networks, trust, embeddedness, etc. – that assured a middle of the road solution to the study of economic action – neither the automata of structural-functionalism, nor the hyper rational cunning agents of the economic standard models. In Europe the imperial presence of Parsons was never felt quite in the same way as in the US and the Economics Departments were less prone to a monistic view of economic life. Thus, European economic sociology never achieved the dimension of a front against common enemies. That's one of the reasons why European approaches seem more plural and less integrated than their American counterparts. The study of organizations, markets and industries remains a lot weaker in Europe, but at the same time some new and imaginative approaches (more phenomenological and constructivist) have been a cornerstone of the European approach to economic life, for example, the conceptualization of performativity and its use in the study of financial markets or the application of Latourian and Callonian insights to the study of economic subjects.

In institutional terms, economic sociology still has a long way to go both in the USA and in Europe. The number of PhD programmes in the area is still very limited – MIT started one only two years ago – but it is very clear that the US academic maelstrom is capable of attracting more and more quality students from around the world in a way that Europe still fails to do.

## Research Snapshot

*Professor Supriya Singh*  
*Supriya jointly leads RMIT's participation in the Smart Services Cooperative Research Centre. She also leads the Community Sustainability Program in the Global Cities Institute, RMIT University. She jointly heads the Asia @ RMIT initiative in the College of Business, RMIT University. She supervises PhD students researching the use of information and communication technologies and the sociology of money. In this research snapshot, she focuses on her work on remittances. You can contact Supriya at [supriya.singh@rmit.edu.au](mailto:supriya.singh@rmit.edu.au)*



### **Sending Money Home**

Migrants have long sent money home. However the huge scale of international remittances was only revealed in 2003 when Dilip Ratha, a World Bank economist engaged in some forensic accounting. Spurred by his own experience of sending money home to his family in a village in India, he found that remittances had been grossly undervalued. The International Monetary Fund's estimate of remittances to the Philippines was US\$122 million while Ratha found they were more likely to be 51 times higher at US\$6.2 billion. Ratha's tallies in 2003, 'showed that remittances... were nearly three times greater than the world's combined foreign aid' (DeParle, 2008, March 17).

In 2008, international remittances, formal and informal, were 'the largest source of external financing in many developing countries'. They were more than twice the official aid received by developing countries and more than foreign direct investment flows (Development Prospects Group, 2007).

In 2008, developing countries received US\$328 billion in international remittances. Another 45 per cent may be sent home by informal means outside the formal banking and money transfer organizations (Buencamino & Gorbunov, 2002). India, China and Mexico were the top three remittance receiving countries in 2008 with US\$52 billion, US\$40.6 billion and US\$26.3 billion respectively (Ratha, Mohapatra, & Silwal, 2009). For Tonga and Samoa in our region, remittances accounted for 39 per cent and 23 per cent of GDP in 2007 ("Migration and Remittances," 2009).

Governments and international organisations are excited about the scale of remittances for it offers possibilities for development and the securitization of loans. Remittances differ however from other

private flows of funds, for the vast majority of this money is sent by migrants to their families in their home countries. Smaller amounts go for community remittances and investment. For many migrants, particularly single migrants who work abroad to support their families at home, this money allows their families in the home country to survive.

### **Getting personal**

The vital importance of regular remittances was brought home to me when I interviewed a Chinese corporate executive in Malaysia in the mid-1980s, while writing the history of the Central Bank of Malaysia. The conversation moved to remittances, as this was one of the important functions of Chinese banks in the 1930s and 1940s. During the Japanese Occupation, communications were disrupted, and remittances from Malaya stopped. In banking history, this is no more than a footnote. But 40 years later, this executive sobbed at his desk in his high rise office, as he told how his mother and four brothers and sisters starved to death in Canton (Singh, 1984).

For many migrants, remittances are a special kind of money signalling caring for the members of a transnational family in the home country. Let me start with my experience of money, family and diaspora. I migrated from India to Malaysia in 1967 and then to Australia in 1986. My family is distributed across India, Malaysia, Australia and the United States. Sending money home has been an established pattern in my family as both my older sisters sent money to the family. I began to send money home to my mother when I started earning a regular income in Malaysia. It was a matter of pride for my mother to say she was better off after she retired because she had filial daughters.

In many ways, international remittances are a continuation of the way money flows in India between parents and their adult children and vice versa. This is different from the middle-income Anglo-Celtic pattern in Australia where money usually flows in one direction – from parents to children, and from grandparents to grandchildren (Singh, 1997). This is partly because welfare payments act as a safety net. But at least just as strong is the expectation and desire of parents to be independent and not a financial burden on their children. Hence caring is shown through helping with the chores of daily living, rather than the giving of money. Thus traditionally Australia has not been a remittance receiving country. In policy debates, there continues to be the whiff of the illicit when people send money overseas.

### The tension of sending money home

The idea behind sending money home is to maintain and strengthen relationships between the migrant family and other family members in the home country. It is one way of communicating care, just like family visits, frequent telephone conversations and emails. Remittances have continuities with family money in India. But remittances are also a 'special money' (Zelizer, 1989) in that they are counted for less in terms of quantum and expression of caring. It is as if the dollar sent is different from the dollar received.

Anuja Cabraal and I have been studying first and second generation Indian migrants in Australia. We found that like other migrants from Europe, Asia and Africa, some of the migrants we studied felt there was a 'money tree' syndrome. There are times when family members in the home country think that money is plentiful overseas. Hence the money sent is devalued, in that it is not seen to be a significant part of a person's discretionary income. This lack of appreciation from the family in the home country sparks further conflict particularly if the money being sent home is at the expense of providing new shoes or a computer for the children.

The second source of tension relates to the measurement of remittances vs physical caring. The migrant who has been sending money home sees this money as a medium of caring. Yet for the siblings at home, this money counts for less than the physical caring that only they are able to provide. It is as if to say, 'He only sent money. It is we who looked after our mother.' This kind of reasoning leads to a great silence around the expectations and actual division of inheritance. Indian women migrants in India, as with many women in India, continue to voluntarily cede their inheritance rights in favour of keeping relationship with their brothers. But in our sample, we found there were cases where the men also did not inherit. We heard from other family members that the rationalisation was that they did not have as great a financial need. But overall there is a silence around inheritance. Confronting the issue can evoke feelings of betrayal and a lack of belonging to the family (Singh, 2008).

The death of parents in many cases moves the focus from the transnational family to the family in Australia. That is, until the children migrate for work or marriage. Then the family again becomes transnational, but the home country becomes Australia. India may remain the cultural and emotional heart in terms of religious pilgrimages, music and dance. Young Australian Indians may do the Bhangra mix at weddings in Melbourne. It is

part of being Indian in Australia, but the location of home has shifted to Australia.

Remittances will take on another meaning when we begin to consider the large numbers of Indian international students who are becoming part of the Indian diaspora in Australia. Unlike previous waves of Indian migrants, they receive money from home in the first few years. Like previous Indian migrants, they are expected to send money home and offer support to their families in India. It will be interesting to discover their experience of the transnational family and the meanings that are given to money that is sent across national borders. The issues will no doubt remain centred around the idea of family, belonging and the location of home.

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## Postgraduate Profiles

In this issue we profile two post-graduate researchers: Eve Bodsworth and Bagus Aryo. Eve's research examines the intersections of economic and social policy on the lives of single mothers, while Bagus' research looks at microfinance. Their work highlights different forms and levels of economic activity.

### Bagus Aryo

*Bagus has recently completed his PhD at the University of Melbourne. He teaches at the University of Indonesia.*



#### Background

I completed a BA (Hons) at Social Welfare Department, University of Indonesia. My honours thesis was an analysis of poor youth activities in the slum area. I continued postgraduate study at University of Queensland where I completed a master's degree in social work. I then became a lecturer at the University of Indonesia.

In February 2006, I commenced doctoral study at the School of Social and Political Sciences, University of Melbourne. My thesis title is: 'The Politics of Microfinance: Is there any hidden agenda? A case study of BMT Kube Sejahtera, Indonesia'. I submitted my PhD thesis on 22 May 2009. My research interests mostly on market economy, social policy, and microfinance.

#### Definition of Economic Sociology

Economic sociology is the study of the interaction between economy and society. But I also define it as how the people/actors make sense the economy in their own terms and apply social action to interact with it, in order to sustain their livelihood. It is essential to analyse how the community or people respond to 'economic' phenomena or the 'market' in their daily life and thus explain how people 'came to behave as they do' (Schumpeter, 1954) when they are exposed or involved in the economic exchanges. In economic sociology, we attempt to understand both the intention and the context of human action in economic activities. Human action should be related to the institutions that affect economic behaviour. Lastly, economic sociology does not study the economy in general but instead analyses specific economic system or institutions.

#### My research

The purpose of my thesis is to show the influence of market economy on a microfinance

program/institution (MFI) and its clients. This research is not an economic study of microfinance but an inquiry into the 'relationship' between microfinance and market economy. The study provides a qualitative understanding of how neo-liberal thought penetrates and operates on the microfinance program.

My interest in and passion for microfinance began in 2002 when I studied a Community Economic Development (microfinance) subject for my Master's degree in Social Work at the University of Queensland. At that time, in the class, I recalled many faces of the poor in Indonesia that I met every day in Jakarta. I reflected and realised I had not done anything to help them. My real interest in the poor goes back to when I did my honours thesis (undergraduate) about poor youth in a slum area. After gaining my Master's degree and returning to my university in Indonesia, I became involved in research and consultation in the microfinance field and assisted some microfinance institutions (MFIs) to evaluate their programs.

Two phenomena in Indonesia also influenced me to choose microfinance as my research topic. These phenomena are the growing expansion of MFIs and the 'acceptance' of market ideology or neo-liberalism as the answer to socio-economic problems.

I utilise a qualitative case study to examine the microfinance program. Case study research is a hybrid between an intrinsic and an instrumental approach. The intrinsic case study research focuses on the context, issues, and process of the microfinance program; while the instrumental case study research explores issues related to market economy and microfinance. The analysis relies on coding. Themes that are abstracted from coded text segments are then analysed using theoretical frameworks and literature review.

There were four major findings from this study. First, spirituality can assist in the transformation process from poor individuals into micro-entrepreneurs. Furthermore, spirituality can develop a positive mentality and protect the poor (in this case, the microfinance clients) from the unwanted side of the market economy. Secondly, microfinance provides a field for the state to implement its disciplinary power. By reformulating the disciplinary power into a microfinance program, the state through MFI constantly surveils and shapes the conduct of the poor. In practice, microfinance as a panoptic organisation 'measures', 'corrects' and 'scrutinises' the poor through its services. Thirdly, the unfavourable milieu of the bureaucracy provided an excellent setting to show that market-based poverty alleviation or neo-liberalism can only work in a

favourable milieu that is free from unscrupulous and inefficient influences. Lastly, neo-liberalism is not a 'retreat of the state' but in fact a continuation of government and a transformation of politics that restructures the power relations in society. State intervention and planning is visible in the microfinance program.

### Favourite quotes

Whenever you are in doubt [...] recall the face of the poorest and the weakest man whom you may have seen, and ask yourself if the step you contemplate is going to be any use to him. Will he gain anything by it? Will it restore him? (Gandhi)

Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little. (Adam Smith)

Social business will be a new kind of business introduced in the market place with the objective of making a difference in the world. (Muhammad Yunus)

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## Eve Bodsworth

*Eve is a post-graduate student at Deakin University in Melbourne. She also works part-time as a research officer at the Brotherhood of St Laurence.*



### Background

I have taken a rather varied pathway to becoming a 'sociologist'. As an undergraduate I studied a combined degree of Arts and Law, majoring in cultural geography in my Arts degree. I completed an honours thesis looking at the social and cultural construction of 'place' and the idea of 'community' in Kings Cross in Sydney. I was interested in the debate taking place at the time around a proposal to build safe house brothels for street prostitutes in the area and the competing claims for space/place from affluent residents of East Sydney, street prostitutes and welfare workers and the local council. After finishing university I went to work as a lawyer, first working for a labour law firm running actions on behalf of franchisees and for shareholders against franchisors and stock-broking firms. I then took a job as a community

lawyer, mostly assisting clients with family law issues and intervention order applications. While this work was extraordinarily rewarding, I was frustrated by the narrow scope of the role of lawyer, assisting clients with discrete legal issues rather than seeking to understand and address the broader social and policy issues which had brought them to my office – often a place of last resort. In addition, many of my clients were single mothers dealing with a range of complex and intersecting issues to do with Centrelink and juggling care for children and paid work, on top of negotiating family law arrangements and sometimes dealing with ongoing violence and abuse from former partners. So when an opportunity arose to be a part of a research team looking at the impact of the Howard Government's Welfare to Work policy on low income single parents, I applied for the PhD position and have since discovered that I am indeed a sociologist.

### How I define economic sociology

I must admit that this question was difficult to answer as I do not really consider myself to be an economic sociologist. I initially turned to Smelser and Swedberg for some assistance and was intending to borrow their definition, namely that economic sociology is the application of sociological perspective to economic phenomena. However, I felt this definition did not adequately cover my area of research, yet I consider that my research interests lie somewhere in the overlap between the Economic Sociology group, the Families, Relationships and Gender group, and the Work and Labour Studies group [TASA's thematic groups]. My research has led me to consider the ways in which economic ideas about human behavior and 'choices' have influenced neo-liberal welfare policy, an arena which is not traditionally considered to be located in the realm of the 'economic'. I am also interested in the discourses which are used to mark out 'economic' territory as distinct from the 'social' and the way in which these discourses designate some areas as ideological and political and therefore open for debate – leaving others as arenas of unquestionable truths about market forces and rationality. So perhaps economic sociology could be defined more broadly to look not only at the 'economic' but also to look critically at the demarcation of the 'economic' as opposed to the 'social', and also to look at what happens in the places where these borders have become porous.

### My research

The starting point for my research came from an interest in the assumptions embedded in the Welfare to Work policy introduced for income support recipient single parents in 2006. The

policy, which requires single parents (the majority of whom are women) to engage in a minimum of 15 hours a week of paid work once their youngest child turns seven, appeared to be based upon a number of assumptions about the decisions that low income single mothers make, and the decisions they *ought* to make about paid work. These assumptions arguably fit within a broader, neo-liberalist transformation of the welfare state, which in part focuses on the use of 'activation' programs which promote 'rational responsible choices' through the use of incentives, or punitive sanctions (Taylor-Gooby 2008). Furthermore, conventional social policy analyses of the single mother 'problem' – namely their supposed reluctance to take on paid work – also appeared to reflect an assumption of individual economic rationality.

From this starting point, my research aims to explore the decision making experiences of low income single mothers who have been required to go from 'welfare to work'. My methodology involves in-depth biographic interviews with low income single mothers and is deliberately inductive. My analysis draws from phenomenology and a social constructionist approach to narrative analysis. I am seeking to explore the day-to-day experiences of single mothers making decisions about work, children and welfare and to describe the constraints and barriers they face. In addition I am interested in the way single mothers describe these experiences, the contradictions which emerge, the ways in which they employ the discourse of the Welfare to Work policy and the ways in which they attempt to challenge these discourses. As this is a work in progress, I do not yet have a 'main argument' but am at present exploring issues of identity, agency, reflexivity and governmentality. At present I am considering whether theories of reflexive modernity over-emphasise the rational, conscious choices of reflexivity and identity formation. In particular, I am interested in how the question posed by Lash (1994) applies to my interviews:

Just how 'reflexive' is it possible for a single mother in an urban ghetto to be? Beck and Giddens write with insight on the self construction of life narratives. But just how much freedom from the 'necessity' of 'structure' and structural poverty does this ghetto mother have to construct her own 'life narratives'?

The most interesting thing about my research is having the privilege of being invited into women's lounge rooms and kitchens and being allowed to ask them about their lives. The stories I have heard have forced me to reconsider and attempt to put aside my own assumptions about single mothers and about the Welfare to Work policy. In

terms of my research's relevance to economic sociology, I think that my methodological approach – qualitative, inductive, biographical – can provide new insights into the ways in which decisions or choices are made, and the ways in which decisions and choices are 'told'. Perhaps this second point, relating to the ways in which narratives are constructed could be useful for providing insight into other forms of 'economic' behavior, particular those behaviours which are most often the focus of orthodox economic inquiry.

### Favourite quote

My favourite quote is from feminist legal academic Lucy Williams. She critically challenges the assumption that paid labour market work is the path to independence for poor women including single mothers. Williams cites the well known proverb 'Give a man a fish and he will eat for a day. Teach a man to fish and he will eat for a lifetime', and then subjects the proverb (which for Williams is a metaphor for neo-liberal welfare policy) to critical interrogation, asking:

what if the individual is not capable, or adept at fishing? What if she doesn't want or have time to fish because she has other pressing obligations which have a higher priority for her, even if the broader community does not economically value those responsibilities? What if there are insufficient fish in the river, fish that have little meat on them, or fish that contain toxins? Indeed, what constitutes fishing, and why has 'fishing' been understood to mean waged work within the economy instead of all work?

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## Everyday Exchanges

### SOCIALTRADERS

A force for Social Enterprise

*Dina asked Mark Daniels of Social Traders about the newly formed organisation.*

Social Traders is a social enterprise development agency that was launched in June 2009, it came about in response to the need for systemic change in the landscape to support the development of social enterprise in Australia. We have received funding from the Victorian Government and a private family trust to work with others to:

- raise the profile and highlight the benefits of social enterprise
- influence government policy
- generate investment and market opportunities
- build skills and knowledge, and
- encourage a coordinated approach to social enterprise development in Australia

Social enterprises are social benefit businesses that trade to fulfil their mission. They are motivated by community needs rather than personal profit. The motivations for most social enterprises broadly fall into three categories, employment and job creation for marginalised groups, creation or retention of services needed in the community, profit generation to support other community activities. Even if you have never thought about social enterprise you will know of social enterprises; some of the most identifiable social enterprises include thousands of opportunity shops, the Big Issue, the Fifteen restaurant and Bendigo Community Bank branches. However there are many more examples of social enterprises all over Australia without the fame that are undertaking critical functions.

Social Traders is currently partnering with the Queensland University of Technology to Find Australia's Social Enterprise Sector (FASES) [www.socialeconomy.net.au](http://www.socialeconomy.net.au). To date we have identified over 3500 social enterprises and the list grows by the day. We are keen to understand where they are located, what industries they operate in, the number of people they employ, turnover and age. We are already being challenged by social enterprise types that we hadn't considered previously.

The challenge of balancing social and economic objectives is very real for social enterprises. If a business is unable to cover its costs from

commercial revenue and there is no guarantee of philanthropic or government support then the social enterprise will either close or develop a model that allows it to be profitable. It can be difficult to develop a social enterprise that is profitable and delivers the desired community benefit, particularly if the social goal of the business can affect its profitability, ie employing low-skilled staff.

Social enterprises have existed for over 150 years in Australia with very little government or philanthropic support. Cooperatives for example, are structured in a way that encourages collective activity and aggregation, usually independent of government and philanthropy. Charitable trading arms were often the principle source of income for charities in the past.

In recent times social enterprise has experienced a new wave of growth driven by environmental and social activity. Government and philanthropy have been instrumental in supporting this innovation in social enterprise as both establishment funders and in some cases helping to meet ongoing operating costs.

As this stage of the innovation cycle progresses the need for a subsidy will change and the role of philanthropy and government will move from donors to purchasers and investors, whereby social returns will be bought and sold, providing additional revenue stream to social enterprises which will off-set some of the higher associated costs.

One of the most important ways that government and corporates can play can support social enterprises moving forward is to buy their goods and services. By growing these businesses through trade they will be growing the community benefits that they provide.

Other social enterprises that do not require or choose to access additional income will continue to run as they always have, as independent small businesses.

Social enterprises sit in a hybrid space; blending mainstream business and community outcomes (in different measures depending on the enterprise). Understanding the value of supporting social enterprises is difficult for government and philanthropy. Measuring impact is a way of capturing the benefit that social enterprises provide, for example, what is the benefit of keeping a community store open in a rural town? What is the value of getting a person with a disability into a part-time job? What is the benefit of keeping old computers out of landfill? There are a number of different methodologies for measuring social impact, including social return on Investment,

social accounting, economic impact analysis and meta-analysis. Most of these methods are similar, in the end they are all evaluation frameworks and tools.

### For more information

Social Traders web site provides a hub for social enterprise information and resources. Recently, a set of case studies and information briefs have been posted to the site to capture the complexity of social enterprise and the diversity of types.

[www.socialtraders.com.au](http://www.socialtraders.com.au)

[info@socialtraders.com.au](mailto:info@socialtraders.com.au)

## Books

JOSEPH HEATH



**FILTHY  
LUCRE** ECONOMICS  
FOR THOSE  
WHO HATE  
CAPITALISM

In this issue, we feature an extract from *Filthy Lucre*, by **Joseph Heath**, an associate professor in the Department of Philosophy at the University of Toronto. He is the author of Canadian bestseller *The Efficient Society*, and writes a monthly column for the journal *Policy Options*.

### Why more competition is not always better

In 1956, two young economists named Kelvin Lancaster and Richard Lipsey published a paper in the *Review of Economic Studies* with the unassuming title, “The General Theory of Second Best”—and handed the left one of the most powerful arguments against laissez-faire capitalism ever developed. Never heard of it? Well, don’t feel bad—you’re not alone. It’s been “suppressed” by the economics profession. Or at least that’s what Lipsey told me once when I interviewed him about it. When the paper first surfaced, economists went into full-scale damage-control mode. Lipsey estimated that within a decade there were “about 200 articles published trying to refute it.” They attacked from different directions. Some of them challenged the math. Some of them argued that the consequences were not as severe as they seemed. Others questioned the originality of the claims. In one scholarly journal, the authors were even denounced as nihilists.

But the panic soon subsided. The right wing discovered that there was, after all, no cause for alarm. It’s not that the theorem was unsound—it’s just that no one on the left seemed to be reading the *Review of Economic Studies*. So as long as

everyone in the know kept quiet, the theory would just slide into intellectual obscurity. And this is more or less what has happened. “They couldn’t refute it, so they just decided to ignore it,” says Lipsey. The Second Best Theorem is still taught in some economics courses—usually in about third year, in public economics classes. But it has never received any popular uptake, and is almost never mentioned in political debate.

This is unfortunate, since the paper identifies an extremely important fallacy, one that plays a central role in much of popular free-market thinking. One of the most ideologically powerful theoretical results in modern economics is the so-called Invisible Hand Theorem—named after Adam Smith’s famous speculation—that a perfectly competitive market is also perfectly efficient. What the Second Best Theorem shows is that even if this is true, it is irrelevant, because if even one of the conditions that are required for perfect efficiency is violated, anywhere in the economy, then all bets are off. There is no reason to think that a “second-best,” or almost perfectly competitive market, will be more efficient than a third-best, or fourth-best, or even totally uncompetitive market. Thus you cannot take the sort of “general equilibrium” model that is the mainstay of introductory microeconomics classes and use it to generate any sort of presumption in favour of the market as a mechanism for promoting efficiency.

As if that weren’t bad enough, the authors went on to show that, in cases where one of the conditions required for perfect efficiency was violated, the only way to achieve as-close-as-possible-to-perfect efficiency would be to go out and violate a few more of the rules required for a perfectly competitive market. To the casual reader, this might give the impression that, in the real world, a government that mucks around in the economy is likely to achieve better outcomes than a government that follows a policy of strict laissez-faire.

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Consider how this affects, for example, the debate over international free trade. The primary case for trade liberalization is based on efficiency—which is certainly not a negligible consideration. Many people believe that trade restrictions are a source of enormous waste and that a world in which there were no such restrictions would be more efficient and prosperous than a world in which there are some. This is basically correct. But they then go on to claim that a world in which there were fewer trade restrictions would be more efficient than a world in which there are more. This is where the red warning lights should go on.

The Second Best Theorem shows that if there is even one trade barrier in place, then it may be impossible for any nation to achieve the second-best outcome without imposing trade barriers or granting subsidies of its own. In fact, interfering with trade may be then the only way to promote efficiency. Most obviously, if prices in one sector are artificially high because of trade restrictions, the best move would be to increase prices artificially in all other sectors, in such a way as to preserve the proper exchange ratios between all goods.

There can also be cases where two market imperfections partially (or completely) cancel one another out, so that fixing one of them makes the other worse. The classic example involves a firm that has a monopoly over the production of a particular good and is curtailing output in order to reap the benefits of high prices. If production of this good also happens to generate a significant amount of pollution, getting rid of the monopoly could wind up being a bad thing.

Competition would lower prices, leading to increased production of the good, and hence more pollution. (From this perspective, the OPEC cartel may have done the world a favour by keeping the price of oil artificially high for years. The price of oil should actually be higher than where competitive markets would set it, because of the environmental externalities generated by its consumption.) This situation suggests that the state may be able to generate efficiency gains by granting monopolies in particular sectors where it has an interest in seeing the volume of production decline (liquor stores, casinos, etc.). This is, of course, exactly what the state currently does. The idea is to create offsetting market imperfections.

In general, however, it would be foolish to recommend these sorts of micromanipulations to either firms or governments, simply because the amount of information that would be required in order to get the intervention just right is staggering (and almost always unobtainable). So while the Second Best Theorem appears to give people who like interfering in markets license to go hog wild, in practice it does no such thing. Just because markets fail to create efficient outcomes doesn't mean that government is in a position to do any better—there is an obligation, on the part of those who favour state intervention, to show that the cure won't be worse than the disease.

What the Second Best Theorem does show, however, is that it is impossible to derive useful policy recommendations from general equilibrium models of the economy. The standard tools simply do not tell us what it is best to do in the real world. Each situation—every sector, every market, and

every public policy proposal—has to be evaluated on its own merits.

When I spoke to Lipsey, he described the primary consequence of the Second Best Theorem as having been to “impose some humility” upon economists, or at least those who were paying attention. It didn't show that any particular policy claims were false. (Lipsey himself, for instance, was one of the most ardent proponents of free trade between Canada and the United States.) It just means that you can't make sweeping pronouncements about the efficiency of markets based upon a single, highly idealized model. Not that this has stopped anyone.

Consider the following claim, from a recent textbook on welfare economics and public policy:

The Invisible Hand Theorem is probably the single most powerful result in the theory of market economies and is widely used by economists who believe that markets are competitive and that governments should not intervene in economic activity. Milton Friedman and the “Chicago School” are the best known defenders of this position. In addition, because of its efficiency properties, competitive equilibrium offers a useful standard for policy analysis.

This last sentence is shocking. It's the sort of thing that lends credence to Lipsey's claim that his theorem was “suppressed.”

***Filthy Lucre: Economics for those who hate capitalism is published by Scribe Publications. Please visit <http://www.scribepublications.com.au>***

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## The editors

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### Lee Glezos

Lee is doing a PhD in Sociology with the Institute of Social Research at Swinburne University in Melbourne. Lee is studying the Australian organic food market, focusing on the association between social movements and the initial emergence of economic markets.