



# The Social Value of Employment and the Redistributive Imperative for Development

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## ABSTRACT

Evaluating the inherently relative and subjective social value of employment needs to be placed within a broader inquiry about the conditions under which a sufficient and sustained perception of social value might be cultivated within particular employment settings, in a manner that is adaptive and resilient to the often profound structural transformations associated with socio-economic development. This paper contends that these conditions are intricately related to redistributive processes within societies. A vital role of public policy is to strengthen progressive redistributive institutional mechanisms as a means to cultivate resilience and positive synergies between the social values of employment, and human and economic development. This argument is made in four sections, including: some stylized facts of contemporary population growth and labour transitions across the global South; the limitations of standard economics approaches in dealing with issues of labour market intermediation and employment regulation as well as a variety of alternative socially and institutionally embedded views; the valuation of labour, drawing from the example of care work to illustrate the importance of redistributive mechanisms to socialize the costs of relatively skilled service sector employment; and lastly, some examples of the redistributive imperative in contemporary development. The conclusion offers some reflections on structural vulnerabilities in a context of labour transitions and human development.

## Introduction

After years of neglect, the theme of employment has returned to the forefront of the international development agenda, appropriately following on the heels of the global financial crisis and its aftermath. Prominent examples include the 2010 *Trade and Development Report* (UNCTAD 2010), the report *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (UNRISD 2010) and the 2013 *World Development Report* (World Bank 2012), in addition to the ongoing extensive work on employment by the International Labour Organization, which had never lost the ball. Within this revived attention, there has been recognition of the social value of employment, which brings this theme close to the heart of the human development approach. For instance, the World Bank (2012) highlights what it calls the ‘social value’ of jobs, which it presents as the individual value of a job plus its various spillover effects, whether negative, such as environmental costs, or positive, such as social identity, sense of fairness, agglomeration effects,

global integration or gender equality.<sup>1</sup> It logically notes that the individual and social values of jobs can differ.

This way of understanding ‘social value’ essentially amounts to a social utility function in which the aggregation of individual utilities can amount to more or less than their sum. It appears to be adapted from the idea of social opportunity costs in welfare economics, in which private opportunity costs are considered together with the wider externalities of using resources for specific purposes, and hence the opportunity costs are for society rather than for the individual. As one result of this influence, the conception of ‘social value’ becomes convoluted as to whether ‘social’ should be treated as society, aggregating all utilities including the economic, or as in sociology, such as with regard to the fundamentally social nature of basic needs, which are conceivable with both individual and societal dimensions.<sup>2</sup>

In relating the social values of employment to human development, the idea of ‘social value’ arguably needs to be anchored in the latter sociological conception, rather than through the reductionist lenses derived from utilitarian welfare economics, which proponents of the human development approach have consistently sought to overcome. The question of social value might even be reversed to investigate the social processes involved in the valuing of labour. This would complicate concepts such as ‘productivity’ and ‘inclusion’, which are largely taken for granted in mainstream development agendas. Moreover, understanding social value requires a reflection on evolving social needs within broader development processes, beyond absolute conceptions of poverty, whether money-metric or multidimensional. Lastly, a fuller appreciation is needed of how redistributive mechanisms have been intricately involved in creating conditions for sufficient and sustained social values of employment to be cultivated within development processes. Such appreciation has been neglected in mainstream development agendas given the undue influence of

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<sup>1</sup> For instance, see p.17 of World Bank (2012). It represents jobs in protected sectors as having wholly negative spillover effects, and jobs connected to global value chains as having wholly positive spillover effects. This reproduces standard World Bank biases regarding industrial policy and global integration.

<sup>2</sup> World Bank (2012) lacks clarity on whether social values refer to individual versus societal (aggregate) values, or whether these refer to social versus economic values. In the 2013 *World Development Report*, the ‘individual value’ is presumably the wage value of the job, although the report is not clear why many of the social values that it describes might not also be individual values. Similarly, in its conception of social values, the report appears to include both economic aspects such as costs and poverty reduction (the latter presumably as a shared social objective rather than as the direct consequence of receiving a wage, otherwise it would amount to double counting), as well as sociological aspects such as identity. Again, this appears to reflect the influence of the idea of social opportunity costs in which ‘social’ simply refers to aggregation. Most of the disciplines that the report proposes for measuring the difference between individual and social values derive from the field of economics (e.g., see p. 160).

orthodox welfare economics, which induces an impulse to view redistribution as market interference rather than as an intrinsic component of modern development.

This paper explores these principles through a focus on structural and institutional factors that condition the social value of employment and their relation to human development. Social values in this sense are best understood as referring to the non-pecuniary benefits derived from employment, keeping in mind that economies are embedded within social relations. These benefits can be conceived in individual terms, such as a sense of security, life fulfilment, self-worth and dignity, or in societal terms, such as the fostering of social cohesion by providing a platform for individuals to engage with their community in a manner that engenders a sense of identity and belonging to a collective endeavour and shared social objectives. In other words, work is valued for multifaceted reasons and serves multifaceted functions, some of which are clearly economic (understood in a restrictive sense of value added and remuneration) and many of which are not. It is in this range of values and functions, both economic and social, that we must seek to understand the place of employment within human development. This understanding is non-controversial, although it is notably distinct from the more problematic lexicon of ‘social capital’, or from recent renditions of the idea of ‘social development’ articulated by the World Bank, which basically instrumentalizes a ‘Putnamian’ version of social capital theory.

As an equally non-controversial corollary, the creation or destruction of employment carries social and human development consequences that go beyond the micro- or macroeconomic calculus of wages, incomes, economic externalities and/or aggregate demand in an economy. Current inclusive growth agendas at both the World Bank and the United Nations Development Programme (UNDP) emphasize principles of labour market inclusion and labour productivity, both of which beg the questions: what kinds of inclusion, and what ways of increasing labour productivity? Some types of employment might contribute more to social values and human development than their economic value would suggest, as in the case of a rural community health worker. Other types of employment might be detrimental to social values or human development even while contributing to economic growth, such as exploitative child labour.

Similarly, the general consensus is that unemployment should be avoided as a matter of urgency so that it does not destabilize social cohesion or imperil human development, among other considerations. Debate then typically revolves around whether deregulated labour markets or government job creation programmes are better suited to meet the challenge. A common compromise position—labour market activation policies—has been controversial, given that the more punitive versions of these policies have had detrimental effects on people’s dignity or social status by forcing them to accept substandard employment mismatched with their skill sets, or else by being used as a device to discipline welfare recipients. Moreover, while unemployment would generally be

considered detrimental to social cohesion, some job loss could nonetheless provide incentives and opportunities for dynamism within both economic and human development, at least under circumstances where sufficient social security provides workers with an ability to maintain a degree of autonomy from the labour market—what Esping-Anderson (1990) refers to as decommodification. For instance, spells of unemployment might encourage the unemployed to return to school (if schooling options for mature students are affordable and accessible) and to reskill themselves, possibly resulting in increased social mobility, esteem and income. Under such circumstances, autonomy and the ability to be unemployed could be a source of dignity and advantage. In most developing countries that lack any significant degree of generalized social security, unemployment is generally a status that only relatively well-off people can afford.

By the few examples already given, it is obvious that social values of employment cannot be understood in abstraction from broader structural and institutional settings. Moreover, evaluating social values is very difficult to do in practice, in part because they cannot be monetized and hence compared to money-metric values. The whole conceptual artifice of ‘utilities’ involves the same problem insofar as it relies on the fairly tautological ploy of ‘revealed preferences’. As a result, we need to be careful in making evaluative and aggregative statements regarding the comparison of social values to economic values. This goes without saying in the case of unpaid care work, in which extremely important social and economic values and functions are not reflected at all by monetary compensation. It also applies to paid work, whether the payment is determined by the marginal productivity of labour or by other factors. While paid work definitely bears a range of social values for individuals and societies, these values cannot necessarily be measured and compared with wage and other monetary economic values.

A more fundamental reason for the difficulty in comparing social and economic values is that the causal relationship between the two remains poorly understood, and, if postulated, is hugely debated on empirical, theoretical and ideological grounds. The utilitarian welfare economics approach to this question would be that the social value of employment, understood at the individual level, is imputed by its monetary market value: If people derive utility from the social dimensions of employment, this will be reflected in the wage bargain that they negotiate on the labour market as ‘revealed preferences’, although this transmission can be partially disrupted by market distortions or externalities. The problem with this explanation is that it results in a circular logic. It is particularly problematic in real world contexts where people are compelled to work and not necessarily free to withdraw from a hypothesized labour market bargain, whether their compulsion is driven by absolute poverty or else by more nuanced processes of social conditioning and relative social needs.

A political economy approach might question whether or not the processes that drive the continuously increasing productivity associated with modern economic growth necessarily reinforce

the social value of employment. The classical Marxist answer to this question is that capitalist processes are fundamentally alienating for labour, although the resultant dialectic of class conflict is precisely what makes capitalism so dynamic, rather than any presumed harmony between social and economic values. As pointed out by Arrighi (2007, pp. 50–52), even Adam Smith viewed the division of labour within production units as both improving the productive powers of labour while also having a deleterious effect on the moral and intellectual qualities of the labour force due to the specialization of work into monotonous and uniform tasks. This tension can be understood as undermining the social value of employment within increasingly complex and atomized factory systems of production and distribution, such as with the ‘Walmartization’ of retail stores across the global North and South today.

Even more fundamental is the fact that social values are inherently relative as well as subjective, derived from the sense of security and dignity that people perceive from particular social and economic settings. Unlike objective human development metrics, social values plausibly share similar characteristics as the ‘hedonic’ and ‘aspiration’ treadmills of happiness identified in happiness studies (e.g., Easterlin 1974), or more than two millennia earlier in Buddhism as the ‘suffering of change’. Perceptions of security, dignity or social cohesion invariably adapt to changing contexts. The perception of certain types of work as enhancing security or dignity in a rural agrarian context, for instance, might not persist through the course of urbanization, to the extent that, as noted by White (2011, p. 1), “Mounting evidence from all over the world suggests strongly that young people are increasingly uninterested in farming or in rural futures.” An understanding of social values as social and as fundamentally relative and subjective requires a more complex understanding than that offered by the economistic utilitarian framework of welfare economics of the ways that values and structural transformations interact, in particular in a global setting, and in relation to how labour is organized and valued within and across societies.

This paper contends that these interactions are intricately related to redistributive processes within societies. A vital role of public policy within development is to strengthen progressive redistributive institutional mechanisms as means to cultivate resilience and positive synergies between social values of employment, and human and economic development. Such cultivation occurs principally by way of socializing the wealth produced by increasing productivity in order to support forms of employment that would be deemed socially valuable and that would reinforce other human development gains, such as in education. The contemporary development context of increasing productivity within fragmented albeit increasingly concentrated networks of global production and distribution, together with the tertiarization of labour forces across the global South, has resulted in a situation whereby links between productivity and labour returns have become increasingly tenuous. This indicates an even stronger imperative for redistribution now than in the past. Nonetheless, the crucial roles that redistributive mechanisms have played in providing some

degree of resilience within the often radical development transitions of various ‘rising powers’ has tended to be downplayed if not ignored, including in the 2013 *Human Development Report* (UNDP 2013). Redistribution arguably needs to feature more prominently in the 2014 report as a crucial emphasis within contemporary development agendas. Otherwise, ignoring redistribution while simply striving for productivity increases might well exacerbate certain structural aspects of vulnerability that evolve alongside human and economic development, thereby undermining the social valuation of the objective (or absolute) gains made in human and economic development.

Redistributive institutional mechanisms in this sense are understood in a broad political economy framework as those mechanisms or interventions that correct initial structural inequalities (i.e., those deriving from differences in value added productivity across and/or within sectors), related wage inequalities and initial functional income distributions (i.e., primarily between wages and profits). Social policy obviously plays a central role within these redistributive mechanisms, although here we are referring to a wider remit of public policy, including progressivity in fiscal policy, public employment and wage policies, subsidized finance, land reform, and so forth. These redistributive mechanisms need not pass through the state; they could also operate through families, communities and other non-state channels such as religious institutions or civil society organizations. The modern state has arguably proven to be the most effective and progressive at instituting such functions at a regional or national scale, however, thereby maximizing the potential for macro-level ‘social competencies’, as per the usage of this term in UNDP (2013). As noted by Harriss-White (2002) in her work on the centrality of social institutions in assembling and regulating factors of production, the social regulation of labour through non-state informal channels, such as through social structures of identity in the case of India, is usually of a more exclusionary and discriminatory nature than state forms of regulation. While state regulation might be imperfect, the alternative is never non-regulation, but regulation through other, often more regressive social structures that are much more limited in their potential to create an institutional basis for socializing and sharing wealth across different sectors of society.

In the following pages, the arguments introduced here are made in four sections. The first section deals with the changing nature of social need in the contemporary global context by laying out some stylized facts of population growth and labour transitions towards tertiary sector employment across the global South. It considers related debates regarding the massive employment generation requirements faced by many of these countries in the coming decades. The second section briefly reviews the limitations of standard economics approaches in dealing with issues of labour market intermediation and employment regulation as well as a variety of alternative socially and institutionally embedded views. Building on this, the third section discusses the valuation of labour and how standard notions of productivity become complicated and obscured in more complex economies that move away from agriculture and physical production altogether, and where

production becomes increasingly globalized. The example of care work is used to illustrate the importance of redistributive mechanisms in socializing the costs of relatively skilled service sector employment. The last section returns to the redistributive imperative in contemporary development, with some examples taken from China. A concluding section offers some reflections with respect to structural vulnerabilities.

## Labour transitions and employment generation

In discussing the social value of employment, and its relation to human development and structural vulnerabilities, it is first important to sketch the changing nature of the social need for employment in the contemporary global context by laying out some stylized facts of population growth and labour transitions occurring worldwide, and their association and possible causal relations with economic and human development. The first obvious consideration is population growth that is relatively rapid, from a historical perspective. According to the median variant estimate of the 2012 revision of *World Population Prospects* (United Nations 2013),<sup>3</sup> global population reached 7 billion in early 2012, with about 80 million people added annually. Given that fertility and birth rates have been declining worldwide, the yearly addition is also declining, although according to the latest median revisions, total world population is projected to be still growing by 10 million people a year by 2100, when it will have reached almost 10.9 billion people. More proximately, an estimated 2.5 billion people will be added to the world's population by 2050. Even according to the low fertility variant, whereby total fertility rates around the world fall much faster than expected, which is possible,<sup>4</sup> world population is estimated to peak at 8.34 billion by 2050, or an addition of about 1.3 billion people to present numbers.<sup>5</sup> The bulk of this global population increase is more or less guaranteed by population momentum even if higher fertility regions of the world quickly move to replacement levels of fertility—i.e., two children per women on average. Notably, most of this increase will take

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<sup>3</sup> These data are contested. Some have argued that, in comparison to earlier revisions in the mid-2000s, the median variant was set unrealistically high in order to emphasize the urgency of challenges presented by sustainable development and climate change (e.g., see Pearce 2011). Nonetheless, the data—particularly the lower variants—indicate the broad picture of population change over the next 35 years.

<sup>4</sup> The total fertility rate is the average number of live births that women would have in their childbearing years (generally from 15-45 years) at a particular point in time, assuming that the fertility rates at that point would continue throughout their reproductive period, and that they are not subject to mortality. The rate is expressed as children per woman. Faster fertility decline would lead to an earlier and smaller peak population, whereas slower fertility decline would lead to a later and larger peak.

<sup>5</sup> According to the low fertility estimate, world population will peak at 8.34 billion people by 2050 and will fall to 6.7 billion by 2100. According to the high fertility estimate, world population will still be growing by 127 million a year by 2100, reaching 16.4 billion people.

place in the global South, with the bulk occurring in the poorest countries, particularly in sub-Saharan Africa, and South and Central Asia. Today's baby boomers in countries such as India, Mali, Uganda and Yemen will keep population growing for the next generation or two even if radical measures rapidly reduce fertility rates, such as China took in the early 1970s and other East Asian countries even earlier.

The development challenges are monumental, even without an alarmist Malthusian or neo-Malthusian narrative on the impoverishing consequences of such rapid population growth.<sup>6</sup> There will be a pressing need for employment creation in poor countries with few resources to finance capital deepening for even existing employed people. An estimated 16 countries currently have rates of natural population growth exceeding 3 percent a year, based on 2005-2010 data. Uganda, which had an estimated population of 5.2 million people in 1950 and almost 34 million people by 2010, is projected, according to the median variant, to reach 104 million by 2050, a population larger than every European country by that time except the Russian Federation. The median variant assumes that total fertility in Uganda will drop from 6.4 children per woman in 2005-2010 to 3.2 in 2045-2050, at which point the Ugandan population would still be increasing at 2.2 percent a year, whereas that of the Russian Federation would be shrinking by 0.6 percent a year. Similarly, Niger, with the highest natural increase rate in the world in 2005-2010, grew from 2.6 million people in 1950 to 15.9 million in 2010 and is projected to reach 69.4 million by 2050, assuming that total fertility drops from 7.6 to 5 children per woman. Afghanistan increased from about 7.5 million people in 1950 to 28.4 million in 2010, and is projected to reach almost 57 million by 2050. While growing slightly less fast, at between 2.5 to 3 percent a year in 2005-2010, the population of Nigeria is projected to increase from 160 million in 2010 to 440 million by 2050, Iraq from 31 million to 71 million, Yemen from 23 million to 43 million, the State of Palestine from 4 million to almost 9 million, and Guatemala from 14 million to 31 million.<sup>7</sup> Even if women in these countries were to suddenly substantially reduce their fertility now, which is already somewhat assumed in the median variant

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<sup>6</sup> See Fischer (2011a) for a discussion of contemporary demographic insights on these matters, how the problems of resource scarcity in the context of contemporary population growth are primarily about distribution rather than supply, and a political economy understanding of vulnerability in the context of population growth that distinguishes between processes of human development on one hand, and those of capitalist economic development, hierarchy and power on the other.

<sup>7</sup> Demeny (2003) made a contrast between the Russian Federation and Yemen, showing that the two populations would be almost equal by 2050 at around 100 million people each, although his comparison was based on data from the 2001 revision of population projections by the United Nations. This would have relied on estimates from the mid- to late 1990s, when the Russian Federation was at the trough of its fertility collapse; fertility has since recovered from 1.25 in 1995-2000 to 1.44 in 2005-2010. Yemen was close to its peak total fertility rate, which reached 9.23 in 1980-1985 and remained at 8.93 in 1985-1990, then fell to 8.24 in 1990-1995, 6.87 in 1995-2000, 5.91 in 2000-2005 and 4.91 in 2005-2010. Such retrospectives testify to the degree of assumption involved in population projections.

projections, much of these population increases is more or less already guaranteed by population momentum. The likely doubling or even tripling of these populations from 2010 to 2050 is compelling, particularly considering the land and resource scarcities that many of these countries are already facing. Niger, for instance, recently suffered from famine and food shortages.<sup>8</sup> The rate of increase in the working-age population—and hence demands for employment generation—will be even faster given declining fertility.

The potential for agriculture to productively absorb such increases in the workforce of these countries is negligible given the already overstretched land resources in most of them. If anything, agriculture needs to shed labour if agricultural (labour) productivity is to increase, as many argue needs to happen. Food deficit countries, such as Niger and Yemen, will need to export more in order to pay for more food imports from abroad. Insofar as the intensification of land-based primary commodity exports, such as coffee, cocoa or cut flowers, takes land away from local food production, however, it merely offsets the food deficit problem rather than resolving it. In other words, the foreign exchange earned through producing food for European supermarkets, minus the profits that European corporations organizing such production remit back to Europe, is largely used to pay for the increased food imports that these poor countries require as a result of shifting their land and labour towards export production and away from domestic food production.

The bulk of the increase in employment will most certainly need to occur in the secondary sector, comprising manufacturing, mining and construction, or in the tertiary sector, encompassing services, broadly speaking. And even then, in the best of scenarios, Yemen and other countries would need an outlet of international emigration. After all, during Europe's phase of rapid population growth, as much as 20 percent of its population increase emigrated to North America and other temperate ex-colonies, which had been murderously cleansed for the purpose. Emigration from developing countries today accounts for a far lesser share of their population increase than in these earlier European cases, yet these countries face a far greater need for emigration due to more rapid growth pressures. These have arisen from sharper and faster reductions in mortality since the 1950s, attributable to fundamentally good human development, and have occurred even as there are far fewer resources to face the employment challenges of population increases.

Without a substantial outlet for migration, as experienced by Europeans, developing countries face a particular employment predicament in the contemporary context. Given the capital intensity and low degree of employment creation relative to output that is offered by contemporary manufacturing, the bulk of the employment generation mentioned above will probably need to occur

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<sup>8</sup> See a discussion of this by John Cleland at a talk in The Hague in 2009, summarized in Fischer (2010b, p. 23). Also see Burki (2013).

in services, largely in urban areas. The burden placed on the tertiary sector to absorb rapidly increasing workforces is relatively greater in countries attempting to industrialize now than in the past, and this burden is compounded by faster rates of population growth.

Notably, labour transitions out of agriculture have also been occurring largely irrespective of economic conditions in urban areas. This demographic insight serves as a useful antidote to many of the uncritical assumptions that are often made about the reasons for urbanization. The proposition, classically formulated by Kingsley Davis (1963) as multi-phasic responses to population growth, is that migration and associated movements of labour out of agriculture are primarily driven by increasing family sizes as more children survive to adulthood, and more adults live longer. Economic ‘push’ and ‘pull’ incentives might well serve as more proximate facilitating factors, influencing the timing or destinations of migration, but not as remote causal factors of migration. Social structural factors, such as inheritance practices or gender norms, can play equally if not more important facilitating roles. Increasing household population size—as with aggregate population size—is not contradictory with falling fertility, but is the result of population momentum. In other words, replacement level fertility only replaces a population once parents and grandparents start to die. It might take several generations of below replacement fertility rates before a population starts to stabilize and decline, particularly in a context of increasing life expectancy. This is demonstrated by the Republic of Korea, which had one of the lowest total fertility rates in the world in 2005-2010, at 1.23 children per woman, and yet was still growing at a positive rate of almost 0.5 percent a year (United Nations 2013). Davis’ contention was that families respond to such population pressure in a variety of ways and, contrary to Malthusian worries, the poor and those with more constrained resources tend to respond more quickly than those with fewer constraints. Migration is one of the most immediate responses. These social processes obviously also need to be considered alongside questions of inequality, agrarian labour regimes, and the availability of off-farm employment in both rural and urban areas.<sup>9</sup>

Strain on poorer rural households is not resolved by commercializing agriculture, including, for instance, land leasing by transnational corporations in Africa. Nor is it resolved by increasing the capital intensity of agriculture, for example, by using tractors instead of people. These types of intensification generally increase labour productivity, but at the cost of employing fewer people. They do not necessarily make the land more productive, albeit this is still debated in agrarian studies

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<sup>9</sup> In the famous Machakos case in Kenya, successful societal adaptation to environmental stress was achieved in part through increased inequality due to intensification of labour in land use and greater social differentiation, as well as an ample supply of off-farm employment opportunities due to the proximity of Machakos to Nairobi. See the seminal studies on this by Tiffen and Mortimer (1992); Tiffen, Mortimore and Gichuki (1994); and Tiffen (1995). Also see Boyd and Slaymaker (2000).

regarding the ‘inverse relationship’ between land size and (land) productivity.<sup>10</sup> Agricultural intensification tends to lead to land concentration and/or intensify the displacement of labour from agriculture, thereby exacerbating strains on existing land use, particularly for smallholders. At the same time, it may reduce the availability of employment on larger farms, which is usually the lifeline of landless and poor farmers who cannot meet their subsistence needs on their own land. Even the application of technology to increase food supply, where this does not lead to the exploitation or dispossession of small farmers, at best can only marginally compensate for the increases in household or family size.

Many contemporary demographers have argued that demographic transitions essentially drive processes of urbanization, regardless of economic ‘pull’ incentives deriving from urban areas, in contrast to the more conventional belief that urbanization is primarily driven by economic growth and industrialization.<sup>11</sup> This insight helps to understand cases where employment transitions and urbanization have been occurring in recent decades in contexts of little or no economic growth, such as in Latin America in the 1980s or much of sub-Saharan Africa throughout the 1980s and 1990s.<sup>12</sup> Urbanization has generally occurred irrespective of employment conditions in urban areas. Where conditions are dire, rural-to-urban migration often leads to the transformation of rural poverty into urban poverty, particularly in poorly remunerated urban informal employment. Such outcomes can ironically appear as improving incomes due to the higher living costs of urban areas, although this cost differential might nonetheless provide possibilities for raising rural incomes through remittances. These outcomes can also appear to contribute to poverty reduction if poverty lines are poorly calibrated to the higher costs of living in urban areas, which is common.<sup>13</sup> In this sense, urbanization involves processes of reconstituting social needs, including far greater monetization and commodification of livelihoods than in rural areas, such that notions of subsistence and poverty are never entirely translatable or comparable in the transition from rural to urban settings.

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<sup>10</sup> For recent examples, see Griffen et al. (2002, 2004) and Eastwood et al. (2010). For criticisms of the former from the left, see the special issue of the *Journal of Agrarian Change* 4(1-2), introduced by Byres (2004).

<sup>11</sup> See Dyson (2011) for an excellent discussion of this demographic understanding of urbanization.

<sup>12</sup> For an interesting extension of Dyson’s argument in the case of sub-Saharan Africa, see Fox (2012).

<sup>13</sup> Satterthwaite (2004) makes a powerful and compelling argument that the scale of urban poverty is systematically underestimated in the official statistics produced and used by governments and international agencies, in large part because of the underestimation of non-food essential needs in urban areas. Also see Hussain (2003) for an example of the substantial underestimation of urban poverty rates in coastal China due to the use of national poverty lines that do not account for variations in costs of living across different cities and regions. Based on provincial poverty lines, urban poverty rates in south-west China were in fact lower than the national average in 1998, very close to those of the south-east, and considerably lower than those of the north and north-east. The results were strikingly contrary to the conventional perspective based on a single national line, which invariably shows much lower poverty rates in more costly urban areas (ibid., p. 18).

According to this demographic understanding, faster demographic transitions intensify urbanization. Even in a context where poor rural families rapidly reduce their fertility, as has generally been the case in most developing countries, compared to the slower speed in European experiences, faster rates of population increase due to faster initial mortality declines nonetheless place relatively greater strain on families going through these transitions than was historically the case during Europe's phase of rapid population growth. This understanding is important in order to make a subtle distinction between processes of human development on one hand and of capitalist economic development on the other.

A demographic understanding of urbanization and related employment transitions serves as a particularly useful antidote to the view that, because urbanization is driven by economic incentives, its occurrence must therefore infer that employment opportunities exist, and that the role of governments is to merely facilitate their maximization through policies promoting labour market flexibility, secure property rights, and so forth. This view might be described as belonging more generally to 'supply-side' economics approaches to employment generation, referring to the orthodox view that supply creates its own demand (also known as Say's Law or what Keynes referred to as the tail wagging the dog). An alternative perspective is that employment transitions and urbanization are primarily driven by social need rather than economic incentives, and that optimal quantities and qualities of employment are not guaranteed by the free and flexible operation of labour markets. They require governments to actively engage with development and related public policies to mediate the changing supply of labour generated by rapid social structural transformations. If not, governments risk exacerbating employment disjunctures in both rural and urban areas, which labour market flexibility might in fact offer little potential to address. As usual, the experience of East Asia serves as one of the central bones of contention in the representational disputes on these issues.

The supply-side view implicitly informs much of the fairly optimistic literature on the 'demographic dividend'. The demographic dividend refers to the one-off opportunity that occurs during demographic transitions once fertility starts to fall, a population starts to age, and then the overall dependency ratio falls to an all-time, one-time historical low for several decades, before increasing elderly dependencies start to compensate for reductions in youthful dependencies. This phase is called a 'dividend' or 'bonus' because the largest share of population ever is in the working age groups and is in principle available to work, consume, save and/or invest. This proportionately reduces the amount of effort that families, communities and governments need to spend and invest in caring for dependents, young and old, rather than in productive activities. It is a non-controversial, established, stylized fact of changing age structures from a predominantly young population in the pre-transitional and early phases of demographic transition to a predominantly older population in the later stages.

The argument in much of the literature is that a large part of the so-called ‘economic miracles’ of East Asia can be attributed to this dividend, in other words, to the realization of the benefits of rapid fertility decline that took place in countries such as the Republic of Korea, Taiwan Province of China and even China.<sup>14</sup> The controversial element in many of these arguments is not the recognition of the ‘dividend’, but the implicit supply-side understanding of causality, as if the supply of labour via the demographic transition drove productive employment generation—and hence the miracle. In reality, the dividend is a potential, in the sense that realizing its benefits ultimately depends on the ability of economies to actually employ the extra workforce. If additional workers are not employed, the dividend is meaningless. The logic of the dividend argument appears to assume full employment, or else it would equally apply to cases of high unemployment or underemployment, because the same benefits could be accrued by simply employing an unemployed person or by more productively employing an underemployed person. Unemployment is rarely referred to as a ‘dividend’ or a ‘bonus’, however. Explaining part of the economic miracle with demography risks the danger of potentially misattributing important interactions between two types of structural change (demographic and economic) as a causality running from the former to the latter. This causality is questionable because the so-called benefits of fertility reduction can only be capitalized on in the presence of an economic miracle and the policies bringing it about. Recognizing the potential of the demographic dividend does not resolve the employment question, but only serves to highlight the increased imperative of employment generation in the context of demographic transitions. In no way does it diminish the achievements in generating employment in the successful East Asian cases of late industrialization.

The fact that the dividend is a potential is well recognized in the literature, although the precise implications are not, particularly with regard to the plausible characterization of the East Asian miracles as following economic models of employment maximization versus efficiency maximization.<sup>15</sup> To be fair, the seminal authors of the demographic dividend literature argue that so-called ‘good policies’ are required to capitalize on the dividend. The characterization of such good policies aligns more or less along the lines of the Washington and post-Washington consensuses, however, including labour market flexibility in particular, rather than emphasizing the importance traditionally accorded to formal employment in East Asian development strategies, at least until the 1997-1998 East Asian crisis, to the extent of causing labour market rigidities.<sup>16</sup> The possibility that

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<sup>14</sup> For the seminal work on this, see Higgins and Williamson (1997); Bloom and Williamson (1998); and Bloom, Canning and Sevilla (2003).

<sup>15</sup> Krugman (1994) refers to this point, ironically as a criticism of the ‘East Asian miracle’ and with the intention to diminish perception of their achievements.

<sup>16</sup> Amsden (2010) forcefully makes this point with respect to the disregard of formal employment in current development agendas.

certain degrees of labour market inflexibility might well have enhanced development and employment, even if they reduced efficiency from a firm perspective, is usually ignored. The recognition of a structural demographic ‘dividend’ in terms of reduced dependency burdens does not resolve these politicized policy questions and debates about what is required to generate growth and to employ a rapidly growing population, nor does it suggest any deterministic outcome in this regard.

There is some excellent work on macroeconomic policies for promoting full employment in a development context, particularly under the auspices of the International Labour Organization (ILO).<sup>17</sup> In line with the analysis here, however, a degree of caution is required when applying the idea of full employment to developing countries, particularly those in sub-Saharan Africa and South Asia that are still very agrarian. Full employment as an achievable policy goal evolved with reference to the fully industrialized context of Europe and North America in the 20th century; its application to a development context in which a substantial portion of the labour force is embedded within rural livelihoods can be problematic, particularly considering that such people are generally employed in a wide variety of ways, such as on family farms or in informal employment, and not necessarily in a manner associated with conventional forms of formal urban employment. This is a basic insight coming out of the rural livelihoods literature. Moreover, the truly poor, in contexts with little or no social security, are not usually unemployed, but must accept whatever work is available at whatever wage. In this sense, the more essential concern with development is not necessarily full employment as such, but labour force transitions to higher productivity, higher value added, and/or higher quality and better remunerated forms of employment. These occur most fundamentally through transitions out of agriculture and into other sectors of the economy, whether in rural or urban areas. From this broader perspective, concerns of employment maximization and security need to involve a wider spectrum of policy approaches, including land reform, for instance, as a way of increasing security in the sources of labour transition, as well as a broad range of approaches to address insecurity of labour transitioning out of agriculture. This is in addition to the more conventional policies of social security and labour market intervention at the receiving end of transitions, in more formalized and urbanized categories of employment.

Keeping this qualification in mind, some lessons of employment security and maximization within such transitions can be drawn from successful cases in East Asia. First, the pace of transition is worth highlighting. For instance, the share of labour employed in the primary sector (mostly agriculture) in the Republic of Korea fell from around 30 percent in 1980 to around 9 percent in 2006; in Malaysia, the primary sector labour share fell from 55 percent in the 1960s to 16 percent in 2000. Transitions have been slower in Brazil, where the primary sector labour share fell from about

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<sup>17</sup> For instance, see Roy and Weeks (2005), Cornia (2006), Frenkel (2006), Akyüz (2006), Ocampo and Jomo (2008), Felipe (2010), Damill et al. (2011), or Weerakoon and Arunatilake (2011).

29 to 20 percent between 1980 and 2006, and much slower in India, where the primary sector share barely fell between 1960 and 2005, from just above to just below 70 percent (UNRISD 2010, chapter one). In China, the proportion of total employment in the primary sector fell from almost 84 percent in 1952, to 81 percent in 1970, 69 percent in 1980, 60 percent in 1990, 50 percent in 2000, and then to under 37 percent by 2010, i.e., more than 10 percentage points a decade since 1970 (China National Bureau of Statistics 2011, table 4-3). In this respect, the lack of transition out of agriculture in India is probably a more pressing issue for employment policy than the objective of creating full employment, especially if the ‘fullness’ of employment is achieved by people remaining in agriculture.

Within a context of significant transition out of agriculture in combination with substantial population growth, ‘success’ might be deemed as avoiding a situation in which the bulk of transitioning labour ends up in insecure informal employment, as has occurred in much of Latin America, where labour forces are both highly urbanized and informalized.<sup>18</sup> The policy measures to achieve such success in East Asia have been varied, but they have generally not fallen into the mould of labour market flexibilization and other such orthodox approaches to employment policy. They are better characterized as prioritizing the maximization of employment at the receiving end of labour transitions coupled with various measures to enhance livelihood or employment security throughout these transitions so as to avoid excessive social dislocation and unrest, among other concerns. They include, as mentioned above, land reform in the cases of the Republic of Korea and Taiwan Province of China.<sup>19</sup>

As discussed in the fourth section of this paper, the current tenancy system in rural China serves much the same purpose of providing an egalitarian, even if somewhat poor (albeit still very popular), floor of security for rural dwellers from which they can then strategize their migration. State-led industrial policy has also obviously been important in these cases as a means to create the conditions for labour to be able to transition to more productive, higher value added and relatively formalized employment outside agriculture. Monetary policies aimed at sustaining aggregate demand for employment maximization have included tolerance for moderate degrees of inflation.<sup>20</sup> State ownership of the banking sector in China and the Republic of Korea has allowed for the financing of not only industrial policy, but also of employment-generating activities such as infrastructure construction, both of which are not necessarily profitable in the short term. Fiscal policies have

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<sup>18</sup> In this respect, recent characterizations of Brazil as having full employment, on the basis of labour force surveys, needs to be questioned. Much recent employment generation has been in relatively insecure and informal service sector employment.

<sup>19</sup> See Kay (2002) for an excellent discussion of this.

<sup>20</sup> For instance, see an interesting discussion of this in Stiglitz et al. (2006).

similarly been directed towards employment creation; the National Rural Employment Guarantee Scheme in India is one often cited example of this. Another could be taken from the massive regional development strategies in China since the mid-1990s, in which economic renewal, increases in urban formal employment, and rising wages have been financed by rising provincial government fiscal deficits, as discussed in the fourth section.

Other more targeted and refined labour market interventions have also been used to create employment security. For instance, Singapore has provided wage subsidies to employers from the 1980s to the present via temporary reductions to mandated employer social security contributions as a means to minimize job loss in periods of economic downturn (Hoon 2011). Trade and exchange rate policies have been more contextual and debatable. Despite the conventional wisdom now, based on the experience of China since the late 1990s, that trade surpluses and hence undervalued currencies are the best way to boost aggregate demand and maximize employment, even if not necessarily appreciated by trade competitors or sustainable on a generalized global level, earlier experiences in the Republic of Korea were actually characterized by trade deficits up to the 1980s, as was the experience of China up to the early 1990s (e.g., see Fischer 2009b, 2010d). In general, various heterodox approaches to employment policy and economic policy more generally lead us to question the conventional wisdom regarding employment, particularly with respect to the contexts of labour transition in developing countries.

## Labour market intermediation: towards a socially and institutionally embedded view

With regard to politicized policy questions regarding employment generation in a context of rapid development transitions—both human and economic—it is important to understand how mainstream emphasis in these policy matters is deeply embedded within an orthodox neoclassical economics reasoning. This requires reviewing the limitations of this reasoning and its derivatives in dealing with issues of employment, and reflecting on a variety of alternative socially and institutionally embedded views in order to come closer to an understanding of how the social value of employment might be related to economic and human development.

A neoclassical reasoning need not necessarily lead to what might be called a ‘neoliberal’ policy stance. Many economists have used neoclassical deductive reasoning to justify state intervention, industrial policy, trade protection or universal public provisioning, such as Amartya Sen and Joseph Stiglitz, to name two well-known examples. Neoclassical reasoning sets up a frame of analysis such that state intervention and/or regulation need to be justified, however, rather than being understood as an embedded feature of modern economies. There is thus an in-built tendency for the case of state

regulation to be on the defensive, in tension with and morally trumped by freedom, rather than being presented as enabling freedom via the strengthening of social competencies within complex modern market societies. The liberal bias of neoclassical economics no doubt provides important insights from certain perspectives, such as with respect to the principles of market intermediation among atomized and relatively free individuals, although it is limited in terms of providing a holistic understanding of social systems, including their structural and institutional aspects, and how these change throughout the course of development.

In essence, a line of reasoning can be identified as neoclassical on the basis of the deductive principle that a perfect market—if this could ever exist in reality—leads to the most efficient and pareto-optimal outcome possible. Over time, it also leads to greater equality, as per factor price equalization theory. Hence, the ultimate or abstract solution for both efficiency and equality is found in free and perfect markets, at least in principle, even if not possible in practice. Pure neoclassical theory, entailing perfect information, perfect competition, all other things being held constant, inexistent or insignificant transaction costs, etc., predicts market clearance at a given price where supply meets demand. The quantity demanded at this price is sold and the quantity supplied is purchased. Transferring this market analogy to employment implies that a perfectly competitive labour market will generate no unemployment so long as wages are flexible and the supply and demand of labour is free to adjust to wages. According to the utility theory of ‘revealed preferences’, this equilibrium wage rate would also reflect the social opportunity costs of labour, and is thus an effective measure of its social value. The criticism of utilitarianism by Amartya Sen, which informs his capability approach, refers to such forms of utility theory.

Obviously, most neoclassical economists will qualify that these pure market situations do not exist in reality, and that abstract general equilibrium modelling is not meant to represent reality in any literal way. Nonetheless, a neoclassical theoretical position uses this ideal market solution as an abstract and deductive reference point to which second and further-order solutions are compared.<sup>21</sup> Moreover, the hypothetical ‘market’ in which transactions are made is usually not specified or described; presumably, the sum of transactions itself is the market, regardless of whether these take place in a single location or in a dispersed and disorganized manner. This inconvenience is usually deflected either by reference to Smith’s invisible hand or else Walrus’ auctioneer. The implication is that the simplicity of the abstract market reference point is sufficiently pertinent to effectively mimic the operation of modern complex market systems.

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<sup>21</sup> For instance, see Lal (2002, pp. 49-51) for a clear statement on the use of the deductive ideal reference point in neoclassical economics, or what he refers to as received wisdom.

The slippery slope of the neoclassical paradigm is based on the degree to which market imperfections are recognized in reality; are considered to be tractable; and are deemed to produce second, third or worse-order outcomes. It is also premised on judging these outcomes as superior or inferior to the option of state intervention in the market. The case for state intervention is argued by way of the degree of diversion from an abstract perfect market possibility. Modifications of neoclassical theory, such as modern welfare theory (confusingly to be distinguished from the economics of the welfare state),<sup>22</sup> recognize market imperfections such as externalities, lack of perfect information, lack of perfect futures markets, transaction costs and so on, but still generally hold that a second-best free but imperfect market outcome is better than state intervention in most settings. Besides in certain exceptional situations, proponents of this position argue that most movements towards approximating an ideal market situation would improve the second-best imperfect outcomes, thereby leading to less unemployment or less disequilibria between savings and investment. This view is based on the assertion that decentralized market coordination in most cases results in superior unintended outcomes—more so than if the state or other entity intentionally attempts to predict or impose market outcomes, even under conditions where the knowledge at the disposal of the state might be greatly superior to any single (in this case, atomized) actor operating in the market. The neoliberal policy position, which is closely informed by modern welfare theory, adopts the view that close-to-perfect markets—i.e., markets in which outcomes are better than state intervention in most cases—are attainable as economic and social realities.

According to this logic, the best way to achieve both economic efficiency and greater equality is to prevent obstructions to free markets and strive for market perfection as much as possible—particularly through strengthening market-supporting institutions such as private property rights and contract law. State action should be restricted to these objectives and to the provisioning of state welfare to those falling through the transitional cracks of imperfect markets on the way to market perfection. Latitude is often allowed for state involvement in some aspects of public provisioning, particularly in basic services, where externalities are too great for markets to internalize, so long as this involvement is conducted in market-harmonizing ways, and does not crowd out the possibility for the private sector to supersede this role if and when it can. This rational informs arguments that the reduction of market distortions is an important policy for reducing inequality, and that public social spending should only be used for those who qualify as deservingly needy, since others can presumably purchase social goods for themselves through private providers. It also informs the advocacy of the World Bank, for instance in its 2013 *World Development Report on jobs* (2012), of

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<sup>22</sup> For a good presentation of welfare economics, see Lal (2002 pp. 52-55). In contrast to this theoretical treatment of ‘welfare’ (read ‘utility’), see Barr (1998) for a thorough analysis of the more applied economics of the welfare state.

trade liberalization, labour market deregulation, and policies to correct market imperfections as pillars to support ‘good job’ creation, and address poverty and inequality.

There is not much new in the essence of this policy advice. The underlying logic has been at the core of the dominant policy paradigm over the last 30 years, which in turn has been associated with what many refer to as ‘jobless growth’ in some countries, or else with facilitating the stagnation of average real wages since the 1970s in countries such as the United Kingdom and the United States. In their defence, proponents of this paradigm would retort that it has been the continued obstruction of markets by government policies or other collective actors such as trade unions that has prevented the outcomes predicted by theory.<sup>23</sup> To paraphrase Karl Polanyi’s criticism of the laissez-faire utopia of economic liberalism: Because the ideal free market is never attainable as a reality in a complex modern economy, it can always be argued that the failures of economic liberalism are not that markets were liberalized, but that they were not liberalized enough.

## MARKET IMPERFECTIONS: NEW INSTITUTIONAL ECONOMICS AND THE IMPERFECT INFORMATION APPROACH

More critical theoretical views have emerged from within the neoclassical paradigm itself through a stronger recognition of market imperfections. The dominant approach is known as New Institutional Economics, which is often presented by its proponents, such as Douglas North (1990), as a critique of neoclassical economics, even though it is fundamentally still embedded within this paradigm. It can be seen as a further and somewhat more applied elaboration of modern ‘welfare’ economics, insofar as it explores in further detail the subject of transactions costs as one particular factor obstructing perfect market outcomes. The main insight emerging from this perspective is the role of ‘institutions’ in reducing these transaction costs. The implicit assumption is that this reduction will bring us closer to a perfect, ideal market outcome. This leads to a bias in terms of which types of institutions are to be promoted and which are not. Institutions seen to provide for the smooth functioning of markets and that bring down transaction costs are encouraged, such as stable property rights and practices that harmonize, strengthen and enforce contractual obligations. Conversely, institutions seen as obstructing price or quantity adjustments, such as government interventions, unionization and collective bargaining, are generally ignored or even chastised.

A consensus has emerged in mainstream economic theory and analysis on this understanding of institutions, or institutionalism. The consensus is typically focused on secure (private) property rights as representative of the ideal institutional form for reducing transaction costs, and thereby

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<sup>23</sup> For instance, see *The Economist* (2012) for a good example of blaming trade unions. See Fischer (2012) for further analysis of these positions.

allowing functional competitive markets and incentive structures that promote investment and accumulation. This focus has resulted in a profuse literature applying increasingly elaborate econometric techniques to cross-country regressions in attempts to explain modern economic growth on the basis of property rights, such as the well-known paper by Acemoglu et al. (2001), which was arguably much more significant for its methodological innovations than for its empirical or theoretical insights, which are questionable on many grounds. In a survey article, “Halving World Poverty,” Besley and Burgess (2003) suggest that the overarching theme in recent development economics literature has been “the centrality of the institutional context in which policy and accumulation decisions are made” (p. 19). By ‘policy’, they refer to trade liberalization and other aspects associated with the so-called Washington Consensus, whereas by ‘institutional setting’ they refer to the extent to which property rights and contracts are secure and enforced. Citing Acemoglu et al. (2001), and Hall and Jones (1999), Besley and Burgess (2003, p. 16) argue that secure (private) property rights are an important vehicle for the poor given that they can promote both equity and efficiency, while improvements in the enforceability of contracts can promote investment and the development of firms. This perspective has gained such inertia that even more critical authors such as Rodrik et al. (2004) accept these principles of secure property rights, albeit they qualify that credible signals that property rights will be respected are “apparently more important than enacting them into law as a formal private property rights regime” (p. 157). Such attempts to adapt understanding of reality to theory has no doubt been driven by the fact that China developed for much of the last 30 years without any clear system of secure private property rights.<sup>24</sup>

Despite claims that the New Institutional Economics approach is a critique of neoclassical economic theory, the underlying theoretical principles can be characterized as neoclassical insofar as the associated authors do not depart from the theoretical welfare principle that, under hypothetically perfect conditions, markets would produce both efficient and equitable outcomes (equity according to factor price equalization theory and its derivations). Correspondingly, most of the focus on institutions is oriented towards understanding how market imperfections (i.e., transaction costs or imperfect information, whether transitory or intrinsic) obstruct this first-best outcome, and

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<sup>24</sup> Huang (2012) argues, however, that the bulk of township and village enterprises in China from their inception were essentially private. Rural private entrepreneurship and financial reforms in the 1980s thus “correlate strongly with some of China’s best-known achievements—poverty reduction, fast GDP growth driven by personal consumption (rather than by corporate investments and government spending), and an initial decline of income inequality” (p. 148). He also argues that such liberalizations were reversed in the 1990s, although this does not help to explain the booming growth since then. Even though township and village enterprises might be best understood as cases of private entrepreneurship, property rights in the de-collectivizing economy could hardly be considered secure in the sense understood by the New Institutional Economics literature. As noted later with reference to Schumpeter, it might actually be the case that the context of vaguely defined and insecure property rights during this early reform period was precisely optimal for such private entrepreneurship, rather than secure property rights.

conversely, how ‘institutions’, understood as private property rights and other factors that reduce the transaction costs of operating in markets, can act to compensate for imperfections and thereby bring a market outcome closer to its optimum, with the assumption that it is this optimal efficiency that is the primary cause of investment and economic accumulation.

While the ‘imperfect information approach’ or ‘information economics paradigm’ pioneered by Joseph Stiglitz and colleagues presents a more radical critique, it also remains within this neoclassical paradigm, insofar as it accepts the perfect market outcome as its deductive abstract reference point, against which government intervention is to be justified.<sup>25</sup> In other words, while the ideal perfect market is accepted as an abstract principle, in reality most markets are characterized by intrinsic information asymmetries between buyers and sellers, which ultimately result in obstructions to pure market equilibrium in many ways similar to, although more intractable than, the obstructions caused by transaction costs (some might see asymmetric information itself as a form of transaction cost). Stiglitz typically presents this point of view with the example of labour markets, ironically posed in terms of the employer not knowing the productivity of an employee to be hired.<sup>26</sup>

While taking positions similar to those of New Institutional Economics and modern welfare economics in their focus on the obstructions that prevent pure market outcomes, imperfect information theorists nonetheless see informational asymmetries as more intractable than is accepted by the previous views. In other words, there is a tendency in New Institutional Economics theories to see transaction costs as temporary or surmountable market imperfections that can be overcome with the development of more sophisticated institutions that promote market efficiency—advocacy of ‘good governance’ for developing countries under the post-Washington Consensus is an example. In contrast, proponents of the imperfect information paradigm tend to see market imperfections as more or less inherent to complex economic systems, and thus likely to intensify with the evolution of more sophisticated, complex and opaque market systems. Under this perspective, regulation and market operation become co-dependent as economies become more complex. Ignoring this opens the way for rent-seeking, theft, abuse and all sorts of other perverse consequences within both public and private sectors (whereas welfare economics or New Institutional Economics approaches exclusively emphasize these dangers within the public sector, for example by theorizing public sector rent-seeking as a market obstruction). More established forms of

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<sup>25</sup> For some of the foundational contributions to this approach, see Rothschild and Stiglitz (1976), Grossman and Stiglitz (1980), and Stiglitz and Weiss (1981); see Stiglitz (1986) for a good discussion of its application to development economics.

<sup>26</sup> The inverse, whereby an employee entering a wage bargain simply does not have the information that an employer has at their disposal about others competing for the same position, would be a more pertinent representation of the power relations operating in a labour market and would also make the case for collective bargaining.

government regulation of market systems to prevent the abuses that invariably arise are thereby justified, even within advanced capitalist economies that are supposedly the models informing ‘good governance’ and the post-Washington Consensus. Stiglitz’s criticisms of shock liberalization in the Russian Federation, for instance, or of unregulated globalization more generally, are good representations of this position (e.g., see Stiglitz 2002). Nonetheless, underpinning his analysis and making his theory essentially neoclassical is the assumption that if, in an ideal world, these informational asymmetries could be overcome, we would find ourselves moving towards a perfect market outcome. Information imperfections become the reason for less than optimal market outcomes, as opposed to, say, Schumpeterian ideas, later carried on by Alfred Hirschman, that informational asymmetries or market disequilibria might in fact serve as the basis for dynamism within capitalism, driving profit opportunities, innovation and investment.

### BEYOND NEOCLASSICISM: CROSSING THE ABSTRACT DEDUCTIVE THRESHOLD

There has been much reaction to the neoclassical form of institutionalism from a variety of heterodox perspectives, particularly Marxist ones. Ben Fine (2001) directs his criticism at the so-called ‘methodological individualism’ of these neoclassical approaches, and particularly targets Joseph Stiglitz in his critique of the post-Washington Consensus. Mushtaq Khan (e.g., see 2002 and 2006) has made important contributions in pointing out how violations of property rights are often at the root of capitalist transitions, drawing from Marxist notions of primitive accumulation and applying these to the early phases of late industrialization in East Asia, where property rights were effectively restructured, such as through land reform, or else created anew through monopolies in efforts to direct incentives towards the development of new productive capacities. Khan generally avoids the more fundamental question of whether or not, once this process is instituted and a fully evolved capitalist destination is reached, markets and their institutional foundations do indeed conform to neoclassical expectations.

A similar Marxist critique of market liberalism is that compulsion due to labour commodification undermines the free operation of markets because people are not free to not engage with labour markets. Compulsion in this sense undermines the ideal free market logic because markets are not free if one cannot withdraw from them. This lack of freedom to be excluded, rather than included, is usually a condition of exploitation. In other words, the free market logic is only relevant under conditions of freedom as a minimal but not necessarily sufficient condition. Many precursors or pioneers of early neoclassical theory in the 19th century, such as Leon Walras, were ‘scientific’ socialists who accepted that free market efficiency was a principle that would apply in a context of equality and freedom from compulsion. The very operation of a market relies on the ability of the seller and buyer to not sell or buy in order for the bargaining to function as postulated by theory. If labour is not free to not work, then we must fundamentally question the extension of this

market logic to the labour market. Lack of freedom need not only apply to the classical world of people barely subsisting at survival wages; compulsions that discipline labour can operate in more affluent conditions, including the need to pay rent, transport, health care bills, school fees, student loans, credit card debt, mortgage payments, or any other necessity for a minimal degree of functionality in society let alone dignity.<sup>27</sup> Such social needs are not merely socially constructed or conditioned relative norms, such as in the United States, where people might feel deprived if they do not own a car. They can also be very real and hard constraints that can drive people into objective states of deprivation if not met, such as not being able to access necessary health care.

Despite the evident power of this ‘compulsion’ critique, compulsion can nonetheless be construed as a type of market imperfection, in the sense that compulsions can be entered into the range of factors that obstruct free market operations, alongside transaction costs and imperfect information. This skirts the issue of whether or not labour markets would function in the manner predicted by neoclassical theory in the absence of compulsion.

Chang (2003) takes a step further towards a socially embedded view of markets by arguing that even ‘free markets’ are political constructs of rights-obligations structures, and are regulated in the sense that state involvement sets the playing field, who plays and the terms of play. He contends that “no market in the end is ‘free’, as all markets have some state regulations on who can participate in which markets and on what terms.... It is only because some state regulations—and the rights and the obligations that they support, or even create—can be so totally accepted that some markets appear to have no ‘intervention’ at all and are therefore considered ‘free’” (p.49). Similar to Khan, Chang does not fully enter the black box of markets as institutions themselves, but focuses instead on how markets are instituted by other, wider factors. In this subtle respect, many New Institutional Economics authors such as North (1990) or Acemoglu et al. (2001) would probably not disagree too much with Chang, insofar as they all understand that markets are instituted. Hence, Chang’s insight does not take us to the heart of the problem. The more essential question is, once instituted, how do markets function? Once the terms are set, does the free interaction of markets tend towards an equilibrium, even if this equilibrium is unfair, and, if so, how?

A more fundamental departure from the broader neoclassical paradigm arguably starts with a rejection of the dichotomy between state and market as a meaningful basis from which to understand the modern economy, including modern market operations, and especially at the macroeconomic or aggregate level. For instance, a Keynesian view, from a post-Keynesian reading, starts from the

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<sup>27</sup> See Heintz (2008, p. 13) for an excellent discussion of this last point. He cites empirical studies documenting an increase in labour force participation—particularly among women—when average real earnings fall. This suggests that labour supply and earnings may be negatively correlated, particularly among low-income households, given that households increase their labour supply when faced with lower earnings in order to make ends meet.

understanding that even perfect markets can fail. In particular, aggregate pseudo-markets dealing with employment or savings and investment fail regularly because the institutional mechanisms driving supply and demand in these aggregates are simply not coordinated in the manner supposed of markets. It cannot be assumed that even perfect markets will move towards equilibrium without the intervening presence of some form of regulatory non-market coordination, not simply as a regulator of markets or market entry, but as an inherent functional element embedded within market systems, especially in aggregate pseudo-markets.

Of course, this reading of Keynes depends on how, or which, of his writings are read. The neo-Keynesian neoclassical synthesis drew from his theoretical examples of how wage rigidities (or sticky wages) could lead to market failure. Drawing from one of Keynes's stylized facts that money wages cannot be reduced in a free society, it has been commonly contended that Keynes' argument was a special case that applied under conditions of wage rigidities, thereby apparently supporting a market imperfection understanding of unemployment. As pointed out by Skidelski (2003, pp. 535–537), Keynes used these theoretical examples as heuristic devices. He also clearly stipulated his case under the theoretical condition that wages are fully flexible, and argued that his analysis was not dependent on wage rigidities.<sup>28</sup> Even under conditions of flexible wages, wage adjustment, or falling wage rates in order to increase the demand for labour, would be self-defeating, because falling wage rates would lower aggregate demand and result in less demand for labour, and therefore eliminate any potential benefit of flexible wages in achieving full employment.<sup>29</sup>

Rather than sticky versus flexible wages, the key distinction of Keynes from neoclassicism (or what he called 'the classics') arguably resides in his implicit or even explicit form of institutionalism. Employment and savings and investment play a central role in this respect. For instance, a labour 'market', as an aggregate concept, cannot be considered a market in a strict micro sense. Similar to savings and investment, which regulate aggregate demand, labour markets are better conceived as pseudo-markets; they function in the aggregate through a variety of complex mechanisms, some but not all of which operate through the decentralized but coordinated decision-making characteristic of market transactions. Supply and demand in the aggregate might be responsive to each other at the margin under certain conditions, hence the origins of neoclassical theory as 'marginal theory', and thus they could be related to markets by way of analogy. But movements towards equilibrium are not guaranteed, even under conditions where agents interact freely and knowledgably through price incentives. Suppliers and demanders in these aggregate settings are usually responding to different

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<sup>28</sup> This point has been reiterated more recently in Farmer (2013).

<sup>29</sup> Again, as noted by Heintz (2008, p. 13), falling wages might also increase labour supply from poorer households in order to make ends meet. This would further exacerbate the disequilibrium given that, according to neoclassical theory, labour supply should fall with falling wages.

sets of incentives, whether or not under compulsion, and act under conditions of uncertainty, which is different from risk in that it is historical, not amenable to calculus. This is in contrast to the pure neoclassical ideal market, where the market is one single institutional setting in which both suppliers and demanders respond to the same incentives represented by a single variable: price, or wage as in the case of a labour market. It is only under this condition, i.e., a singular coordinated institutional setting, where market coordination might be postulated to lead towards definite market clearance, as in the case of commodity or financial markets.

Keynes stipulated that these conditions rarely apply in the aggregate, and, in the case of labour markets, suppliers and demanders respond to different incentives guided by different institutional settings, although Keynes himself did not use this terminology of institutionalism. Labour demand is primarily determined by aggregate demand in the economy, which is influenced by consumers' propensity to consume, and businesses' expectations for future profits in their investment and production decisions, crucially underpinned by pervasive uncertainty, with wages playing a marginal influence on these more fundamental factors. The supply of labour may be marginally responsive to wage rates, but the aggregate supply is more fundamentally determined by the social or subsistence need to work, which to a large extent is driven by structural demographic factors that are not necessarily responsive to the incentives driving labour demand, as discussed in the first section of this paper. Wage rates may play some role in influencing these supply decisions at the margin, but this role is quite possibly minor in comparison to other structural factors, particularly under conditions of economic downturn when people have all the more need to work precisely because of falling wages, as noted by Heinz (2008, p. 13). Similarly, the intermediation of savings and investment in an economy cannot be considered a 'market' in any analytically precise sense, given that these aggregates are mediated through complex and often disconnected sets of institutions and incentives, unlike individual money markets, which can be understood as markets in the proper sense.

Keynes' contention, here interpreted using an institutionalist language and according to a post-Keynesian reading, was that regulation is needed not only to correct for market imperfections, but, more fundamentally, as the very essence that guarantees a degree of equilibrium in aggregate pseudo-market conditions that are far from the abstract models of arbitrage in neoclassical theory. Such 'markets' cannot be guaranteed to clear—i.e., to achieve full employment or an economy operating at full capacity—even under relatively free conditions, because supply and demand often respond to different incentives that are frequently uncoordinated, even if interrelated. A divergence between incentives can easily arise. Keynes' main contention was that market clearance would therefore be an exception even under perfect market conditions. Government management of aggregate demand and labour market regulation is required to achieve these outcomes in a complex modern industrial economy.

According to this argument, social or public regulation and non-market mediation ironically play integral roles in guaranteeing market clearance, even within efficient, competitive and close to perfect market conditions. This goes beyond the focus on the institutional foundations of markets, as analysed by authors such as Chang (2003), who as noted above argues that markets are instituted processes in ways that condition the behaviour of individuals and social groups, and give rise to correlated and often predictable patterns of human behaviour. Here, regulation implies more specifically the necessity for a degree of planning and management across the different sets of incentives operating in the ‘two blades of the scissors’ (to paraphrase Alfred Marshall) of the aggregate processes of supply and demand. Such regulation is not simply a precondition for the effective functioning of markets, but is also an intrinsic element within such functioning, a point largely ignored in the New Institutional Economics literature given the abstracted neoclassical foundations from which its theories are built.

## SOCIAL SECURITY AS MARKET ENHANCING

Mulheirn and Masters (2013) provide, perhaps not intentionally, an excellent example of such thinking with respect to the role of social security institutions in regulating the functioning of labour markets. Drawing from the work of a variety of economists, some of whom might ironically be identified as New Institutional Economics authors on other topics, they argue that sufficient degrees of social security can actually help to make the labour market function more effectively—rather than dampening incentives to work—because it allows people time to search for the right job. Search time is a function that, they argue, has been increasingly seen by economists as important for matching employee skills with employer needs, and for productivity in an increasingly skill-based economy. On this basis, and supported by the work of Acemoglu and Shimer (2000) and the Organisation for Economic Co-operation and Development (OECD 2006), among others, they argue that where unemployment insurance is too low, the labour market does not function effectively.

Good matches lengthen job tenure, which improves employees’ skills through both experience and their greater likelihood of receiving further training. Poor matches cause workers’ prior skills to deteriorate, making past training redundant and raising staff turnover. And in an environment where getting people back to work immediately is the policy priority, there is little incentive for workers to invest in their own skills (Mulheirn and Masters 2013, p. 7).

Hence, unemployment benefits can actually play a crucial role in allowing people time to search, not just for any job, but for the right job, and higher social security benefits in this sense can facilitate a more flexible workforce, in contrast to the more punitive versions of labour market activation policies that impose conditionalities on benefit recipients to speed the return to employment.

Mulheirn and Masters point out the work by Raj Chetty (2008) on how unemployed people with access to funds spend longer looking for the right job, even to the extent of using their own savings if benefits are too low or non-existent, implying that waiting is a worthy investment. This is in contrast to those who are compelled to move back to employment more quickly due to 'liquidity constraints', and are thus not in a position to turn down unsuitable work relative to their skill sets and aptitudes. His research provides a powerful example of how unemployment insurance, for instance, can have a positive reinforcing effect on the functioning of labour markets, contrary to the 'moral hazard' that is typically assumed to exist in the antipathy between markets and government-provided social security.

While such analyses draw from a European and North American setting with fairly robust and well-developed social security systems, similar principles arguably hold in other contexts. For instance, parallels can be made with rural settings where people are still embedded within subsistence forms of production. As argued in Fischer (2006, 2008b, 2013b), based on fieldwork in western China, the autonomy from labour market dependence or labour commodification that rural households can achieve by maintaining an asset base sufficient to meet minimum subsistence requirements ('subsistence capacity') represents a fundamental source of economic opportunity. It provides an ability to act strategically, primarily by avoiding dependence on subordinated forms of employment. Rural dwellers naturally seek autonomy from such dependence. One way is to embed themselves in an asset base, such as by investing in land and livestock, as a buffer against the potential disadvantages of labour commodification in the short term, even though social and economic structural changes might simultaneously undermine the sustainability of subsistence household livelihood strategies in the medium to long term.

Subsistence in this way serves both an instrumental and symbolic or cultural wealth function within rural communities. Contrary to arguments that such valuation of subsistence is only a characteristic of those living close to destitution, the idea that subsistence is an instrument for wealth is comparable to the way that monetary wealth provides freedom within a fully commoditized non-rural setting. As with the previous example on unemployment benefits, few would contest that the rich can do what they like with their disposable wealth, regardless of whether their actions are deemed rational or otherwise; this is the privilege of wealth. Similarly, the ability to be unemployed in most poor countries is actually an attribute of middle- or upper-class status; the truly poor have no capacity to be unemployed. They must work, whatever the work, and whatever the remuneration. This understanding of what it means to attain subsistence, and thus, in principle, to be a 'subsistence farmer', may not accord with the ways that non-rural academics or policy makers expect 'disciplined' or 'deserving' poor to behave. But this is more likely due to a misreading of the clues rather than any developmental deficiency on the part of rural dwellers.

Along similar lines, an extension of the ‘commodity’ or cash economy is not necessarily antithetical to these subsistence strategies. Contemporary rural dwellers across the global South are invariably involved with the commodity cash economy in various ways, some through choice and others through necessity, and thus they cannot base their livelihoods solely on subsistence household production, if ever they did, as noted by Hill (1986). This is partly because they purchase, consume or invest in modern goods, be they mobile phones, motorcycles or fertilizers, among many others. Perhaps more importantly, rapidly increasing fees for education and health care in many contexts act as strong compelling forces for rural dwellers to move into cash-earning activities, particularly in light of household livelihood strategies that target post-primary schooling for at least one child. Scarcity of rural cash-earning opportunities in turn drives rural to urban migration, as discussed in the previous section.

The cash imperative is often overemphasized as a driver of labour commodification, however, given that it can easily coexist with subsistence livelihood strategies. In fact, the combination is ideal. If subsistence capacity is sufficient, it offers choice as to how and when to engage in cash-earning activities. It allows autonomy from a dependence on regular low-wage employment, or from the forced selling of produce at inopportune moments, both of which can have impoverishing implications. The ability to wait thereby confers an ability to access better opportunities if and when they arise.

In this sense, the subjective proclivity for subsistence within rural communities is not merely cultural or symbolic. It also carries important instrumental wealth functions, not only in terms of the risk-averse insurance principle as argued by authors such as James Scott (1976), but also in terms of providing a position from which market and other forms of economic opportunity can be engaged in advantageously. In other words, the reinforcement of subsistence capacity can serve as an important wealth-supporting strategy within rural transitions into more marketized forms of production, exchange and employment. This was precisely the point of Hill (1986, pp. 18–20) in her criticism of the conventional usage of the concept of subsistence in much of development economics as implying poverty. She argued that it is usually only rich rural households that can hope to attain a degree of self-sufficiency, and she therefore critiqued the common assumption that traditional agriculture is characterized by degrees of subsistence, which are inversely related to market integration, given that this assumption ignores the role of inequality within such agricultural systems. Moreover, she pointed out that it is precisely the wealthy households that achieve some level of ‘subsistence’ that also enjoy the most lucrative non-farming occupations. From this perspective, it is clear how achieving a minimum threshold of subsistence capacity for rural dwellers offers a freedom to act, whether for profit or non-profitable social approbation, and that this freedom is a crucial element for both subjective social values as well as objective economic values of employment. Similar to the case of unemployment insurance, a certain level of sufficiency and security can be understood to

strengthen market functioning rather than introducing dynamics of moral hazard or perverse incentives.

## CAPITALISM AS PLANNING AND REGULATION

Such perspectives share considerable similarity with the social structures of accumulation approach, which, as argued by Harriss-White (2002), challenges the orthodox notion of economics as independent of the regulative environment in which production and distribution take place.<sup>30</sup> Similarly, understanding of modern economic development (i.e., capitalism) arguably needs to be refined in terms of an appreciation for the rise of modern forms of organization and planning, whether in government or private corporations. In contrast to the glorification of ‘searchers’ versus the demonization of ‘planners’ by the likes of Easterly (2006) and the Hayekian tradition preceding him, the modern business corporation can be understood as representing an apex of planning (i.e., management) as the supreme *modus operandi* for mobilizing, capturing and controlling value and wealth in the contemporary global economy. The rise of administered exchange through the public sectors of all advanced industrial economies, unrelenting even in the face of so-called neoliberal reforms aimed at retrenching this state role in the economy, is testament to the fact that we need to conceive of capitalism not exclusively in terms of markets, but more broadly in terms of this increasing organizational and regulative capacity within both public and private spheres, both supported by redistributive mechanisms, progressive and regressive, and instituted through public and private channels.

This aspect of economic development could be described as a form of capability, as a crucial ‘economic facility’, to use the terminology of Amartya Sen, or else as an important ‘social competency’ (UNDP 2013), except one better conceived as a collective capability or competency to regulate and plan rather than to freely interact in a marketplace. It is perhaps better captured by the insights of Karl Polanyi (2001[1944]), who argued that the expansion of modern market systems is predicated precisely on the expansion of the regulatory function of modern states. Or to crudely paraphrase Joseph Schumpeter (1942), this regulatory function tends to grow proportionately in both private and public entities with the increasing complexity of economic and social systems. Similar to the rise of public sectors within modern economies, the managerial, regulatory and planning components of modern private corporations are proportionately much greater today than they were in the past.

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<sup>30</sup> See Harriss-White (2003) for an excellent discussion of markets as social and political institutions in developing economies. Also see Harriss-White (2010).

This point was poignantly made in the seminal work by Celso Furtado (1983; translated from the Portuguese edition of 1978), one of the founders of the Latin American school of structuralist economics and colleague of Raul Prebisch. Furtado identified the rise of industrial capitalism with the rise of unified planning—referred to as economic policy—which was achieved through the emergence of modern nation states from the mid-18<sup>th</sup> century onwards. This showed two relevant countervailing features: a progressive concentration of economic power and the highly effective organization of the wage-earning masses (*ibid.*, p. 17). Within such ‘organized capitalism’, which is best conceived as a system of social organization rather than simply a form of organizing production, “political power—conceived as capable of changing the behaviour of broad social groups—emerges as a complex structure in which the institutions comprising the State interact with the groups that dominate the accumulation process and with the social organizations capable of intervening in a significant way in the distribution of income” (*ibid.*, p. 17). The challenge for contemporary developing countries, he argued, is that the increasing transnationalization of production weakens the ability of increasingly effective forms of social organization to exert pressure on the growing power of enterprises for a more immediate distribution of income (*ibid.*, p. 21). While the power of “social organizations engaged in the struggle to raise the value of labour, that is, to bring about a more widespread social distribution of the benefits of the growing productivity of labour generated by accumulation...” (*ibid.*, p. 27) was historically enhanced by the tendency of the state to broaden its social bases of support, the same tendency today is undercut by the fact that the power responsible for coordinating increasingly complex international economic relations has shifted, to a large extent, from the national state to the large enterprise (*ibid.*, p. 23). From this somewhat prophetic perspective, written well in advance of the globalization literature of the 1990s, the subsequent emphasis on deregulation during the neoliberal years from the 1980s onwards can be understood as a further privatization of this macro-regulatory capacity rather than deregulation per se.

## The social valuation of labour in a development context

As implied by Furtado, social and power relations guide the valuation of labour. Real markets and other economic processes, such as exchange operating through administered state channels or reciprocally through family and community channels, are embedded within social and power relations, or, as asserted by Furtado (1983), market operations “are, as a rule, transactions between agents exercising unequal power” (p. 15).<sup>31</sup> Competitive markets are always embedded in this sense,

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<sup>31</sup> “The term ‘imperfect’, when used by economists to describe market forms, is simply a euphemism to describe the ex post result of the will exercised by certain agents in such appropriation. Since all markets are to some extent ‘imperfect’, exchange activities are bound to generate a process for concentrating wealth and power.

even though, as argued by Polanyi (2001[1944]), non-market forms of social organization come to be subordinated to the demands of ‘market society’ under capitalism (a process he calls ‘disembedding’). Accordingly, the valuing of labour itself needs to be understood as a fundamentally social process. Attributes of physical productivity to a certain degree create floors and ceilings for the valuation of labour (or else ceilings on the value that can be appropriated from such labour), especially in relation to rural economies.<sup>32</sup> Economic considerations of supply and demand also operate at the margin, i.e., as marginal adjustments to wage rates, but arguably not as primary determinants of value. Economic science, so to speak, has not solved the question of how labour is fundamentally valued.

It is important to exercise caution and a degree of critical distance from the ideas that productivity necessarily sets the value of labour, that poverty is due to ‘low productivity’, or that increasing productivity needs to be at the forefront of an inclusive growth agenda, especially in a context whereby, as noted in the first section of this paper, labour forces are increasingly moving into the tertiary sector, where the idea of productivity becomes very problematic. I have called this a ‘fallacy of productivity reductionism’ (Fischer 2011c), referring to the assumption that monetary valuation can be used as an accurate approximation of productivity in a complex modern economy. Similar to early neoclassical theory in the late 19<sup>th</sup> century, which collapsed the distributional concerns of classical economics into a calculus of market allocation, this modern neoclassical assumption contributes to the myth that the rich are rich due to their greater productivity, and thus, by implication, that their wealth is a fair and just reward for effort. This assumption arguably lies at the heart of ideological efforts to legitimate the inequalities of the current world economic order, particularly with respect to the increasingly transnationalized networks that regulate the valuation of output produced by poor people working within them.

The idea of a fallacy of productivity reductionism in part draws again from post-Keynesian insights. Perhaps the most practical insight that can be distilled from the otherwise highly abstract ‘Cambridge capital controversies’ of the 1960s is the point that, in a monetary world with heterogeneous goods and services, ‘capital’ is effectively almost impossible to measure in any

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Hence the structural tendency, observable from the beginnings of industrial capitalism, toward the creation of large enterprises” (Furtado 1983, p. 15).

<sup>32</sup> In his classic article on inequality and economic growth, Kuznets (1955, pp. 7-8) posits that rural areas are less unequal than urban areas because there is greater potential for productivity increases in urban industry than in rural agriculture. Rural inequality is more restricted by the upper bound of productivity that can be achieved in agriculture, whereas urban inequality is much less so. He did not argue, as misrepresented by Milanovic (2011, p. 9), that inequality is low in preindustrial societies because almost everybody is equally poor. Rather, he pointed out that, according to the available evidence at the time, ‘underdeveloped’ countries were more unequal than developed countries (e.g., see Kuznets 1955, p. 20).

coherent aggregate sense, in contrast to neoclassical assumptions that treat capital as substitutable and more or less identical with consumption goods, such as corn for planting and consumption. Accordingly, aggregate ‘productivity’ can only be understood in terms of monetary valuation, i.e., through prices, and not in physical terms—this point should be obvious with respect to services. Paul Samuelson (1966) implicitly conceded defeat in these debates to Joan Robinson and Piero Sraffa, although most mainstream economists subsequently ignored this concession, particularly from the 1980s onwards.<sup>33</sup> Instead, the profession continued to assume that complex modern industrial economies essentially function in the manner suggested by the one-good or identical two-good world imagined in the production functions of standard neoclassical theoretical models and the so-called New Keynesian variants. In these models, capital and productivity are treated as if they can be measured in physical terms, such as in the total factor productivity measures derived from the one-good moneyless growth models of the Solow variant. The bulk of contemporary economics can thus be described as a faith-based discipline—a leap of faith is required to enter its temple of logic.

Most mainstream approaches to measuring productivity almost always rely on value added accounting data in various ways as a means to approximate aggregate productivity, whether at industry, sectoral or economy levels. The justification for this was partly based on early econometric work by Kenneth Arrow, Hollis Chenery, Sinha Minhas and Robert Solow. Starting with the “empirical observation that the value added per unit of labour used within a given industry varies across countries with the wage rate,” these authors concluded that most of “the variation in labour productivity is explained by variation in wage rates alone” (Arrow et al. 1961, pp. 225, 228). The implication is that variations in wage rates are mostly due to labour productivity. As pointed out by Felipe and McCombie (2001), however, these results were essentially the product of tautology—that is, “the estimations of production functions [are simply] capturing an underlying accounting identity [that value added equals the wage bill plus profits].... Hence, regressing output on the inputs is bound, almost by definition, to give a very good statistical fit” (p. 1222). To the extent that this contention is true, it undermines the whole edifice of aggregate productivity measures that have since been elaborated on the basis of the results of Arrow et al. (1961), as noted in subsequent work by Felipe and McCombie (e.g., see 2003, 2006 and 2012).

The problem with using value added as a proxy for productivity is that it represents a combination of output (tangible and intangible) and prices/wages. ‘Productive’ employment in the tertiary sector, for instance, is as much a reflection of wage rates as any notion of productive output per se—for example, what is the output of a lawyer or a bureaucrat? Use of value added as a shorthand for productivity leads to absurd logical implications, such as the suggestion that a barber

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<sup>33</sup> See Cohen and Harcourt (2003) for an excellent discussion of this point.

in the United States is 30 or more times more productive than a barber in India even though they both ‘produce’ the same number of haircuts per hour, according to the tastes and expectations of their clients, simply because the wage of the barber in the United States is 30 or more times higher. Or else, within the United States, that the ‘productivity’ of a lawyer is 20 times higher than that of a barber. The lawyer’s labour is certainly more valued than the barber’s, whether or not for good reason, but this has little to do with productivity, unless we consider that the power to leverage higher value for one’s labour is, in itself, a form of productivity. The difference is usually explained in terms of ‘human capital’, referring mostly to years of schooling and skills premiums, although similar wage differentials can be observed between employees with more or less equivalent levels of education, such as teachers versus lawyers, or a computer engineer in California versus one in Bangalore. In other words, much of what most conventional measures of productivity pick up actually amounts to price or wage differences, not actual effort, output or even skill, especially in economies increasingly based on services.

The idea that monetary valuation can represent productivity is especially problematic with respect to the tertiary sector, given the notorious difficulties of measuring productivity in services. For instance, while some dimensions of productivity can be measured in some aspects of tertiary work, such as patients treated per doctor, students taught per teacher, numbers of sheets cleaned per domestic worker or merchandise sold in supermarkets per cashier, such measures are often deceptive in that the quality of the good regularly changes through the process of increasing outputs. This would be the case with more children per classroom leading to worse learning outcomes, or less care in serving hospital patients. Such measures are not necessarily measuring a consistently comparable good, as would be the case with physical measures of identical goods, such as tonnes of wheat. Even in the case of wholesale and retail trade where productivity measures (for example, merchandise sold per employee per unit of time) and the application of technology are relevant, increases in productivity—especially in retail trade—often imply shifting labour and time costs onto customers, which makes activities profitable but not necessarily more productive from a broader perspective.

It is somewhat nonsensical and arbitrary to use the standard lexicon of ‘labour intensity’, versus capital intensity, to explain wage differentials within the tertiary sector or in comparison to other sectors. Almost by definition, service sector activities are largely or in many cases entirely based on labour inputs rather than capital inputs. The logic only works by analogy if we include problematic notions of ‘human capital’, which are usually proxied by years of schooling and basically refer to formal education. The evidence that differences in education can predict wage differences—across countries, but also across service sectors within a country—is increasingly weak, particularly

in the face of higher and broader schooling attainments at lower wage levels or in poorer countries.<sup>34</sup> Tertiary sector professionals, such as lawyers, are not usually referred to as having labour-intensive jobs, even though, in capital labour terms, most if not all input involves labour.<sup>35</sup> Presumably, these jobs are not referred to as labour intensive either because these professionals generate high value per unit of labour time or because education is taken to be a proxy for capital. This is unlike the case for nurses or schoolteachers, who have similar levels of education in terms of degree types, but at much lower levels of value added; their professions are often referred to as labour intensive.

In other words, there is a certain degree of tautology at work. Labour intensity is associated with relatively lower wages, and when relatively lower wages are observed, the labour is assumed to be more labour intensive, even though both labour intensity and labour productivity are nonsensical reference points in the measurement of the outputs of intangible services, the value of which is mostly based on the value of the labour inputs. Rather, wage differences are arguably related to the social and institutional processes of valuing various categories of service sector labour, driven by power relations, ideological factors, socialization, and related processes of social stratification and differentiation, instead of considerations ostensibly related to labour productivities within the production of comparable goods or services.<sup>36</sup>

The mainstream response to the quandary of productivity in services usually refers to Baumol's 'cost disease'. Baumol and Bowen (1966) attempted to explain the apparent paradox of rising salaries in jobs that experience no increase in labour productivity, such as in the performing arts, where the same number of people is required to play a symphony as a century earlier. This is in comparison to rising salaries in jobs that do experience labour productivity increases, such a manufacturing, and

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<sup>34</sup> Most early assumptions on this were based on cross-country regressions whereby richer countries generally had much higher levels of formal schooling. This association becomes progressively weak, however, the more poorer countries progress in levels of formal schooling without necessarily experiencing the economic benefits associated with equivalent levels in earlier cases. As with fertility in demography, human development has become increasingly disassociated from economic development. It is a classic case of misattributing causality with association. For a good discussion on other related points, see Felipe (2010, pp. 279-288).

<sup>35</sup> Let us assume that overheads such as expensive lawyers' offices are not part of productive capital, but are status-signalling devices, because a lawyer can be equally effective working at home or in a public library.

<sup>36</sup> The only sector where very clear labour productivity differences can be observed between the North and South today—enough to explain the wealth differences between the two—is agriculture (for instance, Canadian farming versus Indian farming). Such labour productivity differences cannot even be seen in manufacturing anymore; Chinese factory workers, for example, are as productive in producing the same manufactured goods as workers in the United States or Europe, despite much lower wages. Value in manufacturing today is accrued more in terms of product differentiation or component differentiation along value chains, and control over production and distribution networks. This includes control over the more technological and knowledge-intensive parts of the value chain, although the point here is that wage differences cannot be discerned through simple comparisons of labour productivity in the physical output of the same or comparable goods.

seemingly contradicts the standard assumption that wages are closely associated with changes in labour productivity, as discussed above. The answer was essentially that wages in sectors without productivity gains increase because they must compete for employees with the sectors with productivity gains. The analysis is notably built on differentiating physical production from services, and presumes that productivity in the latter can be measured using standard total factor productivity techniques. The very fact that wage equalization across the economy might be seen as a ‘disease’ is itself indicative of the particular perspective informing this approach.

Triplett and Bosworth (2003) claim that the disease has been cured on the basis of evidence of rising productivity growth in service sectors in the United States after 1995. Their measurement of such productivity, however, relies on the standard productivity growth accounting framework originating from the work of Solow (1957), whereby labour productivity is measured as the value added output per person engaged in production. Their approach remains bogged down in a variety of theoretical and methodological issues, many of which they admittedly acknowledge. For instance, they exclude social services from their calculations because of difficulties surrounding the treatment of capital in such industries. On the treatment of capital in other service industries, they acknowledge the problems of relying on capital stock data at the industry level as a measure of capital input, given that these data are dominated by financial wealth, not simply ‘productive’ capital stock used as an input to production. They propose a resolution of this problem by combining such data with flow data on capital services by industry. Anderson et al. (2009), in a review of methods commonly used to measure capital service flows, point out, however, that a variety of important assumptions are used in constructing such measures. Even in the case of the relatively easy to measure capital inputs to agriculture in the United States, they demonstrate that substantial differences in these measures can be computed depending on which assumptions are chosen.

Beyond these technical issues, a more fundamental problem with this line of analysis is that it assumes that wages in the physical production sectors are somehow related to labour productivity, which can in turn be measured in non-problematic real terms despite the reliance on value added data, as discussed above. This was precisely the problem that Arthur Lewis addressed in his classic (and often poorly regurgitated) pioneering contribution to development economics. One of the two key puzzles that he was trying to solve was the question of, “Why is tropical produce so cheap?”

Take for example the case of sugar. This is an industry in which productivity is extremely high... [with] a rate of growth of productivity which is unparalleled by any other major industry in the world—certainly not by the wheat industry. Nevertheless workers in the sugar industry continue to walk barefooted and to live in shacks, while workers in wheat enjoy among the highest living standards in the world (Lewis 1954, p. 442).

To answer this question, he focused on factoral terms of trade in the open economy version of his model of economic growth with unlimited supplies of labour. In what might be seen as Baumol's cost disease pre-emptively turned on its head, he argued that because wages are set in what he called 'subsistence sectors' rather than in capitalist export sectors, the benefits of increasing productivity in the latter accrue chiefly to the (northern) importers of these exports by way of lower prices, given the unlimited supply of labour available to the capitalist sector at a wage set sufficiently higher than what can be earned in the subsistence sectors. He contended that "the prices of tropical commercial crops will always permit only subsistence wages until, for a change, capital and knowledge are put at the disposal of the subsistence producers to increase the productivity of tropical food production for home consumption" (ibid., p. 442) The implication of his argument, which is now usually overlooked in deference to a caricature of his theory of growth with unlimited supplies of labour, is that wages are not reflected by productivity, even in physical production, and that increasing productivity in physical production will not necessarily result in rising wages, at least not under the conditions of an open and poor economy with substantial supplies of labour available to work in the so-called 'capitalist' sectors.

Later in his life, Lewis (1978, p. 36) similarly predicted that even as developing countries would move into manufacturing exports, these would function in a manner similar to the previous agricultural export commodities; increasing productivity would simply reduce export prices, and terms of trade would continue declining. Based on evidence regularly presented by the United Nations Conference on Trade and Development (UNCTAD),<sup>37</sup> this prediction appears to have borne true in the three decades since he made it, at least for the huge increase in southern manufacturing exports integrated into international production networks dominated by transnational corporations.

The idea that inter-country differences in wage rates can be explained by obstructions to the free flow of goods, services and capital across borders also becomes increasingly absurd the more the global economy liberalizes and becomes increasingly unequal as well. This fallacy is especially pertinent when considered in light of the increasing transnationalization of production and distribution in the post-war era, although it was also very relevant during the colonial era for similar reasons. For instance, when an increase in the value added of the tertiary sector is recorded in the United States or Europe—such as in the categories of management, finance, marketing, trade, or research and development—this is usually interpreted as increasing productivity in those sectors and in the economy if there is overall economic growth. Yet at least part of such an increase might well represent processes of financialization, for instance, whereby levels of remuneration in the financial sector are allowed to rise to unheard-of heights, and then might be interpreted as improving

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<sup>37</sup> See UNCTAD (2007, pp. 11-12) or UNCTAD (2002, pp. 113-138) for more detailed discussion.

‘productivity’ within that sector as a result. Or expansion in these categories might partially represent inflows of profits through a wide variety of channels from southern subsidiaries to the headquarters of northern transnational corporations, often via various offshore financial centres. When a transnational corporation practises transfer pricing, or equivalent practices that have become standard in international accountancy, as a means of transferring profits from a southern subsidiary to a head office in New York or London, the subsidiary appears less productive as a result. The head office appears more productive, insofar as productivity is measured in value added terms, even though most head office activities would be in services, not physical production. Ironically, the actual producers of goods, who are increasingly located in the global South, might well be accused of being inefficient in value terms and in need of extra structural adjustment, even though the appearance of such inefficiency is in many cases the product of accountancy practices, and such producers might be otherwise working very diligently and investing in a whole myriad of ways to keep up with the competition. In such circumstances, the precise meaning of ‘being productive’ is difficult to pin down, except in cases of the physical output of comparable goods.

This was a key insight in the work on transnational corporations in Latin America by earlier structuralists such as Osvaldo Sunkel (1972) and Constantine Vaitsos (1973). These authors highlighted the often deleterious effects of rising transnational ownership structures on domestically oriented forms of productive accumulation, including problems of polarization and marginalization within these countries. Their insights presumably hold ever more relevance today given the subsequent and mostly unregulated proliferation of the practices they analysed.<sup>38</sup> Even in the case of China, a large proportion of the current trade surplus probably represents transfer pricing by foreign corporations, as one among several illicit means of moving capital into China, which in turn is facilitated by the fact that foreign corporations officially account for over half of China’s trade surplus.<sup>39</sup>

These issues highlight the importance of ownership and/or control over processes of value circulation in monetary economies, and the insidious siphoning of wealth that usually results from a dominance of foreign ownership in the peripheral economies of the global South.<sup>40</sup> Effective outflows of wealth, whether through licit or illicit capital flows, or else through subtle processes such as transfer pricing, undermine the monetary aggregate demand in these economies, which would otherwise contribute towards enhancing employment generation as well as the fiscal revenues required to finance comprehensive social policies. National ownership thus plays a hugely important

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<sup>38</sup> For instance, see Bernard et al. (2008).

<sup>39</sup> See Yu (2006, 2013) and Fischer (2010c, 2010d) for further discussion.

<sup>40</sup> See Ndikumana and Boyce (2011) for some interesting estimates of capital flight from sub-Saharan Africa.

role in efforts to retain wealth within national economies, thereby capturing the benefits of productivity increases when and where these take place. It has been one of the principle targets of ideological attack under the last 30 years of neoliberalism, with the front line currently targeting China under the guise of accusations of currency manipulation.<sup>41</sup>

Raising productivity in the global South is obviously an important component of poverty alleviation and efforts to reduce inequality, particularly if the resulting wealth is used in ways that genuinely improve well-being among the poor. For instance, small-scale farmers would obviously benefit from raising their output on both their existing plots of land and, ideally, on enlarged land holdings, which, by implication, would require land reform—at least so long as the costs of increasing their output would not exceed the benefits. Such self-evident examples, however, are often used to simplify and legitimize the more generalized patterns of inequality in the world today, which are much more obscure in terms of a direct connection between effort or output and poverty. The underlying fallacy of productivity reductionism is imperative to recognize, because, otherwise, an obsession with raising productivity risks being turned into a powerful ethos for disciplining an increasingly southern global workforce together with nationally based productive capitalists, both subordinated into global networks of production and distribution that increasingly control the most lucrative flows of value in the world economy.

## SOCIAL VALUATION AND POLITICAL BARGAINS

Contemporary poverty and inequality reduction in our monetary world cannot necessarily be achieved by making poor people work harder and better, but by addressing how their work is valued. Valuation is often only marginally related to productivity, particularly as populations move out of agriculture, bypass manufacturing and enter the service sectors, where wages are effectively a reflection of social processes of valuation, more so than in tangible production sectors. Social valuation is particularly pliable to politicized social bargains with respect to the norms governing such valuation.

This relates back to an important thesis made by Furtado (1983, pp. 15–17) regarding the increase in the average real wage rate in classical cases of industrial capitalism that almost always managed to keep pace with the rise in the average productivity of labour or with the increase in the capital allocation per worker, as a counterpart to the structural tendency towards the relative scarcity of labour in systems with a more advanced accumulation. He contended that:

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<sup>41</sup> See Fischer (2010c).

...though rapid accumulation was certainly a necessary element in the increase in remuneration for workers, it would be wrong to regard it as the effective cause. Given the enormous concentration of economic power, which gave rise to the sophisticated forms of market control that came to prevail, it is more than likely that, without the organization of the working masses and the combative spirit they have historically displayed, the evolution of industrial capitalism would have taken the line of a greater social concentration of income, possibly combined with a more vigorous external expansion, or an increase in public expenditure for prestige purposes, external aggression, or something similar. The form of society that came to prevail in industrial capitalist countries was not a historical necessity but simply a historical possibility. And if this possibility materialized, it was in large measure thanks to the power progressively exercised through the organization of the large social majorities who earn their livelihood by selling their labour capacity on the market (pp. 16–17).

As noted in the previous section, Furtado placed great emphasis on the historical conjuncture in this early phase of industrial capitalism that allowed for a positive synergy between the evolution of economic and political power.

This emphasis on social mobilization as a crucial institutional factor influencing the valuation of labour and hence the potential for rising wages with rising productivity is also echoed in the thesis of Gøsta Esping-Anderson. Esping-Anderson (1990, p. 29) argues that the development of welfare states in the Anglo-European and Japanese cases—a massive historical factor influencing distributive and redistributive processes—was influenced by three factors in particular: the nature of class mobilization, especially of the working class, keeping in mind the increasing imprecision of this concept and the changing role of so-called middle classes in the contemporary context; class-political coalition structures; and the historical legacy of regime institutionalization. The differing paths resulting from diverse historical constellations of these factors, in the form of social policy for instance, have had major impacts on shaping both social rights and social stratification within each country.

Both authors would undoubtedly source the causes of stagnant average wages in the United Kingdom, the United States or other countries over the last 30 years to the undermining of classical social mobilizations and class-political coalitions under neoliberalism, rather than to any causes related to labour productivity. As noted above, conventional measures of labour productivity have been rising during this period in the United States, even in the service sector. Beyond the specificities of the various theoretical arguments, a key element is the role of distributive and redistributive social, political and institutional mechanisms in socializing the benefits of growing productivity, and

the costs of providing socially acceptable forms of employment to increasingly tertiarized and, in many cases, educated labour forces.

## SOCIAL VALUATION AND THE CARE ECONOMY

The care economy provides a pertinent example since it accounts for a growing proportion of tertiary sector employment, often involving quite skilled categories of labour. It is also increasingly embedded within globalized labour networks, or what Parreñas (2000) has termed the ‘international division of reproductive labour’ and Hochschild (2000) the ‘global care chain’. One prominent discussion within the care economy literature is on the empirically demonstrable undervaluation of care labour relative to other types of labour with equivalent education and skill levels, e.g., see Folbre and Nelson (2000), England et al. (2002), Razavi (2011), and Palmer and Eveline (2012). Much of this discussion revolves around issues of labour intensity and the inherent tension, as discussed by Palmer and Eveline (2012), between the marketing of high-quality care services and attempts to control their costs, which are mostly related to labour. They point to the perplexing situation where wages are too low to attract workers, which in turn encourages an increasing reliance on immigrant labour, at least in the richer countries that can afford this option. Palmer and Eveline do not explore this point further, given that they focus instead on the discursive processes by which employers in the Australian aged care sector justify and sustain low pay for work that is both highly skilled and in high demand. Their case provides a valuable example, however, of how this care labour market, within a relatively liberalized setting, is not working as predicted by standard neoclassical theory. An excess of demand over supply would normally raise wages, but instead, in this case and others across Europe and North America, it drives a shift in social norms regarding the valuation of such labour as well as the categories of people deemed suitable for supplying it. The demand for immigrant labour in these cases would appear to follow downward wage pressures, rather than being a cause of downward wage pressures, as would be typically postulated by comparative advantage explanations for falling wages in rich countries in a context of globalization.

The inherent problem in these cases is not with the ‘labour intensity’ of the skilled labour involved, but more precisely in the reliance on a business model in which the costs of providing such skilled labour is more or less entirely internalized within the business unit, whether profit or not-for-profit, and paid for largely through private means. Under these conditions, and where average wages are stagnant, potentially enormous disjunctures emerge, such as in the current ‘care crisis’ in the United States, where a single parent in most states working a minimum wage job 40 hours a week for 52 weeks a year does not earn enough to put two young children in a child-care centre, according to average annual state costs (Diehm 2013). As argued by Razavi (2011), the failure to socialize the costs of care in these and other settings will inevitably feed into and exacerbate existing inequalities, in particular by increasing the costs of essential social needs faced by the less advantaged half (or more)

of the workforce, while at the same time producing strong downward pressures on wages within service provisioning, thereby contributing further to the stagnation of average wages and so forth.

The key to interrupting this downward cycle is through socializing the costs of care. This arguably requires universalistic forms of decommodification to sever the link between the costing and supply of services, in both quantity and quality, or between the pricing of services and the wages involved in supplying them.<sup>42</sup> Such decommodification, in order to be financially sustainable, arguably also requires removing the pricing of services from market intermediation, given that, as contended in Fischer (2012), uncontrolled market pricing within health care systems, for instance, is a crucial factor undermining the sustainability and effectiveness of health insurance reforms in countries as varied as China, India and the United States. Similarly, redistributive mechanisms are required to finance such decommodified provisioning by tapping into the increasing, albeit increasingly concentrated, productivity in other parts of the economy. Such systemic principles are precisely the ingredients behind successful models of universalistic health systems, whereby services are provided according to need, and are of the best quality possible; prices are regulated administratively, without consideration for demand at the time of need; and costs are financed indirectly via progressive taxation, hence allowing for salaries within the sector to be determined apart from the cost of providing the services or from the financial viability of one particular unit supplying services, if it were hypothetically forced to function as a private unit, for instance. This thereby allows for spreading the costs of offering socially acceptable wages and working conditions within the sector, in accordance with the skill levels of labour required, in a manner that is similar to the principles of insurance.

In contrast, the self-contained business model of private provisioning actually concentrates costs very inefficiently on individual units. This is in much the same way that food shortages result in localized famines in the absence of mechanisms to disperse costs, in the manner that national markets are typically presumed to do through rising prices, as once argued by Thomas Malthus (see Wrigley 1999). In this respect, the private business model would appear very unsuited for social needs provisioning. This does not mean that private provisioning units cannot operate within a socialized model. Rather, it implies that if such social needs, which all human beings invariably have for at least several ‘captive’, non-withdrawable periods during their life cycle,<sup>43</sup> are treated as

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<sup>42</sup> Note that this usage of the term ‘decommodification’ is slightly different from the way it is used by Esping-Anderson (1990), who applies the term with reference to labour markets. The reference here is more precisely to something being treated or not as a commodity. See Fischer (2012).

<sup>43</sup> Universality of social needs with respect to the human condition is distinct from the increasingly specialized character of physical production—especially manufactures—in which a smaller and smaller proportion of the population has any direct contact with or precise knowledge about the production processes involved. This fundamental difference provides the structural principle for universalistic modes of provisioning in social policy

commodities in a market, they effectively become fictitious commodities—to borrow from Polanyi (2001[1944])—in the sense that they are not ‘produced’ for buying and selling on the market. Treating them as if they are can be very destructive for the social fabric.<sup>44</sup>

An excellent example of these principles can be found in the work of Ilkharacan (2012) on the role of public and social policies in influencing women’s labour force participation, with a particular emphasis on time-related work-family reconciliation policies, such as those related to care leave, its gender distribution and work hours, as well as the provision and subsidization of care services. In a comparative study of seven OECD countries, Sweden in particular stood out as a “haven in terms of the generous combination of care-related leave for both men and women plus wide spread access to high-quality public childcare services... [France and Sweden] have some of the best gender equality indicators in labour market and enjoy relatively higher fertility rates in the European context despite high rates of female labour market activity” (p. 326). Child-care services in Sweden follow a socialized model of free universalistic provisioning funded by progressive taxation, in striking contrast to the situation in the United States, as described above. This leads to entirely different results in terms of the participation and integration of women into the formal workforce as well as the valuing of women’s labour and, ultimately, the social value derived from their employment.

## The redistributive imperative in development

While most examples of robust national social insurance systems are drawn from the classic well-developed welfare states of northern Europe and its offshoots, such systems are non-extant in most developing countries. Even though it might not be possible to replicate the institutional forms of these classic cases, which developed under very particular historical circumstances, it is important to explore the operating principles underlying them as a basis for social policy innovations in developing countries today. Along these lines, it is useful to conceive these principles more broadly in terms of redistributive institutional mechanisms that allow for socializing wealth, rather than in terms of the more historically specific institutional forms of modern welfare states and associated social policy.

Returning to the first section of this paper, a key development question concerns how to channel wealth generated by rising productivity in the primary and secondary sectors of poorer developing countries into the tertiary sector of employment, and how to prevent wealth from being

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versus targeting in industrial policy, inverse to the logic in mainstream development policy as noted by Mkandawire (2005).

<sup>44</sup> See Mackintosh (2006) for an interesting discussion on this point.

siphoned out of these economies altogether through a variety of increasingly sophisticated channels within ever more transnationalized networks of production and distribution. Presuming that raising productivity in the primary sector is limited in the short term, these countries would arguably need to institute strong redistributive mechanisms to guarantee that a substantial portion of the wealth generated by more and more productive manufacturing or enclave sectors such as mining would be circulated throughout the rest of the economy in such a manner as to generate decently paid and relatively ‘productive’ employment in the largely urban tertiary sector. This principle draws from earlier European cases of industrialization, in which instituting universalistic social policy, in combination with other factors such as out-migration and inflows of colonial wealth, arguably served as a key redistributive mechanism. It allowed (labour) productivity gains in agriculture and industry to be circulated towards the tertiary sector, in a manner that drove formalization of the labour force, as well as rising wages and non-wage standards of employment, including gender equality standards. Redistributive principles were key contingencies to establishing a strong social value of employment in this transitional context of development.

The importance of social policy stems in part from its role in directly redistributing wealth or in influencing initial distributions of wealth through setting or influencing wage and employment standards. In addition, various social policy sectors such as education and health are central in structuring inequality and opportunity. Social policy affects labour supply in the long term by contributing to slowing population growth from peak natural population increase rates once demographic transition is in course, as in all countries today, through death control as the remote determinant of fertility decline, as well as family planning and education, which are both important proximate determinants of fertility decline.<sup>45</sup> Social policy plays a complementary role in influencing public sector employment, which in turn would need to take on a prominent role in tertiary sector employment generation. This is because much of redistribution happens through state channels; because of the important and under-acknowledged role of public employment in setting standards and even wage levels in an economy; and because it is effectively the coveted target of the employment expectations of increasingly well-educated young populations in the global South. In all of these dimensions, universalistic social policy supported by progressive taxation systems is arguably superior to targeted or residualist approaches to social policy.<sup>46</sup>

The standard retort to such a principle—from many spectrums—is that poor countries need to focus first on productive accumulation in order to create the surplus to redistribute, or else risk populist redistributions that undermine the growth process. The counter-argument to this position

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<sup>45</sup> See Fischer (2010b, 2011a) for further discussion of these demographic points.

<sup>46</sup> See Mkandawire (2005) for a seminal synthesis of these arguments.

can be found in the seminal work on late industrialization by Gershenkron (1962), who clearly documented that the classic late industrializers (e.g., Germany, Japan and the Russian Federation) typically instituted moves towards more universalistic forms of social policy and related redistributive public policies earlier than would have been expected by the experience of previous industrializers, if not earlier in actual historical time, as in the case of Germany versus the United Kingdom. These public policy initiatives were central components of successful late industrialization strategies, alongside the ability to leapfrog in technological progress through the adoption and adaptation of more advanced technologies from industrial leaders (education was obviously key to the capability to leapfrog). In this sense, a Gershenkronian principle is that the later the industrializer and the larger the catch-up required, the greater the imperative to pre-empt and support industrialization with strong redistributive mechanisms, including the universalization of social policy as a central component. A demographic corollary might be also postulated that this imperative becomes greater the later and faster the demographic transition, given that this results in faster and more pronounced ‘demographic dividends’ precisely at a time when productive industries are absorbing less and less labour, hence intensifying the need for employment generation in tertiary sectors, relative to earlier industrializers and demographic transitions.

Beyond the classical late industrializers, these principles were also demonstrated by the East Asian examples of successful late industrialization, namely, the frequently discussed cases of the Republic of Korea and Taiwan Province of China. The means by which these countries were remarkably successful at both rapidly reducing fertility and generating employment—and hence, speeding up and then profiting from the so-called ‘demographic dividend’—were generally characterized by a combination of strong developmentalism and universalistic social policies in basic education and health. Universalism was not applied to social welfare, which remained quite minimalist and family-based up until the 1990s, which is an important distinction from the development of European welfare states.<sup>47</sup> Developmentalism in this sense refers to state-led industrial policy rooted in nationally owned firms, regulated capital accounts to ensure that wealth remains national, and a bias towards generating employment rather than efficiency. This is the opposite of the neoliberal dictates that demand employment austerity in the name of (transnational) firm profitability. Equally important and often underappreciated are the variety of strongly redistributive institutional mechanisms outside of the realm of social policy, as means of dispersing wealth across society in a manner that synergistically generated employment in tertiary service sectors and supported industrialization strategies, such as extensive land reform and the rapid expansion of the education system above the primary level in the early 1950s. Notably, these radical initiatives were mostly taken at a time when both countries were largely agrarian and very poor. Both

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<sup>47</sup> See Kwon (2005) and Ringen et al. (2011) for excellent discussions of this in the case of the Republic of Korea.

were also supported by substantial amounts of foreign aid. Generous aid was due to geopolitical considerations, although this point should not take away from the importance of the international redistributive principle in strategically supporting such broader development strategies.<sup>48</sup>

While the Republic of Korea and Taiwan Province of China are obvious examples of where synergies between developmentalism and redistributive principles worked well, China provides another interesting case of broader redistributive principles, albeit not necessarily in the form of universalization of social policy until recently. From a narrow social policy frame, China might not appear to be the most obvious case to highlight, given the retreat from universalistic social provisioning in the early reform period in the early 1980s, and the troubled and faltering attempts to return to that direction since the late 1990s.<sup>49</sup> The erosion of more universalistic forms of social policy in post-Mao China has been a major source of both inequality and social instability. Nonetheless, in widening the scope of redistributive mechanisms, important principles become obvious as important preconditions that contributed to growth from the 1980s onwards, and also as crucial factors for stabilizing and sustaining the growth model and avoiding its more egregious tendencies. These elements have been often underemphasized in the presentation of China's successes, even in the 2013 Human Development Report (UNDP 2013), but are vital to understanding how China has been attempting to leverage its success in both economic growth and human development to move towards a progressive formalization of its workforce, including through rising wages and related benefits.

In terms of preconditions, China's success in reducing fertility from a rate of 5.8 in 1970 to 2.8 by 1979—before the introduction of the one-child policy—cannot be appreciated without understanding the entirely state-collectivized economy at the time. Collectivization assured full employment and the near universal provision of primary health care and basic education in both

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<sup>48</sup> See Fischer (2009b) for further discussion of this point.

<sup>49</sup> Appleton, Song and Xia (2010) inadvertently make this point in their critique of targeted welfare in this intervening period. They argue that government anti-poverty programmes in China had little impact on urban poverty between 1988 and 2002. Instead, through an econometric analysis of urban household survey data, they contend that urban poverty had fallen almost entirely due to overall economic growth rather than 'redistribution'. The misconstrued element in their argument is that they refer not so much to redistribution but, more specifically, to targeting, given that China's urban anti-poverty programmes were heavily oriented towards means-tested targeting within an overall retreat from more universalistic principles over the 1980s and 1990s, including the rapid erosion of most pre-existing redistributive and/or social security systems, and a notably regressive shift in the burden of taxation (e.g., see Khan and Riskin 2001). In this context, it can hardly be said that targeted poverty reduction programmes constituted a strong case for redistribution. Rather, targeted social assistance probably represented one of the few marginal factors compensating for an overall regressive shift in the social policy regime of China. Most poverty reduction could be shown through econometrics to have come from growth, although this can hardly be used as a case against redistributive policies. With this corrective in mind, the argument of these authors otherwise well corroborates the arguments discussed here.

rural and urban areas, at least to a level that allowed for the rapid dissemination of new practices and socially transformative messages. The contribution of these earlier social achievements to subsequent economic growth from the 1980s onwards is often under-appreciated, although they have been recognized as central to the fact that China had already far outperformed India in human development terms by the 1970s. Despite starting from about the same life expectancy at birth in the late 1940s, China was more than 10 years ahead of India by 1970. The United Nations (2013) estimates that life expectancy at birth for both sexes combined from 1975 to 1980 was 66.3 years in China versus 54.2 years in India. Similarly, China achieved a literacy rate by 1982 (around 70 percent of the population aged 15 and older) that was higher than that of India in 2001 (65 percent of the population aged 7 and older). These differences have been increasingly recognized as fundamental to the divergent development trajectories of the two countries, such as in the latest book by Drèze and Sen (2013).

Despite the collapse in the 1980s of China's universalistic system of basic health insurance and social protection that had been instituted under Maoism, certain other aspects of redistribution have been central to the ongoing stability and sustainability of the country's growth experience. One obvious foundation was that rural decollectivization in the early 1980s was effectively equivalent to a massive land reform programme. Continuous adjustments to this system of land tenure up to the present have resulted in one of the most egalitarian distributions of land assets (or rural usufruct rights) in the developing world.<sup>50</sup> For better or worse, the Government relied heavily on this egalitarian base to compensate for the erosion of rural social security from the early 1980s onwards; it was able to neglect other forms of rural social security reform for more than a decade.

As another example of redistribution, while it has been much criticized by liberal economists, the financial system in China remains largely if not mostly under state ownership at various levels. This means that it can be used in a developmentalist manner, for instance, to subsidize major development initiatives that might include white elephants, but also those contributing to rising incomes in many rural areas. Well-subsidized rural credit in China has made the provisioning of costly and effectively regressive microfinance more or less irrelevant. As noted in the second section of this paper, Huang (2012) argues that the bulk of township and village enterprises in China from their inception were essentially private, and that the financial context of the 1980s was one of liberalization, which was subsequently reversed in the 1990s. Even if this argument is accepted as true, it does not take away from the egalitarian foundations of reform in the rural areas, as well as the fact that much of the initial rise in rural incomes in the first half of the 1980s was due to an

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<sup>50</sup> For an excellent discussion of the continuous adjustments to this system in order to maintain equal land access, see Brandt et al. (2002). On the equalizing contribution of land assets to rural household inequality in China in the 1990s, see Khan and Riskin (2001).

administered sharp increase in the terms of trade for farm goods, in addition to the one-off incentive effects of returning to an individual household land tenure system.

Other redistributive mechanisms include major fiscal reforms in the mid-1990s, which shifted the control of total national government revenue away from the provinces and back to the central Government. The central share of total revenues increased from 22 percent in 1993 to almost 57 percent in 1994 (China National Bureau of Statistics 2011, table 8-3), which in turn allowed the central Government to reinvigorate regional development strategies that had effectively become moribund since the advent of fiscal decentralization in the early 1980s, in large part through increasing transfer payments to interior and western provincial governments, and thereby allowing them to run substantially increased budget deficits.<sup>51</sup> This fuelled a remarkable economic recovery in the hitherto stagnant regional economies of interior and western China, which had been seriously lagging behind the coastal growth experience with high and in some cases rising levels of poverty. Despite the egregious aspects of such regional development strategies, particularly in minority nationality areas such as Tibet and Xinjiang (e.g., see Fischer 2005, 2013b),<sup>52</sup> these relatively massive redistributive transfers from east to west in China via the fiscal intermediation of the central Government have been important to its attempts since the mid-1990s to reorient its growth model towards domestic demand, and to deal with regional inequality as one of the key dimensions of rising overall inequality, in addition to urban-rural inequality. The emergence of western industrial hubs such as Chongqing, Chengdu, Xi'an and Lanzhou has been closely related to such policies.

China has also practised a degree of regional wage equalization across state sector employment in urban areas, adjusted according to local cost of living. Through such wage policies, it has also instituted rapid real wage increases within such employment from the 1990s onwards on a nationwide scale. For instance, nominal average wages of employees in state-owned urban units rose from 5,553 yuan in 1995, to 9,441 yuan in 2000, to 18,978 yuan in 2005, to 38,359 yuan in 2010 (China National Bureau of Statistics 2011, table 4-13). Considering that consumer price inflation in China has been negligible since 1998, most of the increase in the 2000s was real, after indexing for inflation. These increases have been more or less proportionate across provinces—much of the transfer payments described above would have been spent on financing such wages in poorer

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<sup>51</sup> These deficits have reached levels that would send the European 3 percent deficit ceiling into disarray. For example, in 2010, Sichuan, which had about 80 million people and a GDP worth US \$280 billion at current market rates—roughly equivalent to the GDP of Greece—ran a provincial government deficit of almost 16 percent of GDP.

<sup>52</sup> Although these 'western development strategies' are often characterized as targeting minority nationality areas, in reality, the large majority of people covered by them and receiving the majority of funds disbursed have been Han Chinese—not those residing in minority areas, but in traditionally Han areas such as eastern Sichuan, Chongqing, Shaanxi or Gansu. Such strategies have been related to policies aimed at building regional growth poles in places such as Chengdu in Sichuan, Chongqing, Xi'an in Shaanxi or Lanzhou in Gansu.

provinces with fewer local fiscal resources. The increases have, in turn, arguably set standards and thereby affected wages in non-state formal corporate sector employment, where wages have similarly risen, and even in more informal categories of employment such as urban private units, urban self-employment or unregistered categories of employment. While the phenomenon of rising wages among less privileged categories of workers in China is still hugely debated, and there is obviously a great risk of entrenching a polarized urban labour market, given relatively high levels of inequality, the relation of rising wages at the lower end of the labour hierarchy to publicly instituted state sector wage policies at the upper end has been given far less attention than the demand factors coming from coastal industries. Rising wages also need to be understood in terms of their synergy with efforts to broaden social security and public provisioning, including substantial increases in government expenditure in these policy sectors. The central Government has been pushing these measures forward as a central part of its strategy to address inequality and reorient the growth model towards a more sustainable foundation in domestic demand, despite enormous challenges, including very strongly entrenched vested interests.<sup>53</sup>

The particular revolutionary setting of China would be nearly impossible, and perhaps not desirable, to reproduce in other countries today. But there is still much to be learned from underlying principles, shared with other less extreme cases, in terms of the ways off-farm employment was generated and supported by domestically controlled mechanisms of accumulation, wealth redistribution and universal social service provision—all pursued from a poor agrarian economic starting point. In drawing from these historical and contemporary examples, two important corollaries must be made. First, transitions to lower fertility, out of agriculture, and towards industrialization and urbanization began long ago for many countries, especially outside sub-Saharan Africa. It might not be appropriate for countries such as those in the Southern Cone of Latin America, which was already well in advance of the Republic of Korea in the 1950s, to draw from earlier East Asian examples or even from the particular context of China at present. Second, there is arguably an even greater need for strong redistributive mechanisms today, in part because of the faster speed of demographic transitions, and the more rapid speed of population growth despite faster fertility reductions. Moreover, even strong forms of national developmentalism, as existed in East Asia in the 1960s and 1970s, can no longer be presumed to produce the same equalizing effects

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<sup>53</sup> In discussions with Linxiu Zhang, Deputy Director of the Centre for Chinese Agricultural Policy at the Chinese Academy of Sciences in June 2013, she suggested that return migrations of people from the coastal areas back to their home provinces in interior and western China—and hence the tightening of labour market conditions in coastal China—have been influenced by health insurance and other social security reforms, particularly in Sichuan, where many of reforms have been piloted. While reforms have sought to overcome institutional residential rigidities of the past by integrating rural and urban areas, they nonetheless remain restricted to the province in question and are non-transferable across provinces.

via employment and local retention of value added as they might have in the past, particularly in a very globalized and neoliberal setting.

Hence, the Gershenkronian principle arguably holds more than ever, although operationalizing it for most developing countries requires experimentation and discovery, rather than a replication of old institutional models. Nonetheless, short of radical shifts towards such principles, the predominant supply-side emphasis in contemporary mainstream development policy arguably exacerbates the dilemmas of informalization, casualization and effective underemployment of labour transitioning to urban tertiary sectors in the global South. Current mainstream approaches to social protection, which some have called a ‘revolution’, are excessively limited in scope and ambition to be able to address these dilemmas, in part because they eschew anything other than a very limited, somewhat conservative approach to redistribution, namely, welfare for the poor with conditions.

## Conclusion: reflections on deepening progress

This paper started with a discussion about how the social value of employment is inherently relative and subjective, derived from the sense of security and dignity that people perceive from particular social and economic settings, which in turn invariably adapt to changing contexts. We therefore need to focus on the conditions under which a sufficient and sustained perception of social value might be cultivated within particular employment settings, in a manner that is adaptive and resilient to the often profound structural transformations associated with socio-economic development. Doing this requires positioning the relative and subjective social valuation of employment within a broader understanding of the processes by which labour is organized, integrated, stratified, subordinated and valued within societies, and how these processes change through the course of development. This was explored in this paper by discussing: the changing nature of social need in the contemporary global context by laying out some stylized facts on population growth and labour transitions towards tertiary sector employment across the global South; the limitations of standard economics approaches in dealing with issues of employment creation and regulation in this context; a variety of alternative socially and institutionally embedded views that emphasize the social processes involved in the valuing and regulation of labour; and lastly, the increasingly important imperative for progressive redistributive mechanisms to serve as crucial institutional factors in meeting the contemporary development challenge of creating sufficient employment that would be deemed socially valuable and that would reinforce other human development gains, such as in education. Ignoring this redistributive imperative while striving for productivity increases might well exacerbate certain structural aspects of vulnerability that evolve alongside human and economic development, thereby undermining the social valuation of the objective or absolute gains made in human and economic development.

From this perspective, a few points can be made about the theme of the 2014 *Human Development Report* on development processes and policies that deepen human progress by reducing vulnerabilities and enhancing resilience. Before asking about the relevance of the social value of employment with respect to this theme, we need to first address the question of how we have come to value each other in our increasingly interconnected global economy and society. Deepening progress in this sense refers in large part to meeting the Millennium Development Goals (MDGs). This offers a very restrictive sense of achievement within a range of multidimensional absolute poverty targets. For instance, target one of the MDGs—lowering the global poverty rate by half from its 1990 level measured by a poverty line of \$1.25 a day in purchasing power parity terms—confines notions of economic well-being to an absolute minimum level of subsistence, below which one would essentially starve. While originally drawn from an average of different national poverty lines in poor countries, which came to \$1.08 a day in purchasing power parity terms, this poverty line has been associated with the notion of ‘absolute poverty’, meaning that a person’s income is insufficient to procure around 2,100 to 2,400 calories of food a day in addition to some minimal non-food essential necessities. Reddy and Pogge (2002) have contended that, in fact, this poverty line does not provide an accurate or consistent assessment of absolute basic needs. Other criticisms include the problematic issues of measurement (e.g., see Saith 2005, or Fischer 2010a, 2013a), issues of converting income to food (as per Sen’s entitlement and subsequent capability approach) or else relatively trivial questions of consumer sovereignty (i.e., that poor people might prefer to spend extra income on entertainment rather than food, as highlighted by Banerjee and Duflo 2011). Beyond these critiques, there is an urgent necessity to widen the scope of ‘progress’ and achievement in ways that embrace a more complex understanding of evolving social needs.

As noted in the second section of this paper, social needs can be differentiated from the more general idea of social norms in that if they are not met, very real and hard constraints result that can involuntarily drive people into objective states of deprivation, such as through not being able to access necessary health care. This is in contrast to socially constructed or conditioned relative norms and subjective preferences, which can also have a compelling effect on people, but not necessarily out of hard constraints, such as feeling deprived if one does not own a television. For instance, the necessity of having health insurance in the United States has compelled people to accept otherwise substandard minimum wage employment, whereas the fact that young people do not envisage careers in agriculture, even if they could find well-paid employment in that sector, is related more to changing social norms. Even if people have enough income to avoid hunger and starvation, they can still face strong compulsions related to broader social needs, such as: changing educational needs for employment when the social norm is increasingly based on a floor of full primary enrolment, thereby raising the minimal threshold for socially acceptable schooling qualifications; changing health care needs in a context of rising costs, shifting institutional contexts of access, ageing populations or new

diseases; the needs of housing and transport, especially in contexts of urbanization; financial needs such as student loans, credit card debt or mortgage payments; or any other necessity for participating in society with a minimal degree of functionality, let alone dignity, relative to one's perceived social position.

Even without entering the realm of multidimensional poverty measures and, instead, remaining within the space of money-metric poverty measures, the thresholds that would allow for a sufficient level of income or expenditure to meet such needs, and that would also reflect a substantive sense of inclusion into decent employment, without exploitation or bondage, are generally much higher than those currently used in the MDG dollar-a-day 'absolute' poverty measures. The trends might also be divergent, particularly in a globalizing context with generally rising inequality over the last several decades—in contrast to the comparison of poverty lines of \$1.25 and \$2.50 a day in purchasing power parity terms, which essentially reflect each other. The incongruence between the urban protests that broke out in Brazil in 2013 over rising bus fares and observations of falling absolute poverty rates there is notable in this regard.

To a certain extent, there are structural reasons for the gradual decline in the measures of absolute near-starvation deprivation. Productivity in the contemporary production of food and material stuff has increased to such an extent over the last century that substantial surpluses have been achieved even in the face of rising population. Real food prices—or the terms of trade for food relative to other goods—are at close to an all-time low in historical terms, despite the recent spike. Fuglie and Wang (2013) estimate that real food prices have fallen 1 percent a year between 1900 and 2010 on average. Given rising productivity and the mass processing of cheap (and cheap quality) foods, combined with increasingly integrated international markets, it is understandable how the condition of poverty has gradually changed over the last century from one of food scarcity and starvation to one in which calorie sufficiency is relatively easier to secure, although not necessarily nutrition sufficiency. Other compelling social needs take over in precedence and possibly cause repressed food expenditure, which conventional absolute poverty lines would be ill-suited to identify. This latter point would be a counter-argument to the consumer sovereignty view postulated by Banerjee and Duflo (2011).

Insofar as absolute poverty is restrictively measured as a minimal ability to procure food, not necessarily as an ability or decision to procure food in light of other social needs or desires, it is understandable how there would be long-term, secular decline in such poverty rates, as reflective of this transformation in the condition of modern poverty. If anything, in the face of global productive capacity, it is surprising that so much of the world's population still subsists under or just above such minimally defined poverty lines. Part of this is undoubtedly related to agrarian conditions in much of the global South, where peasant farmers struggle to get by on the low food prices received for their

output on small plots of land, if they produce a surplus, relative to rising prices in the range of other social needs, such as in health care and schooling, or else in inputs to production. Much is not related to agrarian conditions, however. For instance, when we speak of Bangladeshi women factory workers being ‘pulled out of poverty’ by working for the equivalent of \$38 a month producing clothing for Western brands, we are referring to this notion of minimally defined absolute poverty, which these workers and their families subsist only slightly above despite being integrated into value chains that generate enormous value at the retail end. In this sense, such workers are still living under the predicament posited by classical economists such as Malthus, Ricardo and Marx, who assumed that workers’ wages would always be squeezed down to a level of subsistence, that is, subsistence minimally defined by the price of food.

Moving beyond these conceptions of ‘progress’ requires thinking more broadly about poverty and vulnerability in at least three ways. The first entails a more sophisticated understanding of evolving social needs, particularly in contexts where post-primary schooling is increasingly an essential minimum requirement for people moving into urban areas and tertiary sector employment. Such social needs are intimately connected to inequality and relative to evolving social norms.

Contributions by the late Peter Townsend offer some of the best elaborations of this idea of ‘relative deprivation’.<sup>54</sup> As he points out, ‘relative’ in this sense is to be distinguished from poverty lines merely determined as a percentage of average income, such as the European Union poverty line, which is set at 60 percent of national mean income, and is more a measure of inequality than poverty. Rather,

‘Relativity’ applies to both resources and to material and social conditions. Societies are passing through such rapid change that a poverty standard devised at some historical date in the past is difficult to justify under new conditions. People living in the present are not subject to the same laws and obligations as well as customs that applied to a previous era. Globalization is remorselessly interrelating peoples and their standards of living at the same time as inequalities are growing in most countries. There are, therefore, major objections to merely updating any historical benchmark of poverty on the basis of some index of prices... Poverty may best be understood as applying not just to those who are victims of a maldistribution of resources but, more exactly, to those whose resources do not allow them to fulfil the elaborate social demands and customs which are placed upon citizens of that society in the first place. This is a criterion which lends itself to scientific observation of deprivation, measurement and analysis (Townsend 2006, p. 21).

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<sup>54</sup> See an excellent overview in Townsend (2006).

The capability approach of Amartya Sen might be understood as making similar points, despite his debates with Townsend in the mid-1980s.<sup>55</sup> In a development context, such relative deprivation therefore requires an understanding of the evolution of compelling social needs in a context of social and economic transformation, as noted above.

Second, movements out of absolute poverty—and development transitions such as urbanization more generally—can in many cases exacerbate vulnerability rather than alleviate it, which raises the crucial issue of employment security in a context of labour transitions and the importance of matching such labour transitions with modern social security systems. In other words, movements out of poverty generally involve a streamlining of incomes, such as transitions from diversified, low-productivity, but stable and resilient rural livelihoods, to incomes based on one or two wages, salaries or other sources of income.<sup>56</sup> While the latter generally offer higher returns for labour, they also place employees in a more precarious, all-or-nothing condition, which in turn heightens the imperative for employment security. Rather than exacerbating insecurity through flexible or active labour market policies, public policy needs to first focus on creating conditions that enhance peoples' ability to transition with a relatively secure degree of autonomy, thereby facilitating their own livelihood strategies in response to socio-economic structural change. This perspective highlights the increasing importance of more universalistic forms of social security and social provisioning as counterparts to the transition of populations out of agriculture and rural subsistence conditions, not simply in preparation for negative economic events, but also for dealing with the increasing structural vulnerabilities associated with the disembedding of labour within capitalism. In this sense, social security regimes are integral to enhancing peoples' capabilities and societies' competencies within development transitions.

The dark side of these transitions is that, when they take place through a forced commodification of labour, the resultant insecurity of employment might not even be associated with improved incomes, all things considered. This has often occurred in capitalist processes of development whereby labour is forced to become dependent on wage employment through the appropriation of land assets and/or bases for subsistence. Based on the classical experiences of capitalist transitions, it is often assumed that such processes of labour commodification will eventually lead to rising incomes and productive accumulation in the long term, even if dislocations

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<sup>55</sup> Despite Townsend's defence of a relative conception of poverty, he contends that the criterion of such relative deprivation "lends itself to scientific observation of deprivation, measurement and analysis" (Townsend 2006). This is a more positivist position than that of Sen, who has argued, despite his defence of absolute conceptions of poverty, that the identification of essential functionings should be determined through democratic processes within communities.

<sup>56</sup> The understanding of diversified rural livelihoods is one of the generic insights coming out of the literature on livelihoods. The idea of streamlining was classically made by Tony Atkinson and also by Amartya Sen.

in the short term can be very destructive to peoples' livelihoods. As discussed in the second section of this paper, however, great care must be taken in evaluating the value of lost subsistence and the contingent conditions that allowed for rising wages in the classical cases. As argued by Celso Furtado, these contingent conditions included strong working class mobilizations that were integrated into the broadening social base of nation states that were, in turn, at the apex of macroeconomic coordination of national economies. These conditions might not apply in contemporary developing countries, particularly given the increasingly complex coordination of international economic activities that has passed, to a large extent, from nation states to large private transnational corporations, as Furtado observed already more than three decades ago. While this should not be cause for deterministic pessimism, it is also a warning against naïve complacency regarding any natural tendency for a gradual broadening of national social security systems as developing countries become wealthier, as in the classical cases. Intentional and sustained political resolve is required to guarantee such outcomes. Furtado himself believed in the role of political activism as "the necessary condition for the manifestation of creativity in the institutional sphere, in other words, for the creation of new social forms capable of reducing the tensions generated by accumulation" (Furtado 1983, p. 9). Pre-empting the capability approach, he argued from his own structuralist logic that development "is no more than this: to enlarge the space within which human potentialities can be realised" (ibid, p. 8).

Third, we need to think of vulnerability as a vertically occurring condition experienced throughout social hierarchies at all levels, not merely in the space of poverty or with reference to falling into poverty. This is especially important in a context of increasing human development, such as rising schooling levels and growing aspirations for social mobility in a context of urbanization. New nexuses of vulnerability can be revealed or exacerbated in such contexts, further up a social hierarchy, and well above the spaces identified by absolute approaches to poverty, whether income or multidimensional. They might not even be detected by standard inequality measures insofar as they occur in the middle of a social hierarchy. For instance, university graduates from families that can afford such education might face exclusionary pressures (such as through racial, cultural, linguistic or gender axes of discrimination) within the types of employment suited to their educational status, such as public or formal corporate professional jobs, rather than in lower strata of employment that would be filled by poorer and/or less schooled workers. Exclusions in this sense place downward pressures on elite and/or upwardly mobile people within their respective labour hierarchies. They might be very contentious socially and politically, even though not reflected as increasing poverty or inequality per se. As argued in Fischer (2008a, 2009a, 2011b, 2013b), exclusion and vulnerability in this sense need to be understood and evaluated relative to comparable cohorts of people, with similar levels of education and aspiring to enter similar sectors of employment.

This insight is important because vulnerabilities that do not necessarily lead to poverty still have very powerful effects on various social dynamics of social stratification or conflict, and hence on the social value that people perceive from employment in such contexts. Vulnerabilities experienced at the upper end of a social hierarchy are especially potent, given that they occur among politically active and powerful classes. Absolute and even relative indicators of poverty often tell us little about these broader processes because they focus our attention towards the bottom of a social hierarchy, which might be normatively justified but analytically partial. Refocusing attention towards a more holistic understanding of vulnerability counteracts the tendency to blame poor people for a variety of perverse social dynamics, such as riots, crime, inter-ethnic conflict, civil war, etc., that emerge across social hierarchies in response to intensifying insecurities, whether due to inequality or other causes. While poverty might play a role in many of these social dynamics, it is important—indeed, it is an ethical responsibility—to remember that middle classes and elites are also usually implicated, often in ways that surprise presumptions, such as when the aggrieved ‘poor’ turn out to be middle class activists. Social theorists need to address how middle classes and elites themselves might face various forms of vulnerability that undermine their perceptions of social value, thereby fuelling politically powerful grievances.

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