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INDUSTRIAL EMPLOYMENT

From Unemployment to Rapid Growth?

by Bill Jordan, Exeter*

With unemployment in the OECD countries approaching 30 millions, and with the Mitterrand regime providing yet another example of the failure of demand-led attempts at growth, this article considers the possibility of the advanced industrialised countries returning to a pattern of rapid growth based on plentiful labour supplies. If Keynesian measures to combat high unemployment are rejected, will redundant labour eventually find its own demand, and will this allow a new wave of fast industrial expansion?

In the mid-1960s, a number of economists put forward theories about the sustained rapid post-war growth of the European economies in which abundant labour supply was the chief factor. W. A. Lewis's¹ model of growth was applied by Kindleberger to all the European countries, and he found that "the major factor shaping the remarkable economic growth which most of Europe has experienced since 1950 has been the availability of a large supply of labour".² He went on to predict that "with the exhaustion of Europe's excess supplies of labour, in the early 1960's, the high rates of economic growth of the 1950's are slowing down, and their character is changing".³ At the same time, Kaldor was independently attributing Britain's slow rate of growth to the absence of this factor.⁴

Lewis's model was essentially a restatement of the theory of economic growth first put forward by Ricardo, and later developed by Marx. In this article it shall be examined how the model might apply to the situation which is developing in the OECD countries, with particular reference to the Marxian analysis of long waves of expansion and stagnation.

Lewis's Model

In Lewis's model there are two sectors, industry and agriculture. The excess supply of labour in agriculture is such that its marginal product is zero. Agricultural labour is paid a subsistence wage; in industry the wage is rather higher because of the greater costs of living in towns. But when demand for industrial goods increases, or new technology improves industrial efficiency, or more capital becomes available, redundant labour moves into industry from agriculture. Thus instead of industrial wages rising, profits increase, and so does industrial employment. Increased profits are re-invested, and the growth process is repeated, with rising levels of investment and productivity, but with wage

levels staying constant. (Kindleberger found that Lewis's model fitted Europe because in almost every country wages retained the same percentage share of national income throughout the 1950s.)

Industrial expansion continues for as long as the supply of redundant agricultural labour lasts. As soon as labour shortages occur, wages rise and profits tend to fall. Meanwhile, in agriculture the marginal product of labour has begun to increase, and eventually is equivalent to the subsistence wage. At this point, agricultural wages start to rise, and this stimulates investment to substitute capital for labour.

The dynamic of the Lewis model stems from the interaction between two contrasting sectors, with entirely different patterns of growth and investment. In the industrial sector, investment is almost all given to widening capital, thus creating increased employment. In the agricultural sector, investment takes place in response to rising costs, and follows Schumpeter's schedule. Because profits are falling, investment is designed to substitute capital for labour and reduce costs. Hence productivity grows more quickly than output, and employment levels continue to fall – providing more redundant workers for the industrial sector.

There is no logical reason why the two sectors should always be represented by "agriculture" and "industry", and Lewis's model could work equally well if the roles were reversed. What matters is that there should be two sectors in this particular relationship to each other. Thus

¹ W. A. Lewis: Development with unlimited supplies of labour, in: *The Manchester School*, XXII, May 1954, pp. 139-191.

² Charles P. Kindleberger: *Europe's Postwar Growth: The Role of Labour Supply*, Harvard University Press, 1967, p. 3.

³ *Ibid.*

⁴ N. Kaldor: *Causes of the Slow Rate of Growth of the United Kingdom*, Cambridge University Press, 1966.

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the two sectors could equally be represented by two different regions, or countries, with contrasting economic structures. Kindleberger remarked that "in the real world . . . it can happen that the industrial sector, or the highly developed industrialised country, behaves in the way we reserve for agriculture There is something clearly arbitrary about the Lewis model in that there are different investment responses in the two sectors. And they can run the other way".⁵

Patterns of Historical Development

Historically, however, the process of industrialisation throughout the world has always involved this particular relationship between industry and agriculture, and has always given rise to exceptionally high rates of economic growth. It was the observation of this phenomenon during the Industrial Revolution in Britain that led first Ricardo and then Marx to frame the original theory, which Marx regarded as the classical recipe for capitalist expansion, based on the exploitation of labour. The same relationship gave rise to the industrialisation of the USA in the second half of the nineteenth century, and Kindleberger went so far as to describe the European post-war phenomenon as "the same process" and "a delayed Industrial Revolution".⁶

What has been largely unnoticed, however, has been the universal tendency for agriculture to retain its characteristic patterns of growth and investment after the industrialisation process has slowed down. In Britain, the rate of migration from the rural areas to the urban ones began to decline in the 1870s, as industry's expansion became slower. But at no time since has the rate of increase of agricultural output, or the pattern of agricultural investment, allowed the farming workforce to increase. Even since 1966, when Britain's level of industrial employment began to fall, and unemployment to rise, the agricultural workforce still continued to diminish.

Similarly, in the USA the slower pace of industrial expansion since 1930 has never given rise to a reversal in the patterns of agricultural growth, investment or employment. In Europe also the agricultural workforce has gone on declining, even after the considerable slackening in the rate of increase of industrial output and employment from about 1968 onwards. Investment has been used to increase productivity and save labour costs.

At present, a new wave of industrialisation is taking place in a number of previously poor and

underdeveloped countries in Central and South America, South East Asia and the Middle East. Since about 1970, these countries have consistently had higher rates of growth, both of national income and industrial output, than any of the advanced industrialised countries – even Japan. Here again, although there is much dispute about the relationship between this new industrial expansion and developments in the advanced industrialised countries, a Lewis-type relationship between the agricultural and industrial sectors in their local economies has obtained.

What conclusions, if any, can be drawn from these patterns of historical development? Is it possible to predict a new wave of rapid growth, based on abundant supplies of labour? Can a redundant industrial workforce (as at present exists in most OECD countries) provide a suitable supply for such an expansion?

In attempting to answer these questions, I should start by emphasising certain characteristics of the Lewis model to which the label "labour supply" does scant justice. The existence of redundant labour in one sector is merely permissive; it allows growth, the dynamic of which must come from the other sector. That other sector must be sufficiently close in geographical proximity to allow mobility of labour. But it must also possess certain important characteristics, which it is essential that the sector with redundant labour does not have. The second sector must require labour, for a type of expansion of output that is capital-widening, rather than capital-deepening.

At present, the only sector of the world economy which has these characteristics is the industrial sector of those countries in the Third World which are in the process of industrialisation. In every other productive sector of every other economy, investment schedules are directed at increasing productivity more rapidly than output, and saving costs – hence rising unemployment. Furthermore, the labour requirements of industry in the newly industrialised countries can be very adequately met by their own or neighbouring nations' redundant agricultural workers, and at wages well below those of workers in the advanced industrialised countries.

Hence only an autonomous change in the investment patterns in some sector of the industrialised world could give rise to the dynamic necessary for rapid growth, using supplies of redundant industrial workers. Historically, such autonomous changes have taken place, usually after periods of stagnation lasting approximately 25 years.

⁵ Charles P. Kindleberger, *op. cit.*, p. 18.

⁶ *Ibid.*, pp. 22, 23.

The Phenomenon of "Long Waves"

The phenomenon of "long waves" in capitalist expansion was first noticed by Marxian economists, notably Kondratieff and Trotsky, but most economic historians would now accept that there have been cycles of roughly 25 years in the rise and fall of rates of economic growth and rates of profit. Recently Mandel used this theory very extensively in his analysis of "Late Capitalism".⁷ The notion of long waves is easily reconcilable with Lewis's model of growth.

In the Lewis model, once supplies of labour begin to be exhausted, new investment no longer gives rise to increased profits, but starts instead to lead to higher wages. Kindleberger demonstrated that, with the advent of full employment and labour shortages in Europe between 1960 and 1962, the share of wages in national income began to grow for the first time since 1950, and the share of profits to fall. Glyn and Sutcliffe gave a similar account of the decline in the rate of profit in Britain from the mid-1960s onwards.⁸ It was this change that led to the adoption of an investment strategy in European industry that concentrated on improving productivity and saving costs. Mandel dates the start of the 25 year period of stagnation from 1965.

According to Mandel, the explanation of a sudden new acceleration of the rates of growth and profit is always a technological revolution. For instance, he

⁷ E. Mandel: *Late Capitalism* (1972), New Left Books, 1975.

⁸ A. Glyn and B. Sutcliffe: *British Capitalism, Workers and the Profit Squeeze*, Penguin, 1972.

attributes great importance to the technological advances in electronics made during the last World War, and particularly in the United States. These gave rise both to new products and to new methods of production, which formed the basis of the post-war expansion of industrial output and employment. But even before the war, production, employment and profits were beginning to rise in some sectors of the American, British and European economies, notably armaments, vehicles, consumer durables and other electrical goods.

It is not a necessary feature of the "long waves" theory that technology should leap forward every 50 years. Mandel argued that technological advances are being made all the time, but that the ways in which they are exploited commercially depend on the phases of capitalist development. For instance, microelectronics and information technology began to have commercial significance in the mid-1960s, just as the wave of stagnation in the industrialised world was beginning, because wage levels were rising. This explains why so much of this relatively labour-intensive industry has been located, at this stage, in the low-wage, newly industrialising countries, such as Brazil, Taiwan, etc. It is widely predicted, however, that when microtechnology is itself employed in the production of computer software, then this more capital-intensive production may be located in the industrialised countries. Such a change could well coincide with a new wave of expansion, which according to the long wave theory should come in 1990.

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The Editor

But this is pure speculation. In order to try to test the Lewis model on a hypothetical situation of high unemployment in Europe in 1990, we do not need to specify any particular technological change, or any one industry that might expand. We need only postulate that in one sector some change allows new products to be developed by new methods, and in ways which lead to a changed and more expansionist investment strategy.

Application of the Model

However, for the dynamic of the Lewis model to come into play, we have also to assume that this new, expanding sector will interact with an old, stagnating one. If expansion took place simultaneously and evenly in every sector, every region or every country, then the Lewis model would not work. There must be a sector, or several sectors, to play the role assigned to agriculture in the model. Clearly in Western Europe agriculture itself could no longer play this role, as it is now such a small part of the European economy; and in any case, redundant labour is now mainly concentrated in industrial areas, not rural ones.

Immediately, a number of difficulties become evident:

- Redundant industrial workers may not be as geographically mobile as workers leaving agriculture. One pattern of post-war migration was for young men to leave family farms to work in industrial areas, or abroad. This did not always entail the sale of property, or the shifting of whole families. Industrial workers would probably be more resistant to this type of mobility.
- A considerable part of the European labour supply in the post-war period came from refugees from Eastern Europe, who were even more potentially mobile than redundant farm workers. Here again, industrial workers would not necessarily be so willing or able to move.
- The failure of European wage levels to rise in the 1950s can be attributed in part to weak trade unions and to the compliance of new workers migrating from agriculture. Redundant industrial workers would not necessarily be so compliant, or unions so weak, in the 1990s.

However, a more fundamental question must be the determination of the relative sectors in the model. Industrial development has always previously fed off rural decline; can it in future feed off the further decline of other industrial regions or countries? Is it possible to predict which regions will expand, and which decay?

A feature of the Lewis model which has been insufficiently emphasised so far is the discrepancy between the levels of wages in the two sectors.

Redundant labour leaves one sector to migrate to the other because wages are higher. (Historically, during periods of industrialisation average industrial wages have tended to be a good deal higher than agricultural wages.) The dynamic of the Lewis model of growth depended heavily on movement from a low-wage low-productivity sector to a high-wage, high-productivity sector. The fact that agricultural wages have always been lower than industrial wages explains why the process has never gone into reverse, even in periods of high industrial unemployment.

This suggests that countries, regions or industries with low average wages and productivity would be likely to be the equivalents of agriculture in any future period of rapid growth, while those with high average wages and productivity would play the role of "industry". However, the really crucial factor would be the close proximity of two such contrasting sectors. The existence of one without the other would be insufficient to give rise to rapid growth on the Lewis model.

The importance of this juxtaposition of "rich" and "poor" sectors is illustrated in postwar Europe and Britain. At the end of the war, wages and productivity in British industry were higher than on the continent. But the Western European economies provided more fertile ground for Lewis-style growth, because they contained some areas of new industrial development, juxtaposed with large areas of backward rural stagnation. They also afforded access to impoverished refugee and immigrant labour from Eastern and Southern Europe. That the British economy did not develop as rapidly was due partly to the fact that it reached full employment far more quickly than the European countries. But it was also because it was far more homogeneous. Wage levels were not only relatively high, but also relatively equal, because Britain was more fully industrialised than the rest of Europe. Kindleberger shows that Belgium (only 11 % of whose workforce was still employed in agriculture in 1949, and which was therefore the next most industrialised country) grew more slowly than any of its neighbours, and only slightly faster than Britain, in the 1950s – in spite of higher levels of unemployment.

The importance of the juxtaposition of heterogeneous sectors is also illustrated by the countries and regions which continued to grow rapidly in the 1970s. Each of the major industrialised nations – including Japan – had by 1970 reached a point at which its agricultural workforce had fallen to around 15 % of the total labour force, or less. At the same time, productivity in agriculture had been growing more rapidly than in industry in all the major industrialised countries (including Britain) throughout the postwar period.

Hence, in addition to exhausting surplus labour supplies, industrialisation had produced more homogeneous societies.

But in Southern Europe and the Mediterranean regions the process of industrialisation was far less developed. Hence growth continued to be rapid in these countries, with their large agricultural sectors, and their greater inequalities of earnings, after it had slowed down in Western Europe. In Spain and Portugal, where agriculture still employed 26 and 28 % of the workforce in 1973, the annual average rate of growth of GNP between 1965 and 1973 was 6.8 and 6.7 % respectively. Turkey, Greece and Yugoslavia, which were the only Western countries to maintain rates of growth of over 5 % throughout the 1970s, had agricultural sectors which provided between a third and a half of all civilian employment.

It is a well-established fact that income differentials are largest in societies which are in the early stages of industrialisation. This is also when growth rates tend to be highest – a correlation which indicates the significance of juxtaposed inequalities in the process of economic growth.

Possible Locations for Growth in the 1990s

Any attempt to predict the possible locations for growth in the 1990s would therefore have to try to identify areas where new industries are already springing up side by side with depressed, low-wage regions. Such an exercise, applied to Britain in the 1930s, would have identified electrical engineering, chemicals and vehicles as industries already growing and likely to expand fairly rapidly, and the Midlands and the South East as regions where employment had even then started to increase. In Britain's rather modest postwar growth, these were the regions and industries which developed, drawing workers away from the declining regions and the old heavy industries.

The problem of prediction lies in the fact that every region or country could be said to contain some such contrasts. It is of the nature of industrial development that prosperous, expanding enterprises should be arising near to ailing and contracting concerns. Hence it would be possible to find sites for the potential operation of the Lewis model in each of the OECD countries.

However, it is an important feature of Lewis-type growth that the expanding sector should follow an investment schedule which is capital-widening. Only if investment creates new industrial jobs can it use plentiful labour supplies to promote growth. We should therefore perhaps look at the industrial sectors of the

OECD countries to see which of these have maintained a capital-widening pattern, even when industrial output has been growing slowly or stagnating. This may indicate which countries have an industrial sector which is ready to expand – in contrast with those which, as in the agricultural sector, have come to concentrate on productivity gains as a source of higher profits.

Nearly all of the few OECD countries which had growing industrial employment in the 1970s were at the "less developed" end of the spectrum – Ireland, Portugal, Greece, Yugoslavia and Turkey. All of these are heterogeneous economies with large agricultural sectors and plentiful supplies of labour. But they are all rather small countries, and on the margins of the European market.

However, industrial employment has also been growing in the United States. In spite of the relatively poor overall recent performance of the US economy, and its disappointing rates of growth, it will have certain enormous advantages over the other industrialised nations if rapid growth restarts in the 1990s. The USA is the largest and richest country in the capitalist world, and its economy is still sufficiently heterogeneous to allow major industrial expansion to take place. It can also continue to draw in labour from neighbouring Central American countries.

Above all, the USA has demonstrated a capacity to continue capital-widening investment during a period of low growth. Britain and West Germany have been following capital-deepening patterns since the 1960s, and the other Western European countries have done so since about 1970. European industry has increasingly specialised in high-technology production, with a strong trend towards automation. This has complemented the growth of production based on more labour-intensive methods in the newly industrialising countries of the Third World. There seems to be no compelling reason why this pattern should change in the 1990s.

I would find it surprising if either Britain or the Western European countries achieved rapid rates of growth in the 1990s.⁹ In spite of plentiful labour supplies through unemployment, the opportunities for the type of two-sector interaction required by the Lewis model are now limited. European growth would be more likely to settle down at a rate near to Britain's in the 1950s, while Britain itself would do well to achieve its 1970s levels. This would imply that unemployment in Europe will tend to continue at high levels, and in Britain to rise still further.

⁹ Bill Jordan: *Mass Unemployment and the Future of Britain*, Blackwell, 1982.