Binzagr Institute
for Sustainable Prosperity

FULL EMPLOYMENT AND SOCIAL JUSTICE

Solidarity and Sustainability

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"Sustainable prosperity" is a holistic notion encompassing the physical, mental, environmental, financial, educational, and civic wellbeing of all individuals, families, neighborhoods, and regions throughout the world. In this sense, sustainable prosperity requires the development of a multi-faceted public policy framework addressing the root causes of global, national, and regional socioeconomic challenges. It must guarantee all individuals a decent quality of life with dignity and the opportunity to be a member of an inclusive, participatory, and just society. Sustainable prosperity means that every decision we make, individually or collectively, must take into account its direct and indirect effects on people, on the planet, and on the economy.

Crafting solutions to the complex challenges that confront us in the twenty-first century requires an interdisciplinary approach at the intersection of economics, ecology, and ethics. The Binzagr Institute for Sustainable Prosperity book series seeks proposals from a broad range of fields that encompass and further this philosophy. We welcome authored works or edited manuscripts that investigate socioeconomic inequality based on class, race, ethnicity, and/or gender, and that promote policies to further sustainable prosperity among marginalized groups. We especially encourage proposals that build on the Job Guarantee approach to full employment, financial sovereignty (functional finance), renewable energy, sustainable agriculture, environmental policies, local community development, local capacity building, social ecology, social venture partnerships, and social entrepreneurship.

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CHAPTER 1

Introduction

Michael J. Murray and Mathew Forstater

1.1 Introduction

How can full employment programs sustain the economy, the environment, promote social justice, and reinvigorate local communities? Concisely, that is what this book attempts to answer. The forthcoming chapters build on three previous volumes by the editors; the essays in Murray and Forstater (2017) investigate the financing of the Job Guarantee through the lens of Modern Money Theory; contributors in Murray and Forstater (2013a) simulate Job Guarantee programs; and the essays in Murray and Forstater (2013b) investigate real world case-studies of employment guarantee schemes. The contributions in this volume focus on the formation of federal, state, and local institutions to reduce and eliminate the opportunity gap for women and minorities, promote environmentally sustainable methods of production and consumption, and rebuild local economies through education, training, and community redevelopment programs. The shared

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vision among the contributors of this volume is that the formation and implementation of a federally funded, locally operated, Job Guarantee program is a vital component to address these complex and interweaving concerns. The theoretical foundations of the Job Guarantee (also referred to in the literature as the Employer of Last Resort (ELR) program or the Public Sector Employment (PSE) program) was furthered in the late 1990s and early 2000s by economists in the USA, Europe, and Australia notably at the *Center for Full Employment and Price Stability* (http://www.cfeps.org), the *Levy Economics Institute* (http://www.levyinstitute.org), and the *Center of Full Employment and Equity* (http://e1.newcastle.edu.au/coffee/). Alongside these institutions, Job Guarantee scholarship continues as part of the larger research program at the *Binzagr Institute for Sustainable Prosperity* (www.binzagr-institute.org/).

The ideal model for a Job Guarantee program is to institute a federally funded, locally administered program that puts all those with the willingness and ability to work into paid employment. The ideal model is a universal program. Variants of the universal Job Guarantee proposal emerged and includes the Roosevelt-era New Deal projects of the Great Depression era; more recent examples include the *Mahatma Ghandhi National Rural Employment Guarantee Act (MGNREGA) of 2005* which currently offers up to 100 days of paid work for Indian rural workers, Argentina's *Jefes y Jefas de Hogar Desocupados* (*Program for Unemployed Male and Female Heads of Households*) which targeted rural households with children and offered paid employment to those heads of households (Kostzer 2008), and *Ghana's National Youth Employment Program* of 2006 to combat the staggering rates of youth unemployment in Ghana (Dadzie 2013)—these are just a few among many other examples.[1]

The implementation of such of a program requires the alignment of political, economic, and social forces. No former, or existing, Job Guarantee program represents a universal program open to all workers. Nevertheless, all the programs enacted have had profound, positive social impacts for its members and society as a whole. One of the goals of this book is to not only introduce readers to the ideal model(s) of the Job Guarantee policy and its variants but to delineate the many economic and social benefits of the program. To this end, this book concentrates on the social aspects of the Job Guarantee program, specifically how the design and implementation of the program combats ecological destruction and promotes social and economic equity among genders, classes, and races in the developed and developing world.

Before briefly introducing the many benefits of the Job Guarantee program to which this volume expounds, it makes sense to first bring readers up to speed who may be unfamiliar with the foundations of the Job Guarantee approach to full employment. The heart of the Job Guarantee proposal is for the federal government to provide initial finance for the creation of federal, state, and local employment offices; and then, after the initial buildup, provide continual funding in perpetuity for these offices to hire labor directly into guaranteed public sector employment. In addition to these offices, community and non-profit groups may apply for funding through the program to hire workers for public projects already in place.

The Job Guarantee program operates in a countercyclical manner, hiring labor during economic downturns and selling labor to the private sector during economic upswings as workers leave public sector employment for more lucrative positions in the private sector. The ability of workers to shift from employment in the private sector to public sector employment (and vice versa) promotes macroeconomic stability by maintaining higher levels of final demand during economic downturns (Murray 2013). The degree of maintenance is predicated upon the difference of the wages offered in the private sector and the Job Guarantee wage. To this end, some proponents advocate for a universal hourly public sector wage and benefits package (Wray 1998, 2012; Burgess and Mitchell 1998). The advantages of a uniform wage policy is that the Job Guarantee wage puts a floor on wages and benefits to which private sector wages cannot fall below. In this manner, the Job Guarantee program also has the ability to incentivize the private sector to provide a socially beneficial compensation package by compensating its own employees in a similar manner. This wage-benefits model has come to be known as the "universal basic wage" model. Nevertheless, this is not the only way wages and benefits can be structured. Another model proposes workers enrolled in the program are offered both responsibility and compensation in a comparable manner to jobs performed in the private sector for given levels of skill, responsibility, and experience (Harvey 2013). In another model, the Job Guarantee has a three-tiered wage structure dividing employments into unskilled, semi-skilled, and skilled categories, each with a commensurate wage (Kaboub 2013). Through the partial or complete maintenance of wage-income, the Job Guarantee program has the potential to substantially dampen economic recessions; the degree to which is predicated upon the wage-benefit scheme that is implemented. This achieves macroeconomic stability by

maintaining consumption patterns of workers, smoothing out business cycles, and stabilizing investor expectations at the local and national level.

The Job Guarantee also has the potential to increase worker productivity, especially when complemented with an education and training component. Increasing innovation in technology that structurally changes the way we live, work, and play fuel the global twenty-first-century economy. This model of creative destruction requires a robust model of education and training, one that is responsive to the changing needs of regional markets and national economies (Wisman and Reksten 2013). Through education and training, the Job Guarantee sector can take the lead in developing and investing in alternative green technologies. The public sector is the only economic sector that has the means to invest in alternative technologies; because unlike private businesses, it can divorce itself from the profit motive. Many existing federally financed goods and services are not economically profitable, but societies decide that they serve a larger social benefit; current examples include government investment in mass transit, national parks, and the investment in public education, to name just a few. In a similar vein, part of the education and training component can be orientated toward these and similar welfare-enhancing programs. Specifically, federal governments can use the Job Guarantee program as a means to seriously address the dual problems of ever-increasing natural resource use and climate change through the teaching and adoption of a "green economic" system of development alongside traditional workforce development programs.

Many of the historic and contemporary variants of employment guarantee programs implemented worldwide have prioritized green jobs. Examples include the Civilian Conservation Corp in the USA which focused on ecological conservation and the development, and protection of state and national parks and US national forests (e.g. Rose 2013), the *MGNREGA* in India which, among other measures, sets aside 20 percent of their expenditure on the construction of water conservation and water harvesting structures (Ministry of Rural Development 2015, and Chap. 10 of this volume), and the *Ningxia Ecological Immigration* program in China which focuses on the protection of an ecologically fragile region while supporting local agriculture such as "goji berries, wine grapes, and other exotic local produce and to develop the dairy and wool industry" (Li 2013).

The most ecologically sustainable models of economic growth and development are ones that center on the needs of local communities.

China's *Ningxia's Ecological Immigration Program* and Argentina's *Jefes de Hogar*, where 87 percent of the implemented projects focused on community's needs (Tcherneva and Wray 2005), are perfect examples of sustainable Job Guarantee programs. These programs specifically target the economic needs of the unemployed by offering paid employment and promoting economic development through employment projects focused on the needs of local communities and supporting localized industry.

The Job Guarantee approach to full employment and sustainable economic development is in sharp contrast to the traditional approach toward economic development. The traditional model is an export-led system of growth based upon the failed model of comparative advantage, free markets, and free trade. In reality, global capitalism is an exploitative system; one that takes resources away from developing regions and allocates them to wealthy, developed, parts of the world.

This perverse redistribution of resources is evidenced on a global level, known as the Prebisch-Singer hypothesis, and is central to the dependency theory, which goes further to claim that the impoverishment of the developing world to further enrich wealthy nations is built into the structure of the global economic system. The proliferation of free trade worldwide led to the growth in commodity exports that has outpaced the growth in the value of these commodities. The outcome is that the poorest nations that take an export-led growth approach must continually ramp up production of exportable commodities just to maintain the aggregate monetary value of their exports. The result is that the rich developed world benefits from the extra volume, while the developing nations over-produce, engage in monoculture production, and move toward the production of cash crops (Cato 2009, 123–137). The combined effect is that free markets and free trade strain the natural resources of developing countries without improving their economic position. Likewise, the over-consumption of resources and commodities by rich nations is creating ecological destruction that may soon be irreversible. There bears a close, positive correlation between the growth in free trade and the growth in carbon dioxide emissions. As Molly Scott Cato put it: "Such a system is efficient at generating profits—by concentrating production in countries with low wages and low standards of environmental protection, and concentrating consumption in the wealthier countries—but inefficient at using the capacity of the planet to absorb pollution" (2009, p. 130).

The counter to the neoliberal model of export-led growth is that true social, economic, and ecological sustainability for both developed and

developing nations can be had by promoting local economies that are human focused rather than market focused (ibid. 132). Local self-reliance encourages local production with local labor and local resources and promotes local consumption. In its broadest sense, local self-reliance is to "stop the leakage" of natural, created, and monetary capital from leaving local communities so that the community has the physical, economic, and social capacity for self-sustainability (Morris 1982). Self-sustainability includes meeting the biological needs of the community through local agriculture; meeting the economic needs of the community through investment and reinvestment in local businesses; meeting the financial needs of the community through local finance and community-centered banking; and meeting the social and psychological needs of the community through time-banks, time-sharing, and the development of participatory democracies.

To do this, communities require local resources. Local resources are attained by first meeting the social, economic, and financial needs of the community. This means shifting emphasis away from export-led growth and encourages local economic development through investments in local agriculture, localized training and education, and developing and equipping small local businesses focused on the community and local economic development (Gunn and Gunn 1991, pp. 22–58). Localized Job Guarantee programs further rely on the formation of alternative institutions alongside traditional institutions. For example, Forstater (2013) suggests municipal confederalism as a framework for which a local Job Guarantee program can be implemented. Under this model, policymaking is based on the local community engaged in participatory democracies and where the administration of the Job Guarantee program is based on confederal councils. Under a participatory democracy model, a Job Guarantee program redefines what is meant by useful work. It has the potential to structurally change the way economies operate toward localized production that focuses on humanity rather than the market.

With its many social benefits, perhaps the most important benefit of a Job Guarantee program is that it acts as a labor-market buffer and thereby eliminates the staggering social costs of unemployment. These costs include inequality of income and wealth, typically along racial and ethnic lines, incidents of depression, suicide, ill physical health, family disruptions including divorce, school-dropouts, increases in crime, ecological destruction specifically in rural and poverty-stricken regions, and heightened racial and ethnic tensions against minorities and rural populations (e.g.

Fryer 1995; Goldsmith et al. 1996; Sen 1997; Theodossin 1998; Darity 1999; Harvey 2000; Watts and Mitchell 2000; Biddle 2001; Wray and Forstater 2004; Laylord 2005; Li 2013; Forstater 2014, Darity and Hamilton 2012).

Given the staggering social costs that chronic unemployment has on individuals, families, and communities alike, and given the failed neoliberal agenda, the need for new progressive policies that simultaneously and actively combats chronic unemployment while promoting the public good becomes all that more obvious. The interweaving problems of chronic unemployment, social inequality, class conflict, racial injustice, crumbling communities, and ecological destruction can be refocused and viewed as opportunities for policymakers to create institutions that promote full employment, solidarity, and sustainability.

Notes

1. For a more in-depth look at some of these programs and to learn about other Job Guarantee proposals, see Murray and Forstater (2013b).

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CHAPTER 2

Unemployment and Transformational Growth in the Long Run

Edward J. Nell

Balanced growth that 'lifts all boats' is a theoretical fantasy, useful only in explicating some technical points (Hicks 1976b).[1] It is not a description of any kind of reality. Growth has *never* taken place in such a way; simple, steady, and proportional expansion is simply not a realistic possibility. Growth is always unsteady, unbalanced, and frequently it is destructive. Growth is essentially *transformational.* It is a process of change, and change entails winners and losers. Schumpeter described it as a process of 'creative destruction', and the destructive effects may often be more apparent than the creative.

Metaphors aside, growth is never purely economic. The processes of growth transform societal institutions, not only expanding but also altering the character and mechanics of markets as innovations are introduced. This brings about one of the greatest changes of all—the shift of population from rural to urban, from agriculture to industry and services.

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2.1 Breaking up Traditional Societies

There is a pattern of development that is virtually universal. All processes of development lead to changes in traditional agriculture such that labor leaves the countryside and migrates to towns and cities, which expand and develop industry and more advanced services. But not all who leave rural life will find work in the new cities. As industry develops, it will become more mechanized, displacing labor; as services develop, they will become more information-intensive, putting new requirements on labor. Both of these processes expand the government's range of activities and increase its share in total output. To understand this, and see how unemployment develops, we need to explore the paths along which societies move from traditional to modern.

2.1.1 'Traditional Society'

'Traditional society', as we shall use the phrase, covers a wide variety of socio-political formations, including among others feudal systems, absolute monarchies, and certain kinds of military dictatorships, so long as they are characterized by certain important features[2]:

- Traditional society and the economy embedded in it are static; change is rare and comes about gradually.
- The division of labor and the organization of work, and the system of authority, are governed by tradition, sanctified and legitimised by religion.
- The social positions that people occupy, the property they dispose of, and the work they do are governed by birth and the rules of the kinship system. Kinship, clientship* and long-term social relationships provide the basic network of contacts for economic and social activities.
- In daily activities and in various kinds of planning, as well as in times of crisis, when looking for guidance, the rule is to look to the past, to what the great figures have done, to what venerable teachers or legendary religious figures have said.
- Because traditional economies generally have an agrarian majority, daily work and normal lifestyles for most people will be close to nature; the cycles of animal life, the rhythms of the seasons, and the ebb and flow of planting and harvesting govern the pace of life.

- Work and the organization of social life, and most forms of wealth, will center on the land and how it is managed, except for the craftsmen and merchants of traditional, usually small, urban centers.
- A great deal of economic activity is conducted in real or barter terms; money serves only to settle the balances of accounts, to support long-distance trade, and to pay certain fees and taxes.

In effect, this is a 'full employment' world; there is a place for everyone, and everyone is supposed to be in their place.

The developed world differs in every one of the categories listed. It is dynamic and innovative; technological and social changes are the norm. The division of labor and the organization of work are methodically calibrated, and often adjusted in accordance with the requirements of technology and the principles of management. Lifestyles are the result of economic choices interacting with socially determined preferences and constraints, subject to rational criticism. Planning and development, especially the decisions of government and private investors, are governed by expectations of the future, not by tradition and the past.

Nature is something to be controlled and mastered by science; the rhythms of nature are supplanted by the conventions of time. The developed world runs by the clock. Capital, rather than land, rules, and capital finds its market expression in money, which is the universal standard and primary regulator of economic and social activity.

Traditional society looks to the past for guidance. By contrast, capital is inherently forward-looking. Indeed, the value of capital is given by the discounted sum of *future* net returns, a completely opposite perspective to that of traditionalists. Capital looks to the 'new and improved'; as the saying goes, 'sunk costs are sunk'—tradition and the past are not that important, indeed, may be obstacles.

European Colonialism for the most part left the domestic economies of traditional societies intact, without much affecting their hierarchical social relationships. However, in India, most of Africa, and parts of Southeast Asia, it did succeed in generally co-opting members of the elite and turned them toward Westernization, undermining the traditional culture. The metropole saw the conversion of local elites to Western ideas as crucial to upholding the colonial structure. They were encouraged to think along capitalist lines in business and to re-examine industry and agriculture scientifically. Modern transportation and modern sources of power were introduced, though mostly for the purpose of exploiting natural resources.

When the colonies rebelled and broke away, the elites tended to remain oriented to Western ideas. After independence, only the skeleton of traditional society remained; the old economy and kinship system was left largely intact, especially in the countryside, but the traditional system was hobbled by the lack of viable leadership. Headless, its elite looking to the West, the traditional order could not respond to pressures or adapt. Yet most such elites were not strong enough or imaginative enough to create a new world on their own—with Ataturk in Turkey perhaps being the exception (though now we have China and perhaps India).

2.1.2 From Countryside to Town

Development is a change from the traditional system to a modern one, and it begins largely through a shift of the workforce from the countryside to the cities. This pattern can be seen everywhere; it is the dominant movement of people and economic resources of the last three centuries, even longer, perhaps, for it can be seen on a smaller scale throughout the last two millennia.[3]

In the aftermath of World War II, throughout most of the developing world, there was significant resistance on the part of urban elites to movement from the countryside to the cities (Davis 2006). A large influx from the countryside would threaten to overwhelm city services, create slums, ruining the cityscape, garbage and sewer overflow might spread diseases, and the unemployed and homeless squatters would very likely turn to crime. Unions likewise feared the influx of unemployed migrants from the country; they would tend to drive down wages. Urban growth in the developing world was slow during the first two decades after World War II, but it has increased exponentially since then.

The changing patterns of response partly represents increasing pressures in the countryside—marginal farmers and laborers have been forced out—but it also represents not so much a change of heart on the part of urban elites, as a change in the relative power of developers in the urban elite. Real estate interests came to realize that the influx was good for them (Davis 2006). This was partly driven home by problems of counterinsurgency and civil war, and partly it represented a consensus among the political forces that overthrew anti-development dictatorships. There have been many different kinds of urban responses to the influx, but most involved state-led efforts to create housing and provide services, for the most part too little too late, and too badly planned. But no matter, these

responses all meant a state organized flow of money into real estate, offering excellent opportunities for the well connected to profit. The problems of the poor can be opportunities for the rich.

In Turkey, usually considered a successful case, we can nevertheless see how prolonged and fragmented the process of change is. Driving into Ankara from the airport, approaching the outskirts, a visitor will come upon new high-rise apartment complexes, each with a brand new concrete mosque. Older people from the countryside live here; they are walking on the streets; the women small, stooped, covered from head to toe, dressed in black, the men wearing modified traditional garb. Closer to the city center, we come upon older, small-scale housing, with younger people. Here, the men are driving, but not the women. The men wear mostly Westernized clothes, but the women are still in head scarves. In the center of Ankara, there is Middle East Technical University, the MIT of Turkey. Only Western clothes are to be seen, and not that many, either, as young women in short shorts with bare midriffs buzz by on their Italian motorbikes.

Starting from a traditional economy, development takes place when new methods and new products are introduced, raising the productivity of labor.[4] Typically, these innovations appear first in urban centers before spreading to the countryside. In the cities, they lead to new centers of production, sometimes to whole new sectors, creating opportunities for employment and for investment. In the countryside, however, the typical impact is to displace labor, as methods of farming become more productive, and the same acreage will both produce more crops—and require fewer workers. It is important to understand that labor is *forced out* of agriculture; small farms go under and are bought up or abandoned. Farm laborers are let go and can no longer find jobs. As rural incomes decline, shopkeepers in small towns have to close down, and professionals—doctors, lawyers, accountants—will leave.

Another way of putting this, perhaps, is to note that Malthus was fundamentally wrong. He argued that the output of food could only grow arithmetically—output would increase as more acreage was brought under cultivation—but birth rates rise geometrically, like compound interest, and therefore population would eventually outstrip agricultural production. If this were so, there never would be migration from the countryside to the towns; indeed, as food shortages grew, the migration would be the other way, as desperate families sought little plots of land on which to eke out a bare living. But in fact food production not only grows exponentially,

through breeding, technical progress, and now genetic engineering, but now it grows faster than population!

It is also true that people are attracted to the cities and towns by the higher wages available there, even though the chances of landing a high-paying job may be unlikely, at least at first. But there are also easier opportunities to find in the informal economy, although such work may be unstable, illegal, and dangerous. Economists, unfortunately, have misunderstood and trivialized the whole subject of rural to urban migration. They have tended to explain the movement of population as a *matter of choice*, focusing on the gap between high urban and low rural wages as the chief incentive driving the migration (Harris 1970). This is a bad mistake. It reduces a centuries-long transformation of the economy to a response to a sticky price differential in an imperfect market. Given the importance of this migration, it will help to survey some of the problems with this perspective.

Economists try to explain migration using a formula called the 'gravity' equation: an urban area attracts migrants—they are pulled by its gravity—according to a modified 'inverse square' law. This sounds very technical and impressive, but it has no behavioral justification. Adding economic variables reduces migration to an 'individual decision', made in response to 'incentives'. This trivializes important and far-reaching social changes, which alter the landscape of opportunities and change traditional relationships, including land use norms and contracts.[5]

First, while there is certainly an important difference in money wages, when real subsistence is figured in, the differential will usually be smaller and may disappear altogether. Indeed, in the nineteenth and early twentieth centuries, life expectancy and the standard of living of the working class seems to have been higher in the countryside in England, Europe, and the US. Only later did both become higher in the cities. Yet the great migration began in the earlier period (Bogin 2001).

Second, and more important, focusing on pay differentials tends to draw attention away from the fact that new technologies are now, and have been for 40 years, revolutionizing the countryside and changing patterns of land use and management. First, we had the Green Revolution, now it is biotech and genetic engineering, together with new equipment and new methods of irrigation. All have raised productivity and increased output to the point where, in the aggregate, the world no longer suffers from food shortage—and that is new in human history. But 'in the

aggregate' is the catch; overall, there is enough capacity to feed the world, but that capacity is often not available where it is most needed.

One implication of this is that new technologies and increases in overall productivity can be extremely damaging to poor and marginal farmers. Demand for agricultural products is not very flexible, especially in the short term; it depends on population and conventional standards of diet, neither of which change very fast. The result is that when new technology leads to an increase in supply, prices are likely to fall, perhaps sharply (as in the last two decades), but demand is unlikely to increase much. Substantially higher productivity combined with limited additional demand means that fewer agricultural workers are necessary. Meanwhile, the drop in prices reduces incomes on marginal farms; even with additional effort, there will be a point at which such farms cannot make ends meet, and this forces marginal farming families off the land. These two pressures compel an exodus of labor; we have seen this in Mexico, in India, in Africa, and many other places. It is important to understand that this exodus from the countryside is accompanied by increases in both labor productivity and output in agriculture.[6] This is in line with the facts, but it is contrary to what some standard models would have us believe, which is that the outflow of labor from the countryside leads to a drop in output!

Third, the conventional models of migration assume a diminishing returns technology in the countryside; yet there is good evidence that modern agricultural technology provides for important economies of scale in many areas. Models of trade often make similarly unrealistic assumptions, yet diminishing returns are usually present only when the technologies are backward. Some conventional models—the Solow growth model, for example—even assume diminishing returns in industry, which would only be true for Craft technologies. Apart from specific cases, constant returns normally prevail in Mass Production and increasing returns in High Tech (mistaken assumptions about technology, unfortunately, seem to be widespread in economics, cf. Nell 1998a).

Finally, the conventional approach treats migration as labor leaving agricultural employment for the perhaps uncertain prospect of urban employment. The implication is that agriculture will now face an impending shortage of labor—so that as workers move to the city, rural output will have to decline (although productivity at the margin will rise). This follows from the conventional model, but it is simply wrong. Nowhere in the world is there a general shortage of agricultural labor. Agricultural

productivity has been increasing everywhere—across the board, not just at the margins—as a consequence of science-guided innovations. By failing to acknowledge the coercive pressures on labor and by adopting a convenient but inappropriate 'supply and demand' framework, the conventional approach has drawn a misleading picture.

To repeat: labor has been pushed out of the countryside for a complex array of reasons: sometimes because of changes in crops that lead to economies of scale; sometimes because of changes in land holding and land use that make it possible to draw on improved technology; sometimes as a result of improved seeds and fertilizers that raise land productivity, requiring less labor; and, as has happened for centuries, because of the introduction of labor-saving machinery and equipment.

Labor in modern industry, located in towns and cities, generally requires a workforce that can follow written instructions and is not chronically ill. Wages therefore must be high enough to cover education and health. Everyone has to pay taxes in the cities, so wages must be high enough to allow workers an adequate standard of living after taxes. Everything is monetized in cities, so wages will cover many things that would be obtained by barter and swapping in the country. In the formal economy, at least, urban wages and working conditions will tend to be governed by legal and institutional pressures, ensuring that these requirements are met. The informal economy may be a different story.

High money wages and expanding employment opportunities in the cities, combined with displacement of labor in the countryside, result in a population shift as families move from farm labor in the countryside to factory or service jobs in towns. The pressure in the cities rises from the (temporarily) sharp population increase, as better health services lower death rates before birth rates fall. An important byproduct of these changes is an increase in monetization, as money wages replace payment in kind. This introduces a new kind of insecurity, as the former patterns of barter exchange break down. These patterns offered protection from the vicissitudes of the market. With their demise, that protection disappears.

This process has been universal. Every country that has ever succeeded in developing its economy has seen a dramatic decline in the percentage of the population working in rural agriculture. On the one hand, productivity rises dramatically in agriculture as farming becomes mechanized, and as better methods are brought to bear on cultivation. Machinery and mechanical energy supplants the efforts of humans and draught animals. Tilling, planting, harvesting, and threshing are mechanized, and the labor

of tending and caring for draught animals is rendered unnecessary. In addition, scientific breeding, the development of new seeds, and new or improved fertilizers further increase productivity.

It is surely reasonable to assume that as agriculture becomes organized along business lines, long-term investment in agricultural improvement will keep pace with investment elsewhere. Competition will pressure farmers, large and small, to introduce cost-saving, output-enhancing innovations. Productivity in agriculture should therefore grow at least as fast as productivity anywhere else in the economy (as we noted, Malthus was wrong).

2.1.3 The Slower Growth of Primary Sectors

On the other hand, as the society becomes richer, the demand for foodstuffs and other agricultural products *grows more slowly than total income*. That is, as we experience a rise in income, after a point, our demand for food and other products of the countryside, while it may increase, does not keep pace. Instead of eating more, we spend our increased income on other things, generally manufactured goods. As incomes rise, the percent spent on primary goods tends to fall and that on manufactured goods to rise—for a time. But then, as incomes rise further, the percent spent on manufactured goods will stagnate, and as we have recently seen in the advanced world, begin to fall, while services and hi-tech goods will rise.

The changes in the character of consumption as societies become richer are a fundamental feature of Transformational Growth (Fogel 1994; Pasinetti 1983; Gualerzi, 2001). When incomes per capita are low, most money is spent on goods we consume personally or individually, or at least, as a family or household. But as incomes rise—and technology develops—we spend more on things we do in conjunction with others, outside the family, even with strangers, things that we do collectively. Think of telephones, of communications and the media generally, of getting an education, of travel and entertainment. These are all things we do with others, usually with many others. As we become richer, we devote more and more of our time to improving our talents and using them to improve our lives (not to mention enhancing our assets and pampering ourselves).[7] But it is difficult if not impossible to develop and exercise one's talents in isolation; instruction and criticism is necessary. Learning is the key, and this can seldom be done alone. Indeed, the same applies to luxurious indulgences, such as hair salons, spas, and therapy centers. Much of the luxury comes