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THINK PIECE

Work and Human Development In a Deindustrializing World

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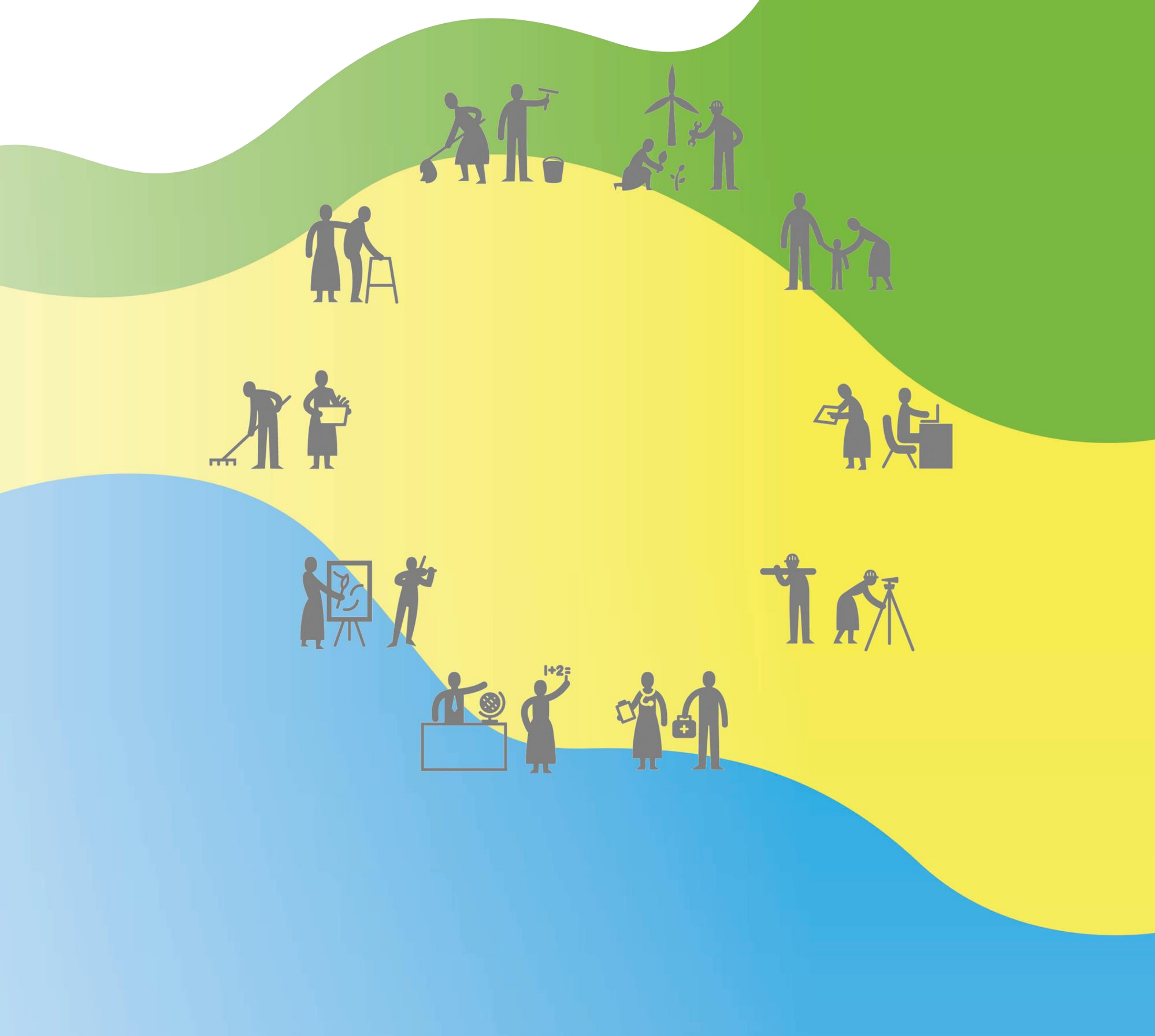

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Introduction

Work is mostly unpleasant. Doing lots of unpleasant work is how countries get rich. And being rich is how more people get to do pleasant work. That pretty much sums up economic history from the perspective of 'work for human development'.

A capsule history of work

At the beginning, there were farmers and animal husbanders. Life was hard, brutal and short. Taxes, the *corvée,* and other requirements imposed by chiefs, landlords or the state were onerous. Many people were serfs or slaves, devoid of autonomy and dignity. Poverty and injustice were the norm, save for the lucky few.

Then the Industrial Revolution took place, first in Britain, and then in Western Europe and North America. Men and women flocked from the countryside to towns, to satisfy factories' growing demand for labour. The new technologies in cotton textiles, iron and steel, and transport delivered steadily rising levels of labour productivity. But for decades, few of these benefits trickled to the workers themselves. They worked long hours in stifling conditions, lived in jam-packed housing and experienced few gains in earnings. Some indicators, such as average height levels of workers, suggest that standards of living may have even declined for a while.

Eventually, capitalism transformed itself, and its gains began to be shared more widely. This was in part because wages naturally started to rise as the surplus of workers from the countryside dried up. But equally importantly, workers organized themselves to claim their rights. It was not just their grievances that gave their demands urgency. It was also that the conditions of modern industrial production made it more difficult for the elites to pursue their usual tactics of divide and rule. Factory work, concentrated in major cities, facilitated coordination among labourers, mass mobilization and militant activism.

Fearing revolution, the industrialists compromised. Political rights and the franchise were extended to the working class. And democracy in turn tamed capitalism. Conditions in the workplace improved as state-mandated or negotiated arrangements led to reduced working hours, greater safety, and vacation, family, health and other benefits. Public investment in education and training made workers both more productive and freer to exercise choice. Labour's share of the enterprise surplus rose. Factory jobs never became pleasant. But at least blue-collar work now enabled a middle-class existence, with all its consumption possibilities and lifestyle opportunities.

Technological progress fostered industrial capitalism, but would eventually undermine it. Labour productivity in manufacturing industries rose much faster than in the rest of the economy. That meant that the same or higher quantity of steel, cars and electronics could be produced with many fewer workers. Manufacturing's share of total employment began to decline steadily in all the advanced industrial countries sometime after the Second World War. Workers moved to service industries—education, health, entertainment, public administration. Thus was born the post-industrial economy.

Work became more pleasant for some, but not all. For those with the skills, capital and savvy to prosper in the post-industrial age, services offered inordinate opportunities. Bankers, consultants and engineers earned much higher wages. Equally important, office work allowed a degree of freedom and personal autonomy that factory work had never provided. Hours may have been long—longer perhaps than in factory work—but service professionals enjoyed much greater control over their daily lives and workplace decisions. Teachers, nurses and waiters were not paid nearly as well, but they too were released from the humdrum mechanical drudgery of the shop floor.

On the other hand, for less skilled workers, service sector jobs meant giving up the negotiated benefits of industrial capitalism. The transition to a service economy often went hand in hand with the decline of unions, job protections and norms of pay equity, greatly weakening workers' bargaining power and job security.

So the post-industrial economy opened a new chasm between those with good jobs in services—stable, high-paying, rewarding—and those with bad jobs—fleeting, low-paying, unsatisfying. Two things determined the mix between these two types of jobs and the extent of inequality the post-industrial transition produced. First, the greater the education and skill level of the workforce, the higher the level of wages in general. Second, the greater the institutionalization of labour markets in services (in addition to manufacturing), the higher the quality of service sector jobs in general. So inequality, exclusion and duality became more marked in countries where skills were poorly distributed, and many services approximated the textbook 'ideal' of spot markets. The United States, where many workers are forced to hold multiple jobs in order to make an adequate living, remains the canonical example of this model.

What about developing countries?

The story I have told so far is mainly one of advanced, Western countries. A few places in the non-Western world have gone through a similar evolution. The most notable cases are Japan, the Republic of Korea and Taiwan Province of China. Each has experienced significant industrialization, and then deindustrialization. They now share with other advanced countries the feature that they are post-industrial economies where the nature of jobs is determined by the interplay between productivity and labour market practices in service sectors. High productivity combined with labour market protections make for good jobs. Low productivity combined with atomistic labour markets are a recipe for poor jobs.

It is tempting to extrapolate this story straightforwardly to countries that have lagged so far. These are the low-income and middle-income countries in which a majority of the world's workers live. The recipe for them would seem clear. Foster rapid industrialization so you can grow. Invest in good institutions and human capital so you have a productive workforce, making sure no one is left behind. And when deindustrialization naturally sets in, do not resist it. Instead, ensure the legal and regulatory setting within which services operate provides adequate protections for employees.

Two objections could be raised to such an extrapolation. One has to do with the *desirability* of emulating the historical experience of today's advanced countries. The other has to do with the *feasibility* of doing so. Let me take up each in turn.

Should today's developing countries emulate the historical pattern?

Remember that early stages of industrialization historically rarely produced an improvement in the living conditions of most workers. There was a significant delay between the onset of industrialization and its benefits being widely shared. A similar lag is visible in many low-income countries that have made successful inroads into world markets in manufactures in recent decades. This has kindled a debate on sweatshops in exporting countries. According to labour-rights activists, export gains are being built on the back of exploited workers, often female, earning very little and working long hours in hazardous conditions. The employment of child workers is a particularly sensitive bone of contention.

Others, typically economists, respond by arguing that so-called sweatshops are simply a stepping stone on the path of economic and eventual human development. As shabby as they may look, sweatshops represent an improvement compared to the alternatives most workers have—a precarious existence in subsistence farming, perhaps, or worse urban jobs. And low pay and poor work conditions reflect the low productivity of workers. Besides, isn't this exactly how today's advanced countries got rich?

The question that this debate raises is whether or not the benefits of labour protection cannot be made available at earlier stages of development than has occurred historically. Is there an iron rule that good labour standards must lag behind development? This is similar to the question of whether political democracy requires economic development as a precondition.

The answer to the latter question informs the answer to the first. Historically, democracy has followed the Industrial Revolution and the rise in incomes. But there is no reason to think countries cannot become democratic at much earlier levels of development. Political participation and contestation are intrinsic values. They also serve an instrumental purpose: Empirical research has established that democratic governments possibly perform better than authoritarian regimes and produce greater stability on top.

Two shining models of democracy in low-income settings exemplify the point: India and Mauritius. These two countries differ greatly in size. But they are both highly heterogeneous countries that were born amid ethnic strife and violence. In both cases, democracy early on has tempered social conflict and enabled political stability. Mauritius grew rapidly several years after independence. India's growth performance lagged until the 1980s, but has been more than decent since, even overtaking China's as these words are being written.

There is no reason why workers in low-income countries should be deprived of fundamental labour rights for the sake of industrial development and export performance. These rights include freedom of association and collective bargaining, reasonably safe working conditions, non-discrimination, maximum hours and restrictions on arbitrary dismissal. As with democracy, these are basic requirements of a decent society. Their first-order effect is to level the bargaining relationship between employers and employees, rather than to raise overall costs of production. And even when costs are affected, any adverse effects could be easily offset by improved morale, better incentives and reduced turnover in the workforce.

Minimum wages are somewhat different in that they directly raise the cost of labour. Minimum wages that are not too far from the market-clearing competitive level may not do much damage to overall employment while improving labour conditions somewhat. The same cannot be said of minimum wages that are far above this level. The danger then is that many job-seekers will be denied opportunities for employment by being priced out of the market. Labour-market dualism, whereby a comparably small minority of 'insiders' protect their state-mandated privileges at the expense of a large majority of 'outsiders', is unfortunately a common feature of economies around the world. This stunts both human development and growth prospects.

The bottom line, however, is that basic labour rights, as encapsulated in the International Labour Organization's core conventions, for example, are not an impediment to economic development. They need not be postponed until economic take-off occurs and is firmly entrenched. History need not be a guide here.

Will today's developing countries be able to emulate the historical pattern?

Manufacturing is an escalator for poor countries for several important reasons. First, there tends to be a positive productivity dynamic in many manufacturing industries (Rodrik 2013). Establish a beachhead in one of the 'easy' manufacturing sectors—such as garments—and the chances are that you will experience steady increases in productivity, and will be able to jump on to other, more sophisticated industries in time. Second, manufacturing is a tradable sector. This means that your successful manufacturing industries can expand almost indefinitely, by gaining market share in world markets, without running into demand constraints. Third, manufacturing is a great absorber of unskilled labour, a low-income country's most plentiful resource. Activities such as garments, footwear, toys and electronics assembly require few skills, so farmers can easily be transformed into assembly line workers.

These are the reasons why historically industrialization has been the main engine of rapid economic growth. Productivity convergence, export expansion and labour absorption create a virtuous cycle that propels the economy forward until the gap with the global frontier closes, and the demands of technological progress become substantially greater.

That is how things worked in the past. The conventional view is that today's low-income countries in Africa, Asia and Latin America will have to do something similar if they want to experience rapid and sustained economic growth.

But this expectation may not be fulfilled. Ours is a very different world. The forces of globalization and technological progress have combined to alter the nature of manufacturing work in a way that makes it very difficult, if not impossible, for 'late' latecomers to emulate the industrialization experience of East Asian Tigers, or the European and North American economies before them.

Consider some of the facts. Since the 1960s, every decade has brought lower levels of industrial employment and output as a share of the economy in developing countries, controlling for standard income and demographic determinants. Peak levels of industrialization are lower than ever and are being reached at a fraction of the incomes experienced by previous industrializers. This means that many (if not most) developing nations are becoming service economies without having had a proper experience of industrialization—a process I have called 'premature deindustrialization'. While early industrializers managed to place 30 percent or more of their workforce in manufacturing, the most recent rounds of latecomers have rarely managed that feat. Brazil's manufacturing employment peaked at 16 percent and Mexico's at 20 percent. In India, manufacturing employment began to lose ground in relative terms after it reached 13 percent (Rodrik 2015).

Latin America appears to be the worst hit region. But worryingly similar trends are very much in evidence in sub-Saharan Africa too, where few countries had much industrialization to begin with. The only countries that seem to have escaped the curse of premature industrialization are a relatively small group of Asian countries and manufactures exporters. The advanced countries themselves have experienced significant employment deindustrialization. But manufactures output at constant prices has held its own comparatively well in the advanced world, something that is typically overlooked since so much of the discussion on deindustrialization focuses on nominal rather than real values.

The reasons behind these trends have to do both with technology and trade. Rapid global technological progress in manufacturing has reduced the prices of manufactured goods relative to services, discouraging newcomers in developing countries from entry. At the same time, manufacturing has become much more capital and skills-intensive, substantially reducing the labour-absorbing potential of the sector for workers from agriculture or informal occupations. On the trade front, competition from China and other successful exporters combined with the reduction in protection levels means that few poor countries now have the opportunity to develop simple manufactures for home consumption. The room for import substitution has been squeezed out.

It is therefore not implausible to conjecture that the East Asian Tiger economies are the last that will ever experience industrialization in the manner to which economic history has accustomed us. If true, this is bad news for economic growth for all the reasons described earlier. It is also bad news for equity. The chasm in earnings and working conditions between bankers and managers, on the one hand, and participants in informal activities such as petty trade or household help is incomparably larger in developing countries. Earlier transition to services, prior to substantial accumulation of human capital and institutional capabilities, greatly exacerbates the problems of inequality and exclusion in the labour market that advanced economies are struggling with.

Future paths

Can this process of premature deindustrialization nonetheless prove to be a blessing in disguise? I noted previously some of the advantages of services in terms of personal autonomy and freedom. James C. Scott points out that a very high percentage of industrial workers in the United States would rather open a shop or restaurant, or work on a farm. “The unifying theme of these dreams is the freedom from close supervision and autonomy of the working day that, in their mind, more than compensates for the long hours and risks of such small businesses.” Scott contrasts this with the work in a factory setting “where the assembly line is fine-tuned to reduce autonomy to the vanishing point…” (Scott 2012). Can workers in the developing world somehow take a short cut and bypass the drudgery of manufacturing?

Perhaps, but how such a future can be constructed is not at all clear. A society in which most workers are self-proprietors—shopkeepers, independent professionals, artists—and set their own terms of employment while making an adequate living is feasible only when productivity is very high. High productivity enables the generation of plentiful demand for these services and, correspondingly, high incomes for independent proprietors. The trouble is that services, in aggregate, have not experienced nearly as much productivity growth as manufacturing over the course of history; it takes as many waiters to run a restaurant today as it did a century ago. So it has fallen on industrialization to provide the high incomes and demand for the rest of the economy.

What is clear, therefore, is that policy makers will face an altogether new challenge when they turn to the future of work and human development. More of economic growth will have to come from productivity advances in services. This means in turn that the partial, sectoral approaches that worked so well to stimulate export-oriented industrialization during the early stages of rapid growth in Asia and beyond will have to be replaced (or at least complemented) by massive economy-wide investments in human capital and institutions. When manufacturing is the engine of the economy, selective reforms such as export incentives, special economic zones or incentives to foreign investors can be highly effective. After all, it is enough to have a few export successes, facing nearly infinite demand on world markets, to pull the economy along. But when growth has to rely on (mostly) non-tradable services, selective efforts will not work. Reform efforts will have to be more comprehensive, targeting productivity growth in all services simultaneously.

Marx famously envisioned a society in which it would be possible for people “to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner…without ever becoming hunter, fisherman, herdsman or critic.” A precondition for this, however, was that the productive forces of the economy develop sufficiently. To date, industrial capitalism has been pretty much the only path to a productive society. Factory work was not pleasant and it generated significant social tensions, as Marx highlighted, but it got the productivity job done.

Today this path looks both less desirable and less feasible. A new path will have to be invented. The broad contours of this alternative are easy to state. It will be a model based on services. It will focus more on soft infrastructure—learning and institutional capabilities—and less on physical capital accumulation—plants and equipment in manufacturing industries. Beyond that, however, much remains up for grabs.

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