Brazilian Journal of Political Economy, vol. 25, nº 2 (98), pp. 45-59, april-june/2005

Joblessness

AMIT BHADURI*

Abstract: The paper is divided into three parts, and a summary at the end. Part one explains how policies conditioned by historical circumstances moved away from the objective of high employment. Part two deals with the theoretical controversies in support or against particular policies. Part three sets out the basics in theory needed for a high employment policy. The paper concludes with a summary suggestion of some operational steps and observations.
Key-words: Unemployment, Budget Deficit, Globalisation, Decentralisation, Domestic and Foreign Markets.
JEL Classification: E24, E61, E62, E66.

1. HISTORICAL BACKGROUND

It is somewhat paradoxical that market economies, even under the system of representative political democracy, can live with high unemployment, and place relatively little emphasis on this problem, except perhaps at times of elections. Various plausible explanations can be offered, and perhaps they all contain some elements of truth. After all, the deep change in the climate of economic management, in sharp contrast to the post-WWII years of policies in pursuit of full employment in advanced market economies, is unlikely to be the consequence of any single cause. As historical narratives often remind us, changes in history are seldom mono-causal; instead, they are usually the result of several factors and processes coinciding at a particular juncture of time.

The climate of opinion against the Keynesian style of demand management in pursuit of high employment advanced gradually for at least three interrelated reasons. First, the Keynesian argument was almost self-consciously set in the context of an economy closed to international trade and capital flows. The intention may well have been to emphasize the importance of domestically oriented eco-

* Professor University of Pavia/Italy, and Visiting Professor, Council for Social Development, New Delhi, Índia. E-mail: abhaduri40@hotmail.com. Submitted: October 2004. Accepted: November 2004.

nomic policies for fighting unemployment. After all, the disastrous consequences of "beggar-thy-neighbor" policies of trying to export unemployment through competitive devaluation of the national currencies during the inter-war period was still fresh in memory, while the prestige of the "City of London" in propounding the virtues of "sound finance" was in ruins (Bhaduri and Steindl, 1985). It was rather natural in that context to look inward for a domestic solution to the problem of unemployment.

Secondly, although the contest between the competing systems of capitalism and socialism was most visible in the Cold War arms race, its ideological dimension was essentially economic. The socialist system appeared capable of providing full employment through deliberate state policies, although much of that employment was neither satisfactory to the employees nor socially gainful. (A common joke of the time in these countries was, "they pretend to pay, we pretend to work".) In the capitalist market economies the level of employment depended largely on the decision of private business, posing an opposite problem: although the jobs it provided had to be gainful to the private employer, even if private and social gain differed, the level of economic activity was prone to cyclical fluctuations, at times resulting in severe and persistent unemployment. Given this known difference in the performance of the two systems, even initiatives like Marshall Plan tended to be influenced at least partly by the economic competition between the two systems (Hobsbawm, 1994). It was also around this time that the welfare state found wider political acceptance, with its theoretical rationale in Keynesian demand management policies. The rising real wage with near-full employment, leading to rapidly improving standard of living for the working population under this new style of economic governance in most western democracies could be posed as a counter-challenge to the socialist ideology.

Thirdly, the very success of demand management, high employment, and rising mass consumption, which had ushered in a "golden age" of welfare capitalism through rapidly expanding domestic markets for nearly a quarter century, came to be troubled by its own contradictions (Marglin and Schor, 1990). Years of high employment had reduced the fear of job-loss for the workers, and increased workers' wage claims. Against this background, the experiences of the two major oil price increases of the 1970s made it clear that the burden of such shocks could not be passed on easily to the workers. The model of cooperative capitalism of the welfare state was giving away to the model of conflictive capitalism, in which struggle over the distribution of income tended to manifest itself through inflationary or stagflationary price rises (Rowthorn, 1977). Even more problematically, the fiscal policy of the state itself got entangled in this distributive conflict, as both the workers and their employers tended to pass on the additional tax burden to one another (Bhaduri, 1986; ch. 6). Understandably, targeting inflation rather than unemployment became the new focus of policies. New economic doctrines, at times reviving old ideas that had been pushed aside by the success of Keynesian economic policies, returned in academic circles and policy discussions under the broad heading of Monetarism. Ironically, monetarism revived the Marxian idea

that a "reserve army of labor" is needed to keep a check on the real wage. Kalecki (1943, reprinted in 1971) had already made use of a similar idea towards the end of the second world war to predict that "political trade cycles" would be imposed deliberately, particularly in the name of sound finance (read: no deficit financing), to inflict unemployment from time to time in order to keep control over the workers. These ideas returned in the orthodox monetarist framework as the "natural rate" of unemployment (Friedman, 1968), or as the non-accelerating inflation rate of unemployment, NAIRU (Layard, Nickell and Jackman, 1991). The common theme held that keeping inflation and inflationary expectations under control requires accepting a certain, even fairly high, rate of unemployment. In particular, it requires giving up demand management policies intended to keep the rate of unemployment lower than that 'natural' or NAIRU rate. Since deficit financing by the government had been the most potent instrument used for demand management, unsurprisingly it came under special attack. The doctrine of "public choice" theory proclaimed the virtues of a balanced budget and the evils of a fiscal deficit by a self-seeking government, and held these as general truths, applicable to almost all countries under all circumstances.

These theories and policy perspectives directed against the welfare state and Keynesian policies were embedded in the wider process of globalization that had been going on mostly through gradual expansion in post-war international trade. However, they gathered irresistible momentum with the deregulation of the national capital markets, beginning in the mid-1970s in the OECD countries. The greater economic opening in the trade of goods and services meant an increase in the relative importance of the foreign or external market compared to the domestic or internal market. It encouraged countries to stimulate demand through export surplus, rather than through demand management by government fiscal policies. As a result, each country will try to be more price competitive than its neighbors by cutting unit cost through wage restraint and labor market flexibility, on the one hand, and by rising labor productivity, on the other. Yet there is an obvious "fallacy of composition" in this strategy: all countries cannot achieve export surplus at the same time, as the export surplus of some must be matched by the import surplus of others. Moreover, even for any particular country that *does* manage to achieve an export surplus in this international zero sum game, such policies may turn out to be counter-productive if the contraction in the size of its internal market more than outweighs the expansion of its external market.

The danger of contraction of domestic demand from such policies is serious. Wage restraint depresses consumption by working people, while labor productivity growth brought about by corporations through downsizing of the labor force reinforces this depressive effect. The overall consequence might be a decrease in the size of the domestic market despite an increase in the external market through export surplus. Analytically, this may be identified as the wage-or consumption-led regime, in which wage restraint and downsizing have depressive effects that outweigh their possible stimulating effect on investment and export (Bhaduri and Marglin, 1990). Nevertheless, this danger of a sharp decline in

domestic demand tends to be overlooked for reasons that have become almost the defining characteristic of the current phase of globalization.

It is well known that the deregulation and liberalization of capital markets since the mid-1970s has phenomenally increased the volume of private trade in foreign exchange. With a daily volume of some 1.2 trillion dollars, such trade far exceeds the total foreign exchange reserves of all the central banks put together. Foreign trade and investment combined account for less than four per cent of private trade in foreign exchange. Thus, in formulating their economic policies, national governments feel obliged to abide by the sentiment of the extremely powerful financial markets, particularly because finance can move across borders at a moment's notice. Expansionary fiscal policies for fighting unemployment through either a) deficit spending or b) imposing higher taxes on the rich to expand government programs, are generally not favored by the financial markets. In this context, tax cuts remain almost the only option for stimulating demand, which might, of course, cause larger budget deficits. Similarly, so-called "easy money" policies, in which low interest rates aim to boost economic activity, are often seen as suspect, as signals of the government's intention to embark on expansionary policies which might, in turn, lead to trade deficits or capital outflows.

The typical consequences of abiding by the sentiments of the financial market have been over-sensitivity to inflation, insistence on the independence of the central bank, and a near-paralysis of fiscal and monetary policies. Variations on this policy package are found in some developing countries, but also in developed countries. They tend to deliberately keep the domestic interest rate high for attracting short-term capital inflows, even if it discourages investment at home. Note the general point that all such policies have the same economic consequence of reducing the relative importance of the domestic compared to the external market.

Multinationals tend to erode further the space left for national economic policies. Governments in developed economies tread softly in so far as taxing corporate profits are concerned. Not only are footloose corporations capable of shifting to low-tax locations, but they can also make use of transfer pricing: out-sourcing through various practices of intra-firm trade to show profit at more convenient points. And, although intra-firm trade, estimated conservatively at 40 per cent of all manufacturing trade, appears as international trade, national governments have little control over it. Governments in developed countries try to deal with multinationals by forming supra-national arrangements about uniform taxes, competition policies, etc. However, among the developing countries, typically a "race to the bottom" takes place. As countries hope to improve their trade balance by becoming part of intra-firm trading networks, the link to such networks may indeed be the most tangible benefit of FDI, though the level of technology or skills transfer varies across country and sector, and remains a topic of great controversy.

2. THEORIES AND COUNTER-THEORIES ON UNEMPLOYMENT

This alternative perspective, marked by its neglect of domestic demand and the domestic market, and which aspires to replace the Keynesian consensus, is neo-liberal in essence. Contrary to the Keynesian view that markets fail seriously — as when insufficient domestic demand inflicts serious unemployment — and thus need to be managed through public action, neo-liberalism emphasizes the opposite point of view. It wants to roll back government, on the assumption that the market by and large performs better than the state. The extreme view is to claim that markets never fail. Put differently, it is claimed that market outcomes with available information cannot be improved upon by government intervention, a view associated with the so-called "new classical" school of economic theory. A more moderate view is to suggest that the markets fail only because the price mechanism does not function properly at times, mainly due to incomplete information, e.g., information being asymmetrically distributed. This view, associated with various versions of "neo-Keynesianism," leaves some room for government action through correcting the price mechanism. Nevertheless, in so far as unemployment is concerned, both schools share a common economic philosophy that, in shorthand, may be described as the "neo-classical" view of unemployment. This view more or less rules the current academic and policy orthodoxy, and has three distinguishing characteristics contrary to the original Keynesian paradigm.

First, unlike Keynes and Kalecki, who identified the lack of effective demand in the market for goods and services as the *central* cause of unemployment, these theories look directly at the labor market to explain unemployment. Thus the causation runs directly from the labor market, and not indirectly from the product market, to unemployment. In terms of policy, this means demand management in the product market becomes less important that correcting the bad-functioning of the labor market.

Secondly, even the branch of neo-classical theory sympathetic to the Keynesian view (e.g. the neo-Keynesians), tends to make a distinction between the "short run", when there may be insufficiency of demand in the product market, and the "long run", when somehow the demand problem is resolved. This kind of dichotomy between the short and the long run is most starkly visible in nearly all versions of neo-classical long run growth theory.

Thirdly, and perhaps most basic to this neo-classical way of thinking, is the philosophy of "methodological individualism". It uses some procedure of optimization by the individual agent as the central organizing principle of macroeconomic theory. Approaching macroeconomic problems exclusively in this way has many serious ramifications, and with regard to the unemployment problem, perhaps its most serious consequence is to blur the distinction between "voluntary" and "involuntary" unemployment. All unemployment, even mass unemployment, begins to look voluntary in this framework, because it has to be explained through some optimizing decision by the individual worker. The problem then becomes

attributable to the imperfect functioning of the price mechanism for giving wrong signals to the unemployed worker. In some theories, government interventions, mostly related to the welfare state, are supposed to distort the signals carried by wages in the labor market. In this framework either the jobless worker becomes responsible for his or her own situation; or the blame is put on government intervention. Needless to add, this serves well the neo-liberal case.

A basic attraction of this neo-liberal theory stems from the idea that the market has a very different kind of an advantage over the government. It is not mentioned explicitly, but follows from the present body of theoretical knowledge on the subject: Even under the most idealized circumstances of perfect competition — when the competitive equilibrium has all the desirable properties of Pareto optimality by the so-called "fundamental theorem" of welfare economics — nothing in economic theory specifies *how long it might take to reach that equilibrium*. This ambiguity helps in sustaining the market ideology. In democracies, the government and the politicians in power remain accountable to their people at regular time intervals through elections, but the market mechanism has no such definite time horizon for showing results. It can always be claimed that, given "sufficient" time and "sufficiently" wide ranging pro-market reforms, the desired results would materialize, without having to specify how long is sufficiently long. In this respect, the market mechanism, like a dictator, can always promise without actually delivering!

The enormous power wielded by the electronic media and television images in shaping public opinion was noticed even in the very early stages of globalization by perceptive commentators (e.g. McLuhan, 1960). In particular it helps in spreading a sort of a popular culture of economic policy, which is the lowest common denominator of economic theory, and can be easily comprehended by men and women of "practical affairs". In this respect, easiest to comprehend is the analogy of the individual. Since spending beyond one's means is bad, a government budget deficit is considered bad; since the demand for apples can be raised by lowering their price, the demand for labor can also be raised by lowering the wage rate; since hard work helps one to get ahead, so a corporate manager helps the economy to get ahead by downsizing its labor force. Underlying all of these popular pronouncements in the media is the neo-liberal foundation of "methodological individualism". Unfortunately, even politicians who know better often feel helpless, because political expediency demands that they do not swim against the popular current.

This popular culture of viewing macroeconomic policies exclusively through the lens of methodological individualism goes against the very logic of Keynesian-style demand management, which followed from a demonstration of the misleading nature of the analogy of the individual. The macro-economy is characterized by a circular flow of expenditure and income where, unlike in the case of the individual, expenditure, i.e. demand, may determine income and output in situations of serious unemployment.

3. THE BASICS OF POLICIES FOR HIGH EMPLOYMENT

It is against this intellectual background that we need reconsider policies for attaining and sustaining higher employment in developing countries. At the outset it is worth pointing out that many different types of projects may be devised for generating employment. By and large, these projects would be country-specific, dependent on geography, stage of development, degree of openness, etc. The purpose of macro-economic theory in this context is not to list a set of such projects irrespective of their country-specificity, but to indicate how to devise a program for generating and sustaining high employment in developing countries.

The preceding discussion already pointed that the responsibility of maintaining high employment has gradually passed from the government to the market. This view is reinforced further in developing countries in two ways. First, the "less-government-more-market" economic philosophy propounded generally by the Bretton Woods institutions operates with full force through "conditionalities" imposed on developing countries experiencing balance-of-payments difficulties. Second, it is further reinforced by the governments in developing countries themselves, in so far as they often find it politically expedient to escape accountability by attributing the problem to the market and to the Bretton Woods institutions. The result is a set of "market-friendly" policies for employment generation which may or may not produce the desired results in any given time horizon. In either case, the market cannot be held responsible for delivering within a given time period.

In the context of the unemployment problem, the most important feature of market-friendly policies has been to look upon wage simply as the major element of production cost for private employers, and not as an important factor in determining the size of the total domestic market. The result is to focus exclusively on the labor market, instead of paying sufficient attention to the fact that no cost-cutting measure can succeed in isolation without sufficient demand. The various measures that are undertaken — wage restraint, downsizing of the labor force, change in labor laws that makes it easier to hire and fire employees, revision of pension fund laws in favor of the employer, curbing workers' rights to strike, etc. — are like designing a more and more efficient privately owned boat without enough water or demand in the public river for it to float!

The dependence on the private sector to solve the employment problem is also a slippery path, especially in the context of globalization. The more a developing economy tries to integrate with the world market, the stronger the pressure becomes for reducing unit cost through the labor market for achieving international competitiveness, or for attracting foreign direct investment and other forms of capital flows. This dependence impacts employment policies adversely in two different ways.

First, labor productivity growth that makes more goods and services available for domestic use is not pursued as a desirable objective in and of itself; instead, its desirability is judged in terms of enhancing international competitiveness. Note also that more goods and services would be available in the aggregate from high-

er productivity *only* if higher productivity does not quantitatively outweigh a decrease in employment; whereas unit cost would decrease and enhance competitiveness so long as productivity per worker rises irrespective of the level of employment. Thus, the exclusive focus on competitiveness separates the employment objective from the productivity objective, making, for example, the downsizing of the labor force attractive in terms of unit cost, but not necessarily in terms of either aggregate supply *or* demand. Moreover, if demand fails to expand sufficiently fast to absorb both productivity and labor force growth, the result would be growing unemployment, and various scenarios of jobless growth.

Second, the preoccupation with cost reduction leads to a focus on micro-efficiency at the level of the enterprise, but downplays macro-inefficiencies that result, such as serious unemployment due to insufficient demand. This has led to a blurring of the distinction between good management of an enterprise or household, and sensible management of the economy as a whole. The former usually takes the market size for a product as broadly given (with some product differentiation, related new products, etc.) by the income of the actual and potential customers. The typical objective of any particular enterprise is to increase market share rather than the total market size through competitive micro-efficiency; whereas it is precisely the purpose of macro-management to ensure that the overall market size expands at a sufficient pace to absorb both the growth in the labor force and its productivity. There are, however, two rather special circumstances in which this enterprise management view might succeed: either by stimulating exports, or by raising private investment sufficiently through these micro-incentives of cutting costs.

In the former case, the micro-efficiency paradigm could increase the international market share of the country concerned in a successful scenario of export-led growth. But it must be remembered that this is an international zero sum game, and there must be winners as well as losers in this game. It cannot help all developing countries, especially the most disadvantaged among them that suffer from acute technological backwardness, limited diversification of exports, etc. In the latter case, the micro-efficiency paradigm might stimulate sufficiently the profitability of private investment to expand demand, and therefore the size of the market, through the multiplier in a scenario of investment-led growth (Bhaduri and Marglin, 1990). Note, however, that in both these cases the central point is that micro-efficiency in cost reduction has to result in sufficient expansion of macro-demand. The frequently made policy mistake is to think that this is an automatic outcome.

The pitfalls in this process are indeed many. For instance, exports not only need to expand, but must exceed imports sufficiently to produce the necessary export surplus; otherwise demand would not expand sufficiently. Therefore, this strategy can work only for those countries that can achieve a sufficient export surplus, while other countries with corresponding import surplus depressing their demand would face a serious problem. For this reason, trying to promote exports with very high levels of imported content typically fails in many developing countries.

There is no certainty either that private investment on a macro scale would be sufficiently stimulated through micro efficiency at the enterprise level. Private

investment in fixed capital needs to take a long view of the prospects for profit. Therefore, it tends to respond sluggishly in general to an increase in current profitability. More important, however, is an inherent coordination problem. Unless many firms become simultaneously convinced that their profit prospect has increased over a relatively long time horizon, aggregate demand will not increase sufficiently through private investments. On the other hand, each individual firm will hesitate to move first, so long as other firms remain passive in their investment demands. Thus, relying exclusively on micro-efficiency at the enterprise level to solve the unemployment problem becomes fraught with many difficulties. In general, the more severe the problem of unemployment is, the more difficult becomes the problem of coordination, and of convincing the private investors that the climate for investment has indeed improved.

Given these difficulties, perhaps the most obvious starting point for breaking the inertia of low employment is through the budgetary policy of the government. Current orthodoxy in economic theory, greatly helped by the Bretton Woods institutions in the developing countries, takes the view that budget deficits are undesirable in general, and insists that the fiscal deficit of the government, estimated with or without interest payments on outstanding public debt, must not exceed a certain percentage of the GDP. There are two common objections against running large deficits. The first stems from the burden of servicing this debt; the second from repeated recourse to large deficit as a "soft option" by an irresponsible government with dangers of inflation.

The first objection has greater force if the debt is external, and needs to be serviced in foreign exchange by a developing country. A high level of external debt squeezes import capacity, and carries in addition the danger of precipitating a financial crisis, if for some reason foreign lenders try to withdraw their credit in a panic. However, with internal debt these objections are less serious, and often invalid. When an economy is growing and the government remains credible, there us no obvious limit to the extent a government can borrow further to service its debt. It is rather one-sided to suggest that only the level of borrowing, and no other indicator, like growth or employment level, affects the credibility of the government. Thus, in the face of serious unemployment the central issue should not be whether the government should run a large deficit to finance its employment generating strategies, but whether such a strategy would be effective and sustainable. Three conclusions regarding the government's budgetary policy follow: (a) More caution should be applied in contracting foreign debt, and premature capital account convertibility; (b) a bureaucratic limit on the extent of the permitted budget deficit is no solution; and (c) close examination is needed not of the deficit, but of whether the deficit can be effective in fighting unemployment and sustaining a high level of employment with growth.

The second objection, about government budget deficit as a dangerous soft option, is mostly ideological. It follows from a general mistrust of the government, which is often, but not always, justified. The government, like the market, often fails, and fails miserably. The way to approach this issue is to consider

whether some correction mechanism would be in place in case of serious and continuous failures by either institution. As already pointed out the market mechanism is not self-correcting in the sense of being "close" to equilibrium within any given time horizon; nor does it have any in-built mechanism to correct income distribution or promote development and high employment. Thus, it might be rational to accept a solution that improves upon what the market might attain within some given time frame.

However, it must also be remembered that the experiences of bureaucratic central planning showed how disastrously things could go wrong with no self-correcting mechanism in place. This is especially true without the economic accountability of the government in the absence of political democracy. In the light of experience, a pragmatic compromise between these two most essential institutions, the state and the market, seems unavoidable.

A more balanced approach that adopts a less ideologically colored position would be to let both these essential institutions develop in a historical "double movement" (Polyani, 1944). In this process, each would have to restrain the other from becoming over-dominating. By and large, this seems to have happened in most cases of successful development of the market economies. Employment policies, like any others, need to be devised without upsetting this dynamic balance. Thus, when the market fails visibly to cope, as in the case of serious unemployment, the state has to initiate actions, and not leave matters to market incentives. Conversely, when the state over-reaches and tries to create socially unproductive employment in an unsustainable manner, the market has to reassert it ability to restore the balance. There is clearly no once-and-for-all answer in this complex game of balancing that is valid under all circumstances. It is more correct to view this process as a "challenge and response" situation between these two major and equally essential institutions.

Both for employment creation and for longer run growth, it must be remembered that the notion of a resource constraint for the economy as a whole is different from that of the financial budget constraint facing an individual unit. With serious unemployment, excess capacity and inventories, the economy is not constrained by finance, but by how well it can make use of these underutilized resources. In these situations, it makes little sense to restrain the government from deficit financing by some inflexible rule in the name of "sound finance." It also seems rather beside the point to talk of the "independence" of the central bank to follow a tight money policy. It would be far better instead to start from the real economy and arrive at more flexible monetary and financial policies and rules. The mistake of monetarism has typically been to start the other way round.

In particular, if excess capacity exists in the relevant domestic capital goods industries with unemployment, useful economic and social infra-structural investments can be undertaken through budgetary or financial support from the government. It is not wise to wait for domestic or foreign private investment to solve the problem of growing unemployment or deepening recession, because the more persistent and serious the problem, the more difficult it becomes to turn around

private expectations. As a matter of fact, in many developing countries public investment would act as a catalyst to "crowd in" rather than "crowd out" private investment, first by increasing the size of the domestic market and second, by providing better infra-structural facilities to raise profitability. Needless to add, the impact of these investments on employment would be positive, and stronger if some of its construction components can be made labor-intensive.

Nevertheless, the fundamental Keynesian insight that higher expenditure by the government would activate underutilized recourses to generate more income and saving to finance the higher level of government spending has to be applied with some caution to suit the conditions of particular countries. So long as basic wage-goods are not in cripplingly short supply or, as a second best option, can be imported, identifying the broad direction for starting a public investment program is easier. Widespread poverty, or at least concentrated pockets of poverty, presents an opportunity for policy-makers to devise useful public works through guaranteed employment schemes at some minimum wage for a certain number of days per year. The minimum wage would have a degree of self-selection to attract mostly the poor and needy.

However, despite some self-selection, these schemes tend to be wasteful in different ways. Policy packages that are often chosen by a remote, non-accountable bureaucracy often turn out to be useless, because they fail to be sensitive to local needs. Very often, they also suffer from "giantism", i.e., unnecessarily big and technologically complicated projects which a centralized bureaucracy can handle more easily, but in which the unutilized and relatively unskilled labor cannot contribute effectively. A large percentage of the funds also tends to leak out in administering these public works, with the result that only a small fraction usually reaches the needy poor for whom it is intended in the first place. On the other hand, a large machinery for supervision increases the leakage by raising administrative cost, but without it, there is the danger of non-performance, inefficiencies and corruption.

The only way out of this dilemma is to take recourse to decentralization as far as possible with two added provisions. First, while the decentralized local bodies would have control over the use of the funds, there must be transparency of their budget through a legally recognized right to information which has to cover both the central bureaucracy *and* also the decentralized locally bodies choosing and implementing the projects. The free availability of information naturally must apply both to the available funds and their disbursements. Second, to sustain such programs over time, attempts should be made to move increasingly towards the principle of "(s)he who benefits should (partially) pay". This has to be based on two different pillars. The first is the pro-private sector policy. It would extend the schemes to specified types of capital formation on private property, chosen on the basis of their desirability by the local community, and having some social benefits or positive externalities — e.g. small irrigation, land improvement, linked pathways through private land, etc. These would benefit directly one or more private owners, but also indirectly the larger community. They should also

have the potential for sustaining employment at the local level, even when undertaken on private land or property.

The second pillar of this policy would be to ensure that the private owners who belong to the local community, and voluntarily participate to benefit directly, have to bear a part of the cost — e.g. in terms of paying part of the minimum wage bill, or in paying a lump-sum to the local body as capital gains on completion of the projects. Additionally, which such payments would be to the local entities for their own use, they must be based on transparent rules. This would reduce both the cost to the local bodies and the need for supervision as the beneficiary himself or herself would be interested in the quality of the work done. In other words, it would be a way of subsidizing socially useful capital formation through private cooperation at the local level without losing sight of the employment objective. Within limits, the above argument may also be extended to the use of some social infra-structural facilities like secondary schools and vocational training centers, where the beneficiaries should bear part of the cost, which could be on a progressive scale decided by the local bodies.

It has often been suggested that better training schemes raise the aggregate level of employment. Experiments with various "voucher schemes" to determine the type of training demanded by the voucher-holders have been tried on a limited scale to make these schemes more responsive to individual needs and preferences by creating miniature local markets, in which the vouchers act as "votes" for choosing the particular training schemes. The schemes devised to mimic the market mechanism often turn out to be flawed, in so far as the schemes with maximum votes do not always turn out to be either very useful for the community or for getting jobs (Lepenies, 2004). The reason for the latter is that training facilities by themselves usually cannot generate more employment on the macro-scale, because they are pure supply side policies. There must either be latent demand in the market for those skills, or conscious demand-side policies must complement them. Training either raises the bar on entry to the labor market, or it becomes like shuffling the long queue for jobs, where the better trained are placed in the front without shortening the queue.

The connecting thread in this argument so far has been to point out the importance of domestic demand-led growth with adequate policy space for government action as the essential prerequisite for high employment policies in developing countries. Although larger-sized countries have the advantage of a larger domestic market, this perspective on policy is also useful for the smaller countries. However, large and small are rather relative terms in this context, especially because the size of the market depends both on population and on per capita income. Therefore, regional cooperation, based on the guiding principle that the domestic policy space should not suffer, is to the advantage of all irrespective of size. This would be a feasible proposition only if democratic rights are observed. And, in the international context, the defining characteristic of any civilized democracy is the protection of minority rights, i.e. the right of the smaller or poorer nations, rather than the brute force of majority rule by the larger nations.

The current process of globalization has generated discontent and disenchantment precisely because it has failed in this respect.

CONCLUDING OBSERVATIONS

The basic elements of a policy for generating and sustaining high employment may now be summed up briefly.

a) *A minimum-wage employment guarantee scheme.* This will kick-start the program in face of serious unemployment, especially in rural areas.
b) *Decentralization of activities and administration.* This should take place through local bodies with gradual extension to private properties based on the principle of "(s)he who benefits should (partially) pay".
c) *Transparency regarding the allocation and use of funds.* Ensuring this requires recognizing the right to information at all levels with respect to funds.
d) *Domestic demand-led expansion.* This is the corner stone of this strategy, which means placing due emphasis on the domestic market, rather than being preoccupied with the external market. In this sense, it is not an export-led growth strategy, because most developing countries cannot achieve an export surplus in an international zero-sum game. Nor is it an import substitution policy, because that too is motivated largely by considerations of the external market and foreign exchange. Our emphasis instead is on changing the composition of investment to promote and sustain employment.
e) *Ensuring that the objective of productivity growth is not separated from employment growth.* This separation typically happens if productivity growth is considered only as an instrument for enhancing competition or generating surplus. But it is forgotten that higher productivity along with higher employment makes more goods and services available for the domestic market.
f) *An environment of sufficient growth.* Only a sufficiently expanding market can accommodate both labor productivity and labor force growth. While government policies can influence to some extent the rate of expansion of the market through its monetary and fiscal policies, it is important not to follow policies exclusively in search of productivity growth, since the latter makes sense only if productivity is considered a weapon for international competition. It is more important to recognize that, specially in poor countries with various types of technological backwardness and handicaps regarding international marketing, increased productivity is desirable to augment the availability of total output from the supply side, to be matched by an increased level of demand through higher employment.
g) *Increase the social content of wages.* Decentralized public works leading to more economic and social overhead and infra-structural facilities helps in increasing the social content of wage and earnings from self-employment, especially of the poor people. Local bodies should try to ensure that this

becomes a reality. This would help in reducing the need for an increase in private wages and make such employment generating schemes more self-sustaining.

THE ROLE OF THE INFORMAL SECTOR IN EMPLOYMENT GENERATION: SOME OBSERVATIONS

Many developing countries are facing the serious problem of rapidly expanding cities and mega-cities with deteriorating infrastructure due to the massive influx of jobseekers in the urban sector. This has meant, on the one hand, more and more resources going into the cities in desperate attempt to cope with the problems of urban infrastructure, with an attendant lack of resources being used to improve rural infrastructure. The result has been a steadily growing urban-rural divide, and a phenomenal growth of the so-called informal sector. Thus, it is not only the direct pull of higher expected earning in urban employment that leads to in-migration into cities (Harris and Todaro, 1970), but also the indirect pull that operates because the urban centers are generally far better equipped with economic and social overheads. This can be looked upon as the "social content" of wage or earning, and an objective of decentralized public works would be to reduce the gap in the social wage and earning.

Employment in the informal service sector has grown very rapidly in many developing countries. A high percentage of this employment is not wage employment but self-employment, and for these workers the separation of total earning between wage and profit income is rather meaningless. The entire self-employed category consists of a relatively small percentage of high-level professionals, and, often, a very large percentage of the poor who take refuge in it part- or full-time both in the urban and in the rural sector, because they have no other opportunity for livelihood. In any employment policy, it is essential to consider this segment, typically with massive disguised underemployed. By and large, the productivity of these workers, at least in the short run, depends not so much on the capital equipment or skill they possess, but on the level and composition of demand, and on the infra-structural facilities that they can use (Reddaway, 1962; ILO, 1972). One of the advantages of domestic demand-led policies, which would usually involve also improving local infra-structural facilities, especially in non-urban areas, is to be able to reach out to these people who are often among the very poor.

For generating and sustaining employment in the informal, less-skilled services at a higher level of earning, several interrelated aspects need to be considered. First, and in a way most obvious, is the emphasis on better irrigation and water management, as well as communication. Apart from increasing the productivity and intensity of land use, better water management allows crop diversification to absorb considerably more labor per hectare of land, and better communication is a prerequisite for the commercialization of agriculture, without which crop diversification can not succeed. In countries that are not predomi-

nantly agricultural, or have natural limitations, conscious attempts have to be made to develop a symbiotic relationship between the organized and the unorganized sector through sub-contracting, out-sourcing, etc. For this relationship not to be exploitative, the government might have to use both regulations and incentives (e.g. tax breaks for such sub-contracting to informal units). At the same time, independent artisan producers need design and marketing support, channeled as much as possible through decentralized local bodies receiving performance-related funds for this specific purpose from the government.

The way to visualize the strategic link between the general macro-economic policies for domestic demand led expansion and the informal sector is to develop the notion of "nodal points" of economic activities for employment generation. They would mostly have to work backwards from demand, somewhat like the "accelerator principle" in economic theory. In the past, policies in this respect often failed in many countries, because more emphasis was laid on the supply side, without creating the necessary demand links, either from the local markets in the rural areas or from the organized industries or urban centers. The concept of a "node" might be a helpful starting point, in so far as various types of demand from these different sources would have to converge for the transformation of the informal sector from mostly a 'refuse sector' of the poor and desperate job-seekers into a genuinely dynamic sector of the economy.

REFERENCES

BHADURI, A. and J. STEINDL (1985) "The rise of monetarism as a social doctrine". *In* P. Arestis and T. Skouras (eds.) *Post-Keynesian Economic Theory*. Sussex: Wheatsheaf: 24-56.

BHADURI, A. and S. MARGLIN (1990) "Unemployment and the real wage: the economic basis of contesting political ideologies". *Cambridge Journal of Economics* (14): 375-93.

BHADURI, A. (1986) *Macroeconomics: The Dynamics of Commodity Production.* London: Macmillan.

FRIEDMAN, M. (1968) "The role of monetary policy". *American Economic Review* (58)1-17.

HARRIS, J.R. and M.P. TODARO (1970) "Migration, unemployment and development: a two-sector analysis". *American Economic Review*, (60): 126-142.

HOBSBAWM, E. (1994) *The Age of Extremes: A History of the World, 1914-1991*. New York: Pantheon Books.

ILO — International Labor Organization (1972) *Employment, Income and Equality,* Geneva: ILO.

KALECKI, M. (1971) "Political aspects of full employment" in his *Selected Essays in the Dynamics of the Capitalist Economy.* Cambridge: Cambridge University Press.

LAYARD, R., S. NICKELL and R. JACKMAN (1991) *Unemployment, Macroeconomic Performance and the Labour Market.* Oxford: Oxford University Press.

LEPENIES, P. (2004) "Exit, voice and vouchers: using vouchers to train entrepreneurs — observations from the Paraguayan voucher scheme". *World Development* (32): 713-724.

MARGLIN, S. and J. SCHOR (1990) *The Golden Age of Capitalism.* Oxford: Clarendon Press.

McLUHAN, M. (1960) *Explorations in Communications.* Ontario: University of Toronto Press.

POLYANI, K. (1944) *The Great Transformation.* New York: Holt, Rinehart and Winston.

REDDAWAY, W.B (1962) *The Development of the Indian Economy.* London: Allen and Unwin.

ROWTHORN, R. (1977) "Conflict, Inflation and Money". *Cambridge Journal of Economics*, (1): 215-239.