

Towards a sustainable employment
Deepak Nayyar

Jawaharlal Nehru University, New Delhi and former Distinguished University Professor of Economics, New School for Social Research, New York

This note seeks to focus on the macroeconomic aspects of employment rather than the microeconomic concerns about the world of work, because sustainable employment is feasible only if macroeconomic objectives and policies are conducive.

The financial crisis that surfaced in late 2008 led to the Great Recession in the world economy which persists. Recovery is slow, uneven and fragile. Even in countries that have fared better, there is some recovery in output but much less in employment. In fact, unemployment rates remain far higher than they were in 2007 almost everywhere. The unemployment rate for youth, largely new entrants into the labour market, which is historically more than twice the average for higher age groups, has jumped to unprecedented levels in some industrialized economies. At the same time, the problem of long-term unemployment, the proportion of those unemployed for more than six months in the total number of unemployed, has intensified in many industrialized economies. Yet, it must be recognized that the global economic crisis has only accentuated the employment problem which has persisted for a long time.

Jobless growth aptly describes reality over the past three decades in most industrialized countries and emerging economies. Output growth has been sustained by increases in labour productivity rather than increases in employment. Technological progress has made it possible to use a small number of highly skilled workers at much higher levels of productivity, the benefits of which accrue in the form of higher profits and, to a limited extent, higher wages for a few so that much of the work force is not part of these increments in output. The slowdown in economic growth and employment creation are both associated with a worsening income distribution. At the same time, a deterioration in the quality of employment has accentuated economic inequalities. This is neither accident nor coincidence. It is the outcome of orthodox macroeconomic policies and financial liberalization. The time has come to seriously question this orthodoxy.

The rethinking must begin by redefining policy objectives. In the short-term, the prime concern should not be the stability of prices alone. The stability of output and employment is just as important. In the medium-term, the essential objective of macroeconomic policies cannot simply be the management of inflation and the elimination of macroeconomic imbalances. It should be just as much, if not more, about fostering employment creation and supporting economic growth. The rethinking must also extend to reconsidering policy instruments. Fiscal policy cannot be reduced to a means of reducing government deficits or restoring macroeconomic balances. It is a powerful instrument in the quest for full employment and economic growth. Monetary policy cannot be reduced to a means of controlling inflation through interest rates. It is a versatile instrument where both the price and volume of credit can be most effective in the pursuit of economic objectives.

My essential argument is that there are no trade-offs between job creation and output growth, so that it is misleading to present it as an either-or choice. In fact, there are strong complementarities between employment creation and economic growth. Growth can create

jobs, and jobs can drive growth. Indeed, the two can reinforce each other, through an interaction between the supply side and the demand side, to create a virtuous circle of cumulative causation. It is just as important to recognize that more employment generation or faster job creation in the process of economic growth would simultaneously address the problem of increasing economic inequality between people, by reducing inequality or preventing it from rising as much as it otherwise would. Similarly, an improvement in the quality of employment, which provides decent work, would also contribute to a reduction in economic inequalities.

The moral of the story, then, is that a focus on employment, as the primary objective rather than as a residual outcome, is absolutely essential. If it is possible to raise the employment growth rate, without inducing an equivalent or greater reduction in labour productivity growth, the growth rate of the economy can only be higher. It should thus be possible to focus on employment growth as a the objective. This should also lead to some rethinking about the meaning of efficiency beyond the usual conceptions of economic efficiency or technical efficiency. Indeed, employment expansion is at least as important as productivity increase. In a sense, both represent the utilization of labour as a resource. Why, then, is thinking about efficiency focus on one and neglect the other? It is time, perhaps, to reflect on the meaning of efficiency, which must extend beyond output per worker or productivity increase to expansion of employment and labour-use. Such an idea could make a real difference.

Three messages deserve emphasis. Governments should rethink macroeconomic policies by redefining policy objectives and reconsidering policy instruments, so that the focus is on fostering employment creation and supporting economic growth rather than on price stability and balanced budgets. Firms should recognize that wages are costs on the supply side but are also incomes on the demand side, which means that profit-led growth and wage-led growth are complements not substitutes, and that what is good for employment is good for economic growth, where the connection is causal. Civil society and trade unions should use their voice in the political process and influence on economic policies to maximize employment levels and, if possible, return to full employment. This needs change in both economics and politics. In the sphere of economics, the meaning of efficiency must extend beyond output per worker and productivity-increase to employment expansion and labour-use. In the realm of politics, employment must once again become an integral part of the discourse and the process, as a primary objective rather than a residual outcome.